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# **The Relationship between Human Capital and Public Services Performance: The Role of Islamic Work Ethics as a Mediating Variable A Case Study of Public Sector Organizations of Bahrain**

**Ebrahim Farhan Mubarak Busenan**

University Utara Malaysia (UUM), Malaysia

[e.farhan@windowslive.com](mailto:e.farhan@windowslive.com)

**Abstract.** Ethics are the basis for achieving individual, group and societal happiness. This research paper studies the role of Islamic work ethics as a mediating variable in the relationship between human capital and public services performance in the public sector of Bahrain. The scarcity of previous studies in the field of Islamic work ethics as a mediating variable in the relationship between human capital and public services performance is the motivating factor of this study. A total of 640 questionnaires were distributed to the citizens in the four governorates of Bahrain, i.e., Southern, Muharraq, Northern and the Capital, using the systematic random sampling method, A five point Likert scale was used to measure all variables. A total of 384 questionnaires were returned of which 368 were usable questionnaires. The findings of this research paper show a significant and positive relationship between human capital and public services performance. Islamic work ethics, as the mediating variable, has a highly positive effect on the relationship between human capital and public services performance.

**Keywords.** Human Capital, Public Services Performance, Islamic Work Ethics, Importance of Human Capital, Importance of Islamic Work Ethics

## **1. Introduction**

The product of any public sector is a service. Hence, employees of public sector organizations are the most essential resources for the performance of the services. Work ethics form the basis for the required behavior of the employees, as well as the standards that the organizations must comply with in evaluating performance. Work behavior that is based on ethics can have a major impact on public sector organizations services performance.

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## **2. Human Capital**

In delivering services, human capital is considered essential for organizations that seek to improve performance (Lin, Huang, Du, & Lin, 2012). Hence, human capital is considered as an investment in human resources in order to raise staff competencies.

## **2.1 Human Capital Definitions**

Human capital means a human being with his or her central role in an organization that is the basis for the creation of organizational capital of that organization (Meszek, 2015). Some definitions of human capital are as follows: Manes Rossi, Citro and Bisogno (2016) said that Human capital is a mix of knowledge, competencies, abilities and aptitudes of civil servants in all aspects relating to their preparedness to achieve the aims of the organization. Seleim and Khalil (2011) posited that human capital refers to employee's ability to innovate, and their experiences, skills and knowledge. According to, Subramaniam and Youndt (2005) human capital refers to the degree of knowledge, creativity that is inhabited inside of person and then reflects it on his performance within organizations.

## **2.2 The Components of Human Capital**

Based on the various definitions of human capital, it is clear that several components that lead to competitive advantage as follows: (i) **knowledge** is considered as a key component in order to achieve competitive advantage because knowledge is an inimitable resource. In addition, there is a direct impact on efficiency through the accumulation of knowledge by human capital (Murray, & Peyrefitte, 2007). (ii) **Experience**, is considered as a complementary part of human capital which contributes to the growth of the organization (Schutjens, & Wever, 2000). (iii) **innovation**, the delivery of services innovation indicates the openness of the organization to change and accept new ideas based on the skills, management systems, new technologies and resources (Johnston, & Clark, 2001), and (iv) **skills** are considered important for every kind of activity and it can be developed in people, through training (Hulten, 2017).

## **3. Public Services Performance**

Economists say that public services delivery consists of activities to enhance public welfare, in fact, public services are considered as a basic component of the social contract between citizens and the state (Akinboade, Kinpack, & Mokwena, 2012).

### **3.1 Definitions of Public Services Performance**

There are various definitions of public services performance in previous studies, as follows: Broadbent and Guthrie (2008) said that public services are activities which supply goods or public services to reach all community members. Handler, Koebel, Reiss, and Schratzenstaller, (2005) stated that public sector performance is the results of an activity in a particular area of a public organization, measured either in terms of absolute value or as a comparison to prior performance achievements.

### **4. The Importance of Human Capital in Public Services Performance**

Logically, if persons are better educated and better trained, it is likely to ensure better benefits and productivity for the organization (Mahmood, & Azhar, 2015). Human capital is important as it encompasses knowledge, skills, formal training, productivity, expertise and education of employees. It also includes, the abilities of employees in problem solving, teamwork, leadership management, learning and innovation, and all these factors are the basic resources and assets that represent the value of an organization (Schiuma, Lerro, & Sanitate, 2008).

## **5. Islamic Work Ethics**

Islamic work ethics are human traits and practices that are related to work and come from the Islamic creed, which is a fundamental outlook on it (Novianti, 2022). Therefore, Islamic work ethics has its origins in the Quran and Sunnah (sayings and practices) of the Prophet Muhammad (may peace be upon him). In relation to that, Islamic work ethics are considered as a comprehensive approach to life. In addition, Islamic work ethics is a type of ethical management that affects individual behavior and actions (Romi, Ahman, Suryadi, & Riswanto, 2020).

### **5.1 Definitions of Islamic Work Ethics**

There are various definitions of Islamic work ethics in previous studies, as follows: Ali and Al-Owaihan (2008), referred to Islamic work ethics as a virtue and obligatory activities that a person needs for establishing a balance in personal and social life. Rizk (2008), posited that Islamic work ethics seek approaches towards work as a virtue in the lives of humans.

## **6. The Importance of Islamic Work Ethics in Public Services Performance**

Work ethics in the public sector play a role in services delivery that is efficient and disciplined. It instills noble values which can overcome weaknesses and help solve problems (Latib, Abdullah, Othman, & Mat, 2013). Hence, the aspect of Islamic work ethics is a main input in order to instill good behavior or create value within individuals in the public sector (Kumar, & Che Rose, 2012).

## **7. Literature Review**

### **7.1 Human Capital Variable**

In previous studies the variable of human capital has shown a positive and significant relationship with organizational performance in several sectors and countries. For example: Ali and Sharif Chaudhry (2017) study on human capital in the services sector of Pakistan, shows that there is a positive and significant relationship between human capital and organizational performance. Michael and Zaid (2014) studied the effects of human capital and on organizational performance in the banking sector of Nigeria, and found that human capital has a positive and significant relationship with organizational performance.

### **7.2 Islamic Work Ethics as a Mediating Variable**

Several previous studies have used Islamic work ethics as a mediating variable in the relationship between the independent and dependent variables in various sectors and countries. For example: Abbasi, Mir, and Hussain, (2012). Examined the effects of Islamic work ethics on organizational performance, learning, and innovation in Pakistani service industries, and found that Islamic work ethics have a positive and significant relationship with organizational performance.

## **8. Hypothesis of Research**

Based on the above discussion, this study hypothesizes as follows:

H1: Human capital has a significant and positive impact on the public services performance.

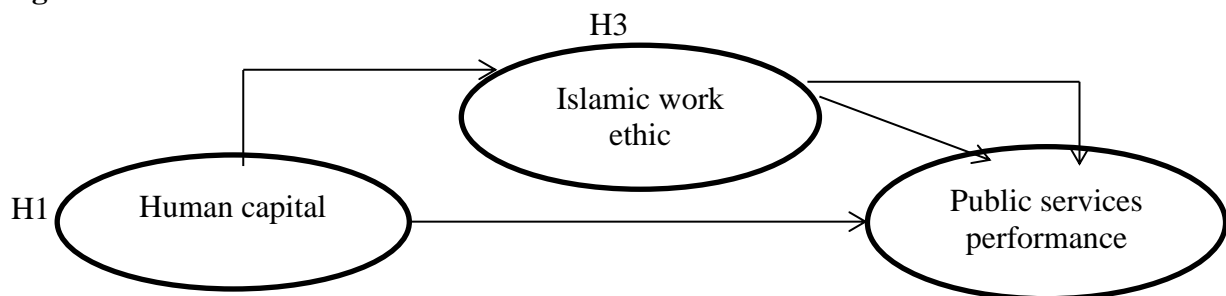
H2: Islamic Work Ethics has a significant and positive impact on the public services performance.

H3: Islamic Work Ethics mediates the relationship between human capital and public services performance.

### 9. Research framework

Based on the above discussion the research framework of this study relied on three variables as shown in Figure 1 below. Human capital as the independent variable, public services performance as the dependent variable and Islamic work ethic as a mediating variable.

**Figure 1.** Research framework



### 10. Methodology

Bahrain is divided administratively into four Governorates: Northern, Southern, Muharraq, and the Capital, and every governorate include residential blocks. According to, Bahrain Open Data Portal (2016), the population of Bahrain comprises 664,707 people. According to Krejcie and Morgan (1970), an appropriate sample size is 384. Hence, a total of 640 questionnaires were distributed to the citizens, using systematic random sampling technique and a five point Likert scale was used to measure the responses. Of the 640, 368 questionnaires were found to be usable at a rate of 57.5%. Statistical Package for Social Science (SPSS) version 23 was used for data analysis.

### 11. Test of Reliability

In order to measure reliability of the variables, Cronbach's alpha was used. According to Hair, Black, Babin, and Anderson, (2010), the acceptable minimum level is 0.60. The details of findings of reliability of the variables are as in Table1 below:

**Table 1.** Analysis of Reliability

Variables	Items	Cronbach's alpha
Human capital	15	.919
Public Services Performance	6	.854
Islamic Work Ethics	17	.919

### 12. Descriptive Statistics of the Variables

Table 2 below shows the descriptive statistics of the variables in this study, i.e., human capital, public services performance and Islamic work ethics:

**Table 2.** Descriptive Analysis

Variables	M	S. Deviation	Minimum	Maximum
Human capital	2.91	.69	1.00	4.73
Public services performance	2.85	.79	1.00	5.00
Islamic Work Ethics	3.23	.70	1.00	5.00

### 13. Analysis of Results

Table 3 shows the analysis of Pearson correlation of human capital as the independent variable, public services performance as the dependent variable and Islamic work ethics as the mediating variable:

**Table 3.** Results of Pearson Correlation of the variables in this study

Variable	Public Services Performance	Human Capital	Islamic Work Ethics
Public Services Performance	1	.537**	.538**
Human Capital	.537**	1	.534**
Islamic Work Ethics	.538**	.534**	1

Table 4 below illustrates the results of hypotheses testing for the variables of the study, which show that there is a significantly positive relationship with r value at more than 0.50 and  $p < 0.01$ . Thus, hypotheses 1 and 2 are supported.

**Table 4.** Results of hypotheses testing of the variables in this study

Hypothesis	Description	Results
H1	There is a significant and positive relationship between Human Capital and Public Services Performance	Supported
H2	There is a significant and positive relationship between Islamic Work Ethics and Public Services Performance	Supported

### 14. Analysis of Hierarchical Regression Results

Table 5 illustrates the results of the analysis of hierarchical regression for the mediating effects of Islamic Work Ethics on the relationship between human capital and public services performance.

**Table 5.** Results of Islamic Work Ethics as Mediating Variable

Independent Variable	Dependent Variable			
	Islamic Work Ethics	Public Services Performance (Without Islamic Work Ethics)	Public Services Performance	Public Services Performance (Including Islamic Work Ethics)
Human Capital	.534***	.537***		.349***
Islamic Work Ethics			.538***	.352***
F Value	146.003	147.925	149.118	110.131

R2	.285	.288	.289	.376
R2 adjusted	.283	.286	.288	.373
Durbin Watson	1.767	1.848	1.764	1.844

Note: \*Significance level is  $p < .05$ , \*\* Significance level is  $p < .01$ , \*\*\* Significance level is  $p < .001$

Based on the above Table 5 many steps were followed as proposed by Baron and Kenny (1986). In the first step,  $\beta = 0.537$ ,  $R^2 = 0.288$ , Adjusted  $R^2 = 0.286$ ,  $F = 147.925$ , and  $p < 0.001$ . Consequently, this means that there is a positive and significant relationship between human capital and public services performance. A 28.8% of variation in public services performance can be attributed to human capital and 71.2% of variation is explained by other factors, which are not included in the study.

In the second step,  $\beta = 0.534$ ,  $R^2 = 0.285$ , Adjusted  $R^2 = 0.283$ ,  $F = 146.003$ , and  $p < 0.001$ . Consequently, this means that there is a positive and significant relationship between human capital and Islamic work ethics. Human capital can explain 28.5% of variation in Islamic work ethics, and 71.5% of variation is attributed to other factors which are not included in this study.

In the third step,  $\beta = 0.538$ ,  $R^2 = 0.289$ , Adjusted  $R^2 = 0.288$ ,  $F = 149.118$ , and  $p < 0.001$ . Islamic work ethics explains 28.9% of variation in public services performance, and 71.1% of variation is explained by other factors which are not included in this study.

In the last step, after examining whether or not Islamic work ethics mediates the relationship between human capital and public services performance, it is found that the relationship is still positive and significant, with  $\beta = 0.349$  and  $p < 0.001$ .  $\beta = 0.352$  and  $p < 0.001$ . Also the relationship is reduced compared to the direct relationship between human capital and public services performance, with  $\beta = 0.537$ , and  $p < 0.001$ . This means that Islamic work ethics partially mediates the relationship between human capital and public services performance.

Based on the above four steps, it is confirmed that Islamic work ethics has a mediating role in the relationship between human capital and public services performance. Hence, the third (H3) hypothesis is supported. Table 6 below shows the final results of hypothesis testing:

**Table 6.** Final results of hypotheses testing of the variables in this study

Hypothesis	Description	Results
H1	There is a significant and positive relationship between Human Capital and Public Services Performance	Supported
H2	There is a significant and positive relationship between Islamic Work Ethics and Public Services Performance	Supported
H3	Islamic Work Ethics mediates the relationship between human capital and public services performance.	Supported

## 15. Conclusion

Islamic work ethics is a main input in order to instill good behavior or create value within individuals in organizations of the public sector and is considered as the basis for the required behavior of the employees. In this study, the relationship between human capital and public services performance with Islamic Work Ethics as a mediating variable was examined in the public sector of Bahrain. The findings show that there is a positive and significant

relationship between human capital and Islamic work ethics in public services performance. Also, Islamic work ethics, as a mediating variable, has a highly positive effect on the relationship between human capital and public services performance.

### **16. Recommendations**

The results of this study prove that there is a need to implement Islamic work ethics among employees of organizations of the public sector of Bahrain, in particular, and in other Islamic countries, in general to enhance and improve public services performance.

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