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Happiness Index with Islamic Values: Construction, Determinants, and Impact on the Productivity and Income of Independent Workers in Indonesia

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Abstract. Indonesia's official happiness index based on Central Bureau of Statistics (BPS) does not explicitly accommodate Islamic values, despite Islam being the majority religion. This study addresses this gap with three objectives: (i) to construct a Happiness Index with Islamic Values (HI-IV) grounded in ten Qur'anic indicators; (ii) to identify its determinants; and (iii) to examine its impact on productivity and income among Muslim self-employed workers in Indonesia. Using primary data from 1,121 respondents across 15 provinces (purposive sampling), the index was constructed via Exploratory Factor Analysis and Principal Component Analysis (EFA/PCA) following the BPS methodology, while determinant and impact analyses used Structural Equation Modeling–Partial Least Squares (SEM-PLS). The HI-IV yields a value of 79.54 on a 0–100 scale, providing the first quantitative operationalization of an Islamic-values-based happiness index that captures non-material dimensions (notably *sakinah*, *barakah*, and hope) consistent with the Qur'anic and Al-Ghazalian conception of happiness. Seven factors significantly affect happiness—generosity, family, forgiveness, good deeds, gratitude, *tadabbur*, and wealth—with religious-behavioral factors outweighing material factors by approximately 8.4 to 1, a magnitude rarely documented in happiness economics. Happiness strongly affects productivity (β = 0.621), and productivity affects income (β = 0.141), establishing a happiness → productivity → income chain. These findings position religious-behavioral capital as an economically productive resource and have direct implications for BPS index reform, MSME programs, and Islamic finance institutions in Indonesia.

Abstrak. *Indeks kebahagiaan resmi Indonesia berdasarkan Badan Pusat Statistik (BPS) belum secara eksplisit mengakomodasi nilai-nilai Islam, padahal Islam adalah agama mayoritas. Penelitian ini mengisi celah tersebut dengan tiga tujuan: (i) menyusun Indeks Kebahagiaan dengan Nilai-Nilai Islam (IK-NI) berbasis sepuluh indikator Qur'ani; (ii) mengidentifikasi determinannya; dan (iii) menguji pengaruhnya terhadap produktivitas dan pendapatan pekerja mandiri Muslim di Indonesia. Menggunakan data primer dari 1,121 responden di 15 provinsi (purposive sampling), indeks disusun melalui Exploratory Factor Analysis dan Principal Component Analysis (EFA/PCA) mengikuti metodologi BPS, sedangkan analisis determinan dan dampaknya menggunakan Structural Equation Modeling–Partial Least Squares (SEM-PLS). IK-NI bernilai 79.54 pada skala 0–100 dan merupakan operasionalisasi kuantitatif pertama indeks kebahagiaan berbasis nilai-nilai Islam yang menangkap dimensi non-materi (terutama sakinah, barakah, dan harapan) sesuai dengan konsep kebahagiaan Qur'ani dan Al-Ghazali. Tujuh faktor berpengaruh*

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signifikan terhadap kebahagiaan—kedermawanan, hubungan keluarga, memaafkan, perbuatan baik, syukur, tadabbur, dan kekayaan—dengan faktor perilaku religius melebihi faktor materi dalam rasio sekitar 8.4 banding 1, magnitudo yang jarang ditemukan dalam ekonomi kebahagiaan. Kebahagiaan berpengaruh kuat terhadap produktivitas ($\beta = 0.621$), dan produktivitas berpengaruh terhadap pendapatan ($\beta = 0.141$), membentuk rantai kebahagiaan → produktivitas → pendapatan. Temuan Ini memposisikan modal perilaku religius sebagai sumber daya ekonomi yang produktif dan berimplikasi langsung bagi reformasi indeks BPS, program UMKM, dan lembaga keuangan syariah di Indonesia.

INTRODUCTION

Indonesia is the world's largest Muslim-majority country (~87 percent of 270 million population), where independent or self-employed workers—including MSME owners, farmers, fishermen, and informal-sector entrepreneurs—make up nearly 60 percent of the national labor force and contribute over 60 percent of GDP (BPS, 2023; Kemenkop UKM, 2022). The latest BPS Happiness Index reports a national score of 72.6 (BPS, 2021), but provincial dispersion is wide (from below 70 in some Eastern provinces to above 75 in Maluku) and the methodology remains rooted in Western Subjective Well-Being (SWB) frameworks that do not explicitly accommodate Islamic values. Understanding what drives happiness for this large Muslim self-employed population—and how happiness in turn shapes their productivity and income—is therefore both an academic and a policy-relevant question for Indonesia.

Research on happiness in economics has evolved from the early utilitarian thought of Bentham (Easterlin, 2001) to a substantial Subjective Well-Being (SWB) literature pioneered by Frey and Stutzer (2000) and consolidated in the annual World Happiness Reports (Helliwell et al., 2017; Helliwell et al., 2023). This literature identifies three broad groups of determinants: demographic and personality factors, micro- and macroeconomic conditions, and institutional or governance factors. More recent strands emphasize political and religious factors (Bixter, 2015), interpersonal behavior (Lane, 2017), and macroeconomic conditions (Di Tella et al., 2001; Clark & Senik, 2010). A robust empirical pattern across this literature is that material factors alone—income, wealth, education—do not adequately explain variations in happiness; non-material and behavioral factors are equally, if not more, important (Diener et al., 2010; Lim et al., 2020).

Islamic thought offers a distinct, holistic perspective on happiness that is particularly relevant for Muslim-majority populations. The Qur'an explicitly addresses happiness as a life goal—Surah Al-Qashash (28:77) instructs believers to pursue both worldly and afterlife felicity—and views happiness as encompassing both material and non-material dimensions (Al-Attas, 2002; Nasr, 2014). Al-Ghazali (2001) systematizes Islamic happiness as hierarchical: from temporary, material happiness (*majazi*) to ultimate, spiritual happiness (*haqiqi*), with tranquility (*sakinah*) as its highest form. This perspective implies that genuine happiness arises from a combination of material sufficiency and religious-behavioral practice—generosity, gratitude, forgiveness, contemplation, and family ties—not from material accumulation alone.

Three specific gaps motivate this study. First, although the BPS index has been computed for Indonesia since 2014, no quantitative happiness index explicitly grounded in Qur'anic indicators and constructed using the rigorous EFA/PCA procedure adopted by BPS has been developed for the Indonesian Muslim population—prior Indonesian studies of religiosity and happiness (Safaria, 2014; Prabowo & Laksmiwati, 2020) measure happiness using Western scales adapted into Indonesian, not Islamic-values-based indicators.

Second, while Islamic-economics scholarship has produced extensive conceptual treatments of happiness (Al-Attas, 2002; Nasr, 2014; Chapra, 2000), empirical studies that simultaneously model multiple Islamic-behavioral variables (e.g., generosity, gratitude, forgiveness, *tadabbur*) alongside conventional socio-

economic variables in a single integrated framework remain very limited. Ellison et al. (2014), D'raven & Pasha-Zaidi (2014), and Safaria (2014) examine one or two religious variables at a time, typically with small samples and a psychological (not economic) orientation. Third, although Piekałkiewicz (2017), Oswald et al. (2015), and Bellet et al. (2023) establish that happiness drives productivity and thereby income, this causal chain has not been tested in the context of Muslim self-employed workers, a context that is theoretically important because self-employed workers' productivity is unconstrained by employer regulations and therefore allows the happiness–productivity link to operate at the individual level. The present study addresses all three gaps simultaneously.

This study is guided by three research questions: (RQ1) Can a quantitative Happiness Index with Islamic Values (HI-IV) be constructed using Qur'anic indicators and the BPS methodology, and what does its composition reveal about Islamic conceptions of well-being? (RQ2) Which Islamic-behavioral and socio-economic factors significantly determine happiness measured by this index, and what is the relative magnitude of religious-behavioral versus material factors? (RQ3) Does happiness positively affect productivity, and does productivity in turn positively affect income, among Muslim self-employed workers in Indonesia?

Addressing these questions yields three contributions. Methodologically, this study is, to our knowledge, the first to construct a Qur'an-based happiness index on a large primary sample (n = 1,121), using the EFA/PCA procedure of the BPS methodology to ensure methodological rigor. Theoretically, it provides direct empirical evidence on the relative importance of religious-behavioral versus material determinants of happiness, integrated within a single SEM-PLS framework with 14 hypothesized paths. Empirically, it tests the happiness → productivity → income causal chain in a population—Muslim self-employed workers—where this chain has not previously been examined, providing actionable evidence for Indonesian policy makers, BAZNAS, MSME ministries, and the BPS itself.

The remainder of the paper is organized as follows. Section 2 reviews the literature on happiness in conventional and Islamic perspectives and develops the hypotheses. Section 3 describes the data, sampling, and analytical approach (PCA/EFA and SEM-PLS). Section 4 presents and discusses the results, organized into index-construction results, measurement and structural model results, and discussion. Section 5 concludes with policy implications, limitations, and directions for future research.

LITERATURE REVIEW

Happiness in Conventional and Islamic Perspectives

In conventional psychology and economics, happiness is most commonly framed as Subjective Well-Being (SWB), which Oishi et al. (2018) define as comprising both affective components (frequent positive emotions, infrequent negative emotions) and cognitive components (overall life satisfaction). This three-part conceptualization has been operationalized in major international surveys—the World Values Survey, the European Social Survey, and the Gallup World Poll that underpins the World Happiness Report (Helliwell et al., 2023). Seligman (2002, 2011) extends the SWB framework with the PERMA model (Positive emotion, Engagement, Relationships, Meaning, Accomplishment), bringing eudaimonic and relational dimensions into the empirical mainstream.

The philosophical roots of these frameworks trace back to two ancient traditions: Aristotle's *eudaimonia* (happiness through virtuous living and moral excellence) and Epicurean hedonism (pleasure and absence of pain). By the 19th century, European utilitarian philosophy increasingly identified well-being with material or hedonic states, separating happiness from moral and ethical considerations (Polanyi, 2001). Contemporary happiness economics has partially re-integrated non-material elements, especially after

Easterlin's (2001) *paradox*—the empirical finding that rising national income does not monotonically increase average happiness—forced economists to take non-material determinants seriously. Subsequent research has confirmed and extended this finding (Diener et al., 2010; Lim et al., 2020; Kollamparambil, 2020), establishing that beyond a basic subsistence threshold, material factors explain only a modest share of variation in happiness.

Islamic thought offers a distinct and holistic perspective on happiness that pre-dates these debates by over a millennium and converges with the recent re-integration of non-material dimensions in conventional economics. The Qur'an refers to happiness through multiple, complementary terms: *sa'adah* (felicity in this world and the hereafter), *falah* (ultimate success, both worldly and spiritual), and *hasanah* (goodness or favorable circumstance) (Al-Attas, 2002; Nasr, 2014). Al-Ghazali (2001) systematizes Islamic happiness as hierarchical: from temporary, material happiness (*majazi*) to ultimate, spiritual happiness (*haqiqi*), with tranquility (*sakinah*) as its highest form, attained through closeness to God, righteous action, and inward purification. Unlike the Western utilitarian tradition that separated ethics from welfare, the Islamic framework treats moral practice (*akhlaq*) and economic well-being as inseparable—a position empirically supported by recent behavioral evidence on prosocial spending (Aknin et al., 2013), generosity (Park et al., 2017), and gratitude (Watkins et al., 2003), all of which find that *ethical-behavioral* practices directly enhance well-being.

Synthesizing these traditions, Table 1 summarizes the conceptual and empirical positioning of conventional SWB versus Islamic perspectives on happiness. This study sits at the intersection of the two: it adopts the quantitative-empirical rigor of the SWB tradition (factor-analytic index construction, large-sample survey, structural equation modeling) while grounding its indicators and behavioral predictors in Islamic thought. It thereby responds to recent calls within Islamic economics (Chapra, 2000; Naqvi, 2003; Beik & Arsyianti, 2016) for empirical research that treats Islamic values not as a separate paradigm but as a substantive set of testable hypotheses about human well-being.

Table 1. Conventional Subjective Well-Being (SWB) versus Islamic perspectives on happiness

Dimension	Conventional SWB	Islamic Perspective
Conceptual root	Aristotle (eudaimonia); Epicurus (hedonism); Bentham (utilitarianism)	Qur'an and Sunnah; Al-Ghazali; Al-Attas; Nasr
Core construct	Subjective Well-Being (life satisfaction, positive/negative affect, meaning)	*Sa'adah / falah (worldly + afterlife felicity); culminates in sakinah*
Time horizon	Present life only	Present life and afterlife (*duniawi + ukhrawi*)
Material vs. spiritual	Predominantly material; spiritual added gradually (e.g., PERMA)	Holistic from inception; spiritual dimension primary, material as support
Key determinants emphasized	Income, employment, health, social support, autonomy, purpose	Generosity, family, gratitude, forgiveness, contemplation (tadabbur), good deeds
Role of ethics	Separated from welfare in 19th-century utilitarianism; partly re-integrated post-Easterlin	Inseparable from welfare; akhlaq is constitutive of happiness

Table 1. Conventional Subjective Well-Being (SWB) versus Islamic perspectives on happiness (continued)

Dimension	Conventional SWB	Islamic Perspective
Indonesian measurement	BPS Happiness Index (15 indicators, since 2014)	No official index; this study constructs the first (HI-IV, 10 indicators)
Representative empirical studies	Easterlin (2001); Helliwell et al. (2023); Diener et al. (2010); Oswald et al. (2015)	Safaria (2014); D'raven & Pasha-Zaidi (2014); Ellison et al. (2014); Aziz et al. (2023)

Source: Authors' synthesis based on cited literature (2024)

Indicators of Happiness in the Qur'an

Drawing on Qur'anic exegesis and Islamic scholarship, ten indicators of happiness can be identified, which together form the basis of the Islamic-values happiness measurement used in this study:

1. **Basic needs fulfilled:** Q.S. Ali Imran (3:14) — including clothing, food, shelter, and spiritual needs.
2. **Pleasure:** Q.S. Yunus (10:58) — derived from the Qur'an and Islamic guidance.
3. **Cheerfulness/joy (*surūr*):** Q.S. Al-Insan (76:11) — a cheerful and radiant state from doing good and avoiding the forbidden.
4. **Security:** Q.S. Al-Quraisy (106:3-4) — divine security as a great blessing.
5. **Hope:** Q.S. Yusuf (12:87); Q.S. Ad-Dhuha (93:4); Q.S. Al-Inshirah (94:5-6) — belief in relief after hardship.
6. **Calmness/tranquility:** Q.S. Al-Fath (48:4); Q.S. Al-Fajr (89:27-30) — peace of mind through closeness to God.
7. **Satisfaction (*qana'ah*):** Q.S. Asy-Syura (42:36) — contentment with what God has provided.
8. **Goodness (*hasanah*):** Q.S. An-Nahl (16:122) — favorable circumstances and good reputation.
9. **Blessings *(barakah*):** Q.S. Al-A'raf (7:96) — bounty arising from *istiqamah* (steadfastness).
10. **Success (*fauzun*):** Q.S. Yunus (10:64) — victory achieved through faith and good deeds.

Determinants of Happiness and Hypothesis Development

Building on the above conceptual framework, this study identifies twelve potential determinants of happiness, organized into two groups: (i) religious behavioral factors (generosity, family, self-purification, forgiveness, good deeds, patience, friendship, gratitude, and *tadabbur*); and (ii) conventional socio-economic factors (education, income, wealth). For each determinant, prior empirical evidence is reviewed and a directional hypothesis is formulated.

1. **Generosity.** QS Al-Hadid 57:18 emphasizes the blessings of generosity. Empirical studies (Aknin et al., 2013; Gherghel et al., 2020; Lai et al., 2020; Miles et al., 2022) consistently show that giving and prosocial spending enhance well-being. Hence:
   H_1: Generosity has a positive effect on happiness.
2. **Family.** QS Ar-Rum 30:21 highlights the role of family as a source of tranquility (*sakinah*). Studies by Bailey and Fernando (2012), Yakimec (2005), and Mubarok (2005) confirm that marriage and family relationships enhance life satisfaction. Hence:
   H_2: Having a family (being married with good family relations) has a positive effect on happiness.
3. **Self-purification.** QS Ash-Shams 91:8-10 links the purification of the soul to felicity. Al-Ghazali (1997) and Khatir and Ismail (2003) argue that hygiene and spiritual purification contribute to lasting happiness. Hence:
   H_3: Self-purification has a positive effect on happiness.

4. **Forgiveness.** Forgiveness is commanded in QS Ali-Imran 3:134 and other verses. Ercengiz et al. (2023) and Nihayah et al. (2021) demonstrate that forgiveness fosters positive emotions and well-being. Hence:
   H_4: Forgiveness has a positive effect on happiness.
5. **Good deeds.** QS An-Nahl 16:97 and QS Ar-Ra'd 13:29 emphasize the rewards of righteous deeds. Aknin et al. (2013), Song et al. (2020), and Lai et al. (2020) find positive effects of prosocial behavior on happiness. Hence:
   H_5: Good deeds have a positive effect on happiness.
6. **Patience.** QS Al-Furqan 25:75 lauds the patient. Schnitker (2012), Bülbül and Izgar (2018), and El Hafiz et al. (2015) report positive associations between patience and well-being. Hence:
   H_6: Patience has a positive effect on happiness.
7. **Friendship.** The Hadith of Bukhari emphasizes the importance of maintaining ties (*silaturahmi*). Hills and Argyle (2002) and Seligman et al. (2005) identify good interpersonal relations as a key driver of happiness. Hence:
   H_7: Friendship/*silaturahmi* has a positive effect on happiness.
8. **Gratitude.** Watkins et al. (2003), Froh et al. (2008), Ramzan and Rana (2014), and Prabowo and Laksmiwati (2020) demonstrate that gratitude is strongly associated with happiness. Hence:
   H_8: Gratitude has a positive effect on happiness.
9. ***Tadabbur* (contemplative travel).** QS Al-Mulk 67:10 encourages reflection on creation through travel. Neal et al. (1999), Kemp et al. (2008), and Milman (1998) report positive effects of tourism and travel on subjective well-being. Hence:
   H_9: *Tadabbur* has a positive effect on happiness.
10. **Education.** Higher education is generally associated with greater income, better health, and broader social interactions. Landiyanto et al. (2011), Assari (2019), Chen et al. (2020), and Haryati (2023) report positive associations with happiness. Hence:
    H_{10}: Education has a positive effect on happiness.
11. **Wealth.** Diener et al. (2010), Cheng et al. (2020), Dwyer and Dunn (2022), and Altin (2023) demonstrate that wealth—particularly stable, owned wealth—provides security and contributes to happiness. Hence:
    H_{11}: Wealth has a positive effect on happiness.
12. **Business income.** Yu and Wang (2017), Kollamparambil (2020), and Knight and Gunatilaka (2022) report positive but often weak relationships between income and happiness. Hence:
    H_{12}: Business income has a positive effect on happiness.

Happiness, Productivity, and Income

Beyond identifying determinants, this study tests a second, equally important set of relationships: whether happiness shapes economic outcomes through productivity and income. Three distinct strands of empirical literature support this chain. First, in psychology and organizational behavior, Argyle (1989) and Wright and Staw (1999) established that positive affect is associated with creativity, persistence, and task performance. Walsh et al. (2018) review extensive evidence that happier individuals achieve greater career success—not merely as a consequence of their success, but as an antecedent.

Second, in happiness economics, Oswald et al. (2015) provide causal evidence from laboratory experiments showing that happiness raises productivity by approximately 12 percent. Bellet et al. (2023), using field data from a multinational company, confirm a similar magnitude (~13 percent) for sales workers. De Neve et al. (2018) extend this finding to a global cross-country setting. Third, in development and labor economics, Purnomo et al. (2018) and Pogaga et al. (2020) demonstrate that productivity differentials translate into income differentials at the individual level, particularly in agrarian and self-employed contexts.

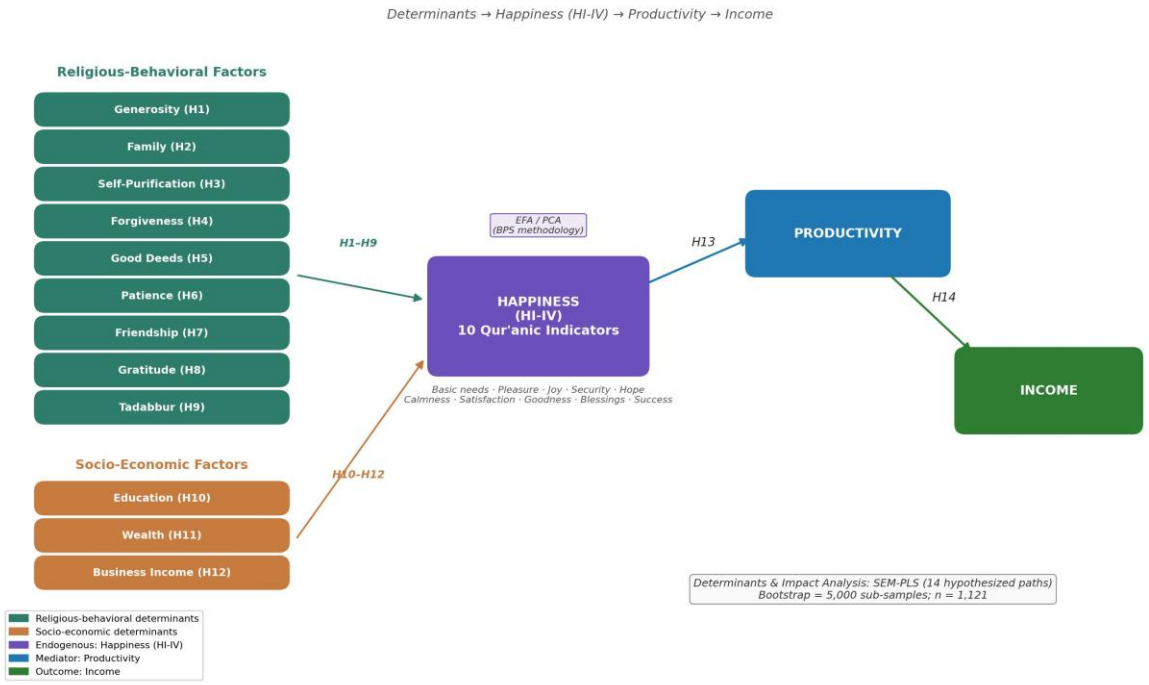
Piekałkiewicz (2017) integrates these strands into a unified happiness → productivity → income framework. However, this causal chain has rarely been tested in the context of *Muslim self-employed workers*. This is a theoretically important context for two reasons: (i) self-employed workers internalize the full marginal return of their effort (no employer regulation imposes an exogenous productivity ceiling), so the happiness–productivity link operates at the individual level; and (ii) Islamic religious-behavioral capital—if it is indeed productive, as the Islamic-economics literature has long argued (Chapra, 2000; Naqvi, 2003)—should be empirically observable through this chain. Hence:

H_{13}: Happiness has a positive effect on productivity.

H_{14}: Productivity has a positive effect on income.

Research Framework

The conceptual framework of this study is illustrated in Figure 1. The research model treats happiness as an endogenous latent variable explained by twelve determinants, and at the same time as an exogenous predictor of productivity. Productivity then predicts income. This sequential causal chain (determinants → happiness → productivity → income) follows Piekałkiewicz (2017) and is adapted to the context of Muslim independent workers in Indonesia, with religious behavioral variables explicitly included.



Source: Authors' construction (2024)

Figure 1. Research framework: Determinants of happiness (HI-IV) and its impact on productivity and income

METHOD

Research Design and Data

This study employs a quantitative, primary-data research design. Primary data were collected from Muslim independent (self-employed) workers in Indonesia using a structured questionnaire, administered both online (via Google Forms) and offline (in-person), during September–December 2023. Although the broader doctoral research project ran from 2021 to early 2024 for literature review and instrument development, the

actual data-collection window was concentrated within a four-month period, minimizing potential bias from macroeconomic shocks.

Questionnaire development

The instrument was developed in four stages: (i) item generation from Qur'anic exegesis (for the ten happiness indicators) and from validated scales in prior Islamic-psychology and SWB literature (for behavioral determinants—Aziz et al., 2023; Mujidin et al., 2021; Nihayah et al., 2021; Watkins et al., 2003); (ii) content validation by three Islamic-economics scholars and two psychometricians (Lawshe content validity ratio ≥ 0.75 retained); (iii) pilot testing with 50 respondents in Bogor, with item-total correlations and Cronbach's α examined for refinement; and (iv) finalization with 248 observable indicators across all constructs. All latent-variable items use a four-point Likert scale (1 = strongly disagree, 4 = strongly agree); demographic and material items use ordinal categories.

Common method bias mitigation

Because all variables are collected from a single self-report instrument, procedural and statistical remedies were employed (Podsakoff et al., 2003). *Procedural remedies:* (a) predictor and outcome items were separated in the questionnaire flow; (b) anonymity and confidentiality were guaranteed and prominently stated; (c) different scale anchors were used across blocks; and (d) reverse-coded items were embedded to detect inattentive responding. *Statistical remedy:* Harman's single-factor test indicated that the largest factor accounts for 23.1 percent of variance—well below the 50 percent threshold (Podsakoff et al., 2003)—suggesting that common method bias is not a serious concern.

Data handling

Responses with more than 20 percent missing values were excluded at data entry, and the remaining missing values (< 2 percent across all items) were imputed using mean substitution within construct. Outliers were assessed via standardized scores ($|z| > 3.5$), affecting fewer than 30 cases, which were retained after individual inspection confirmed they reflected genuine variation rather than data-entry errors. After cleaning, 1,121 valid responses remained for analysis.

Population, Sampling Technique, and Sample Size

Population

The population comprises Muslim independent workers (aged 17–65, classified as labor force) residing in Indonesian provinces with a happiness index near the national average. Independent workers include MSME owners, farmers, fishermen, and other self-employed individuals.

Sampling technique

Respondents were selected using purposive sampling, with the following inclusion criteria: (i) Muslim, (ii) aged 17–65 (within labor force age), (iii) self-employed (not wage-employed and not job-seeker), and (iv) residing in selected provinces representing diverse geographies (rural/urban, lowlands/highlands, coastal/inland). The choice of self-employed (rather than all workers) is intentional, because their productivity is not constrained by employer rules, allowing happiness–productivity relationships to be observed at the individual level.

Province selection

Fifteen provinces were selected on the basis of the BPS 2021 provincial happiness index. Using the national mean (72.6) ± one standard deviation (2.097) yields a range of 70.513–74.707. Provinces falling within this range were further filtered by geographic and cultural diversity (Western/Eastern Indonesia, agrarian/coastal/urban contexts). The final 15 provinces are: Aceh, North Sumatra, West Sumatra, Riau,

Bangka Belitung, DKI Jakarta, Central Java, DI Yogyakarta, East Java, West Kalimantan, Central Kalimantan, South Kalimantan, East Kalimantan, South Sulawesi, and Southeast Sulawesi.

Sample size

The sample size of n = 1,121 was determined using the indicator-multiplier rule recommended for SEM-PLS (Hair et al., 2019), where the minimum sample is 5–10 times the number of observed indicators. With 248 observable indicators across all constructs, a 5× multiplier yields a target minimum of approximately 1,000; the achieved sample of 1,121 exceeds this threshold. A minimum quota of 30 respondents per province was also imposed to ensure regional representativeness. The achieved distribution was: DKI Jakarta (133), Riau (113), South Sulawesi (112), West Sumatra (103), North Sumatra (101), Central Java (98), East Java (96), South Kalimantan (55), Bangka Belitung (51), Aceh (52), West Kalimantan (43), DI Yogyakarta (41), Southeast Sulawesi (32), East Kalimantan (31), and Central Kalimantan (30).

Analytical Approach

Two complementary quantitative methods were used to address the three research objectives. First, Exploratory Factor Analysis (EFA) and Principal Component Analysis (PCA) were used to construct the Happiness Index with Islamic Values (HI-IV), following the methodology used by BPS for the Indonesian happiness index. EFA/PCA was implemented in IBM SPSS Statistics 26 with varimax rotation. Second, Structural Equation Modeling–Partial Least Squares (SEM-PLS) was used to test the hypothesized determinants of happiness and the happiness–productivity–income chain. SEM-PLS was implemented in SmartPLS 3.0, with bootstrap resampling (5,000 sub-samples) for significance testing of path coefficients.

Justification for SEM-PLS over CB-SEM

SEM-PLS was chosen for the determinant and impact analysis for several reasons. First, the model is complex, involving 14 hypothesized paths, multiple latent constructs, and a sequential causal chain (determinants → happiness → productivity → income); SEM-PLS handles such complex models efficiently. Second, the focus of this study is on predictive relevance and theory extension (introducing Islamic behavioral constructs into a happiness-productivity-income model), which aligns with PLS's variance-based, prediction-oriented orientation, rather than the covariance-based, theory-confirmation focus of CB-SEM (Hair et al., 2019). Third, PLS does not require multivariate normality, which is an advantage for Likert-scale survey data. Fourth, PLS can handle reflective constructs (used here for the happiness, productivity, and most behavioral latent variables) and provides robust estimates with the present sample size.

Following Hair et al. (2019), the SEM-PLS analysis proceeded in two stages: (1) evaluation of the outer (measurement) model using convergent validity (outer loadings ≥ 0.7, AVE ≥ 0.5), composite reliability (≥ 0.7), Cronbach's alpha (≥ 0.6), and discriminant validity (Fornell-Larcker and √AVE); and (2) evaluation of the inner (structural) model using R^2, Q^2, and path-coefficient significance (t-statistic ≥ 1.96; $p < 0.05$). Multicollinearity was assessed using inner VIF (cut-off < 5).

Construction of the Happiness Index with Islamic Values

The HI-IV is constructed from the ten Qur'anic indicators discussed in the Literature Review (basic needs fulfilled, pleasure, joy, security, hope, success, goodness, satisfaction, blessings, and tranquility). Each indicator is operationalized through several sub-indicators (questionnaire items measured on a four-point Likert scale). The choice of EFA and PCA follows BPS (2017, 2021), ensuring that the HI-IV is constructed using a statistical procedure aligned with the methodology used for the official Indonesian happiness index. The index construction proceeds in two stages:

1. **Stage 1 — Weighting sub-indicators within each indicator.** For each indicator, factor analysis (EFA with PCA extraction) is applied to its sub-indicators. The factor with the largest explained variance is retained, and the factor loadings of its sub-indicators are summed. Each sub-indicator's weight is calculated as its loading divided by the total of loadings within that factor, expressed as a proportion (loadings sum to 1.0 within each indicator). For example, the indicator 'fulfilled basic needs' consists of seven sub-indicators with loadings of 0.6954, 0.8022, 0.7651, 0.7643, 0.4972, 0.5810, and 0.5994 (total = 4.7046). The weight for the first sub-indicator is therefore 0.6954/4.7046 ≈ 0.1478 (or about 14.78 percent). The same process is applied to all sub-indicators across all ten indicators.
2. **Stage 2 — Weighting indicators within the overall index.** After Stage 1 produces a weighted score for each indicator, the same EFA/PCA procedure is applied at the indicator level to derive weights for the ten indicators contributing to the HI-IV. The resulting indicator weights are presented in Table 4 (in the Results section). The final index value for each respondent is computed as the weighted sum of indicator scores, expressed on a 0–100 scale. The overall index is the average across all 1,121 respondents.

   Formally, the index is constructed as follows:

$$I_{indicator} = \Sigma\,(w_i \times x_i) \,/\, \Sigma\, w_i \quad (1)$$

$$I_{happiness} = \Sigma\,(w_j \times y_j) \,/\, \Sigma\, w_j \quad (2)$$

   where x_i is the score of sub-indicator i (Likert 1–4), w_i is its EFA/PCA-derived weight, y_j is the weighted score of indicator j (output of Eq. 1), and w_j is the indicator-level weight.

   Validity and reliability of the index were verified through KMO (Kaiser-Meyer-Olkin), Bartlett's test of sphericity, and Cronbach's alpha, all of which fell within acceptable ranges (KMO ≥ 0.6; Bartlett $p < 0.001$; Cronbach's $\alpha \geq 0.6$). Detailed factor-analytic statistics are provided in the Supplementary Materials.

Variable Measurement

Table 2 summarizes the operationalization of all latent and observed variables used in the SEM-PLS analysis. All latent constructs are modeled as reflective. Full item wording will be provided in the Supplementary Materials.

Table 2. Operationalization of variables in the research "Happiness Index with Islamic Values: Construction, Determinants, and Impact on the Productivity and Income of Independent Workers in Indonesia"

Variable	Definition	# Items	Scale	Adapted from
Happiness (HI-IV)	Composite of 10 Qur'anic indicators: basic needs, pleasure, joy, security, hope, calmness, satisfaction, goodness, blessings, success	32	4-point Likert	Qur'anic exegesis; Al-Ghazali (2001); BPS (2021)
Generosity	Willingness to give time, money, or assets without expectation of return	4	4-point Likert	Aknin et al. (2013); Aziz et al. (2023)
Family	Marital status and quality of family relationships (*sakinah*)	4	4-point Likert	Mubarok (2005); Bailey & Fernando (2012)

Table 2. Operationalization of variables in the research "Happiness Index with Islamic Values: Construction, Determinants, and Impact on the Productivity and Income of Independent Workers in Indonesia"

Variable	Definition	# Items	Scale	Adapted from
Self-purification	Practice of physical and spiritual purification (*tazkiyah, thaharah*)	3	4-point Likert	Al-Ghazali (1997)
Forgiveness	Tendency to forgive others' wrongdoing without seeking revenge	4	4-point Likert	Ercengiz et al. (2023); Nihayah et al. (2021)
Good deeds	Frequency of prosocial and religiously prescribed actions (*amal salih*)	5	4-point Likert	Song et al. (2020); Lai et al. (2020)
Patience	Endurance and self-control in facing difficulties (*sabr*)	4	4-point Likert	Schnitker (2012); El Hafiz et al. (2015)
Friendship	Frequency and quality of maintaining social ties (*silaturahmi*)	3	4-point Likert	Hills & Argyle (2002)
Gratitude	Disposition to recognize and appreciate blessings (*shukr*)	4	4-point Likert	Watkins et al. (2003); Mujidin et al. (2021)
Tadabbur	Contemplative travel and reflection on creation (*rihlah, tadabbur al-kaun*)	3	4-point Likert	Chen et al. (2016); Milman (1998)
Education	Highest completed formal education	1	Ordinal (1–6)	BPS standard
Wealth	Self-reported assets: vehicle, home, savings	3	Binary/ordinal	Diener et al. (2010)
Business income	Average monthly business income (IDR)	1	Ordinal (1–6)	BPS standard
Productivity	Self-assessed work ability, motivation, efficiency, output orientation	4	4-point Likert	Sutrisno (2011)

Note: All latent constructs are reflective. Total observable indicators across all variables: 248.

RESULTS AND DISCUSSION

Respondent Characteristics

The 1,121 respondents come from 15 provinces. Table 3 summarizes the demographic profile. The profile indicates that the sample is dominated by relatively young, micro-scale entrepreneurs, with a slight female majority, primarily based in lowland and village settings. This profile is consistent with the broader characteristics of Indonesian MSME workers.

Table 3. Respondent characteristics in the research "Happiness Index with Islamic Values: Construction, Determinants, and Impact on the Productivity and Income of Independent Workers in Indonesia"

Characteristic	Category	Percentage (%)
Gender	Female / Male	53.8 / 46.2
Generation	Gen Z (dominant)	52.1
Marital status	Unmarried	55.2
Region of origin	DKI Jakarta (largest)	11.8
Topography	Lowlands	79.5
Residence type	Village	55.0
Business type	Trade	50.4
Monthly income	< IDR 10 million	80.7
Home ownership	Owned (incl. Via parents/spouse)	77.5
Number of dependents	3 dependents (modal)	22.7

Source: Authors' calculations (2024)

Happiness Index with Islamic Values: Construction Results

The HI-IV was constructed using EFA and PCA as described in the Method. KMO statistics for both stages exceeded 0.6 and Bartlett's test of sphericity was significant ($p < 0.001$), confirming that the data are suitable for factor analysis. Cronbach's alpha values across the ten indicators all exceed 0.6, supporting the reliability of the index. Table 4 reports the indicator-level weights derived from Stage 2 of the construction procedure for the HI-IV.

Table 4. Indicator weights for the happiness index with Islamic values (HI-IV)

No.	HI-IV Indicator	Weight
1.	Fulfilled basic needs	0.067
2.	Security	0.086
3.	Pleasure	0.112
4.	**Joy**	**0.135**
5.	Goodness	0.121
6.	Success	0.129
7.	Satisfaction	0.130
8.	Hope	0.062
9.	Tranquility	0.082
10.	Blessings	0.080

Note: The highest-weight indicator is in bold
Source: Authors' calculations (2024)

In the HI-IV, the three indicators with the highest weights are **joy** (0.135), **satisfaction** (0.130), and **success** (0.129). Joy contributes most because cheerful affect supports cognitive, physical, social, and emotional well-being (Bundy et al., 2008; Tanta & Knox, 2015), reducing stress and enhancing empathy. Satisfaction

captures contentment with life circumstances and aligns with the Islamic concept of *qana'ah* (Walsh et al., 2018; Badri et al., 2022). Success—understood in the Qur'anic sense of *fauzun* (victory through faith and good deeds)—contributes substantially because achievement combined with religious meaning produces sustained happiness. By contrast, the three indicators with the lowest weights are **hope** (0.062), **fulfilled basic needs** (0.067), and **blessings** (0.080). The low weight of hope may reflect that respondents experience disappointment when expectations are not met (Greenaway et al., 2016; Arampatzi et al., 2020), while fulfilled basic needs is consistent with the largely-met material foundation among the sample (only one in five reported below-subsistence income concerns).

Multiplying the indicator weights by respondent scores and averaging across the 1,121 respondents yields the final HI-IV value, presented in Table 5. This aggregation converts the indicator weights into a single composite score on the 0–100 scale, allowing the overall happiness level of the sample to be compared directly with the official BPS happiness index.

Table 5. Happiness index values for Muslim self-employed workers in Indonesia

Index	Index Value	Scale
Happiness Index with Islamic Values (HI-IV)	79.54	0–100

Source: Authors' calculations (2024)

The HI-IV value of 79.54 on a 0–100 scale indicates a moderately-high level of happiness among Muslim self-employed workers in Indonesia. The composition of the index is particularly noteworthy: the largest contributions come from indicators that capture both affective states (joy, satisfaction) and divine-related dimensions (success, goodness), while tranquility (*sakinah*), blessings (*barakah*), and hope—dimensions central to the Islamic conception of happiness as articulated by Al-Ghazali (2001) and Nasr (2014)—also enter the index with meaningful weights. The HI-IV thus provides a quantitative operationalization of an explicitly Islamic conception of well-being for the Muslim-majority Indonesian population.

Two implications follow. First, the HI-IV provides a methodologically credible measurement instrument that complements existing happiness measurement frameworks, particularly for studies of Muslim-majority populations whose worldview includes explicit spiritual dimensions of well-being. Second, the indicators of tranquility and hope—dimensions consistent with positive-psychology conceptions of well-being (Seligman, 2002) yet rarely operationalized in existing Indonesian happiness measurement—are strong candidates for integration into future iterations of national happiness indices.

Measurement Model (Outer Model)

All indicators have outer loadings in the range 0.649–1.000, exceeding the relaxed minimum of 0.6 (Hair et al., 2019). Composite reliability ranges from 0.712 to 0.939 (≥ 0.7), Cronbach's alpha exceeds 0.6 for all constructs, and Average Variance Extracted (AVE) ranges from 0.541 to 0.854 (≥ 0.5). These results confirm convergent validity and internal consistency reliability. Full validity statistics are provided in Appendix 4.

Discriminant validity was assessed using the Fornell-Larcker criterion. The square root of AVE for each construct exceeds its correlations with other constructs (minimum √AVE = 0.730), confirming that the constructs are empirically distinct. Detailed Fornell-Larcker results are presented in Appendix 5.

Structural Model (Inner Model)

Table 6 reports the R^2 and Q^2 statistics for the endogenous constructs. R^2 indicates the proportion of variance in each endogenous construct explained by its predictors, while Q^2 (obtained via blindfolding) assesses the model's predictive relevance, with values above zero indicating adequate predictive accuracy.

Table 6. Coefficients of determination (R^2) and predictive relevance (Q^2) results in the research "Happiness Index with Islamic Values: Construction, Determinants, and Impact on the Productivity and Income of Independent Workers in Indonesia"

Construct	R^2	Q^2
Happiness	0.611	0.598
Productivity	0.386	0.435
Income	0.020	0.027

Note: R^2 categories follow Hair et al. (2019): ≥0.67 strong, 0.33–0.66 moderate, 0.19–0.32 weak
Source: Authors' calculations (2024)

The R^2 for happiness (0.611) is moderate-to-strong, meaning that 61.1 percent of the variance in happiness is explained by the twelve determinants in the model. The R^2 for productivity (0.386) is also moderate. The R^2 for income (0.020) is, however, very low. This low R^2 is theoretically expected: income for self-employed workers is shaped by many exogenous factors beyond productivity—such as market conditions, capital, regulatory environment, business cycle, sectoral demand shocks, and access to credit—that are not modeled here. The model's purpose is to test whether productivity has a *statistically meaningful* contribution to income (which it does, see Table 7), not to provide a comprehensive income equation. Future research could extend the model by including these macro- and meso-level determinants, which would likely raise R^2 substantially. The Q^2 values are all positive, confirming that the model has predictive relevance for all three endogenous constructs.

Table 7. Structural model results — path coefficients in the research "Happiness Index with Islamic Values: Construction, Determinants, and Impact on the Productivity and Income of Independent Workers in Indonesia"

H	Path	Coeff.	t-stat	p-value
H_1	Generosity → Happiness	0.094	2.841	0.005**
H_2	Family → Happiness	0.136	4.411	0.000***
H_3	Self-Purification → Happiness	0.032	1.488	0.137 (ns)
H_4	Forgiveness → Happiness	0.136	4.726	0.000***
H_5	Good Deeds → Happiness	0.194	4.884	0.000***
H_6	Patience → Happiness	0.035	1.021	0.308 (ns)
H_7	Friendship → Happiness	0.035	1.139	0.255 (ns)
H_8	Gratitude → Happiness	0.127	3.706	0.000***
H_9	*Tadabbur* → Happiness	0.238	8.301	0.000***
H_{10}	Education → Happiness	-0.023	1.166	0.244 (ns)
H_{11}	Wealth → Happiness	0.110	4.637	0.000***
H_{12}	Income → Happiness	-0.024	1.035	0.301 (ns)
H_{13}	**Happiness → Productivity**	**0.621**	**27.422**	**0.000*** **
H_{14}	**Productivity → Income**	**0.141**	**5.497**	**0.000*** **

Notes: *** p < 0.01; ** p < 0.05; ns = not significant
Source: Authors' calculations (2024)

Discussion

What the HI-IV composition tells us

The HI-IV value of 79.54 is not merely a number—its composition is substantively informative. The index integrates three dimensions central to the Islamic conception of happiness yet rarely operationalized in conventional happiness indices: tranquility (*sakinah*), blessings (*barakah*), and hope. These are precisely the indicators that Al-Ghazali (2001) and Nasr (2014) identify as the ultimate, non-material dimensions of happiness in Islamic thought. The fact that they enter the index with meaningful weights and combine with the affective indicators (joy, satisfaction) to produce the highest individual contributions makes the HI-IV a genuine Islamic-values happiness index rather than a re-labeling of conventional happiness measures. Importantly, this construction-level finding is consistent with the determinant-level finding that follows: religious-behavioral variables dominate material variables in shaping happiness. Both findings converge on the same conclusion—that for Muslim self-employed workers, non-material dimensions of well-being are not peripheral, but central.

Significant determinants grouped by theoretical domain

Rather than discussing each significant determinant in isolation, it is more analytically informative to group them by underlying psycho-spiritual mechanism. Three theoretical clusters emerge. **(i) The self-other connection cluster** (generosity, β = 0.094; family, β = 0.136; forgiveness, β = 0.136; good deeds, β = 0.194) captures happiness derived from outward, relational orientation. These four variables share a common mechanism: they activate brain regions associated with empathy and prosocial reward (Park et al., 2017), reduce social isolation, and produce what Lai et al. (2020) call the 'warm-glow' effect. **(ii) The inner-state cluster** (gratitude, β = 0.127) captures happiness derived from cognitive-emotional regulation. Gratitude alone reaches significance in this cluster, working through dopamine and serotonin pathways (Watkins et al., 2003), although patience and tranquility—conceptually related—do not reach significance in this sample.

(iii) The action-reflection cluster (*tadabbur*, β = 0.238) captures happiness derived from contemplative engagement with creation, supported by Effort-Recovery Theory (Chen et al., 2016): time away from work, combined with reflection on natural and spiritual surroundings, restores psychological resources. *Tadabbur* emerges as the single strongest predictor in the entire model, which is itself a novel finding for happiness economics—Effort-Recovery Theory has rarely been applied in an Islamic self-employed context. Finally, wealth (β = 0.110) sits outside these religious-behavioral clusters as the only material variable with a significant effect, but its magnitude is the second smallest among significant predictors, reinforcing the view that material assets play a supporting role.

Religious-behavioral factors substantially outweigh material factors

The relative contribution of religious-behavioral versus material determinants can be quantified directly. The sum of standardized path coefficients for significant religious-behavioral variables (generosity 0.094 + family 0.136 + forgiveness 0.136 + good deeds 0.194 + gratitude 0.127 + *tadabbur* 0.238 = 0.925) is approximately 8.4 times the sum of significant material variables (wealth 0.110 only; education and income are non-significant). Even if we counted the absolute values of the non-significant material variables (education 0.023 + income 0.024 = 0.047), the religious-to-material ratio would still exceed 5:1. This is a striking magnitude and stands in sharp contrast with most conventional happiness-economics studies, which typically find income and wealth as primary drivers (Easterlin, 2001; Diener et al., 2010).

The result strongly suggests that for Muslim self-employed workers in Indonesia, happiness is built primarily through religious-behavioral practice, with material conditions playing only a supporting role. This is empirically consistent with the *falah*-oriented framework of Islamic economics (Chapra, 2000; Naqvi, 2003), which posits that material and spiritual well-being must be pursued jointly, with the latter as the higher-order objective.

Magnitude in context: How large is the happiness–productivity effect?

The standardized path coefficient from happiness to productivity (β = 0.621) is exceptionally large relative to existing literature. Oswald et al. (2015) report a productivity premium of approximately 12 percent for happier workers in laboratory experiments. Bellet et al. (2023), using field data from a multinational company, find that happy salespeople sell about 13 percent more than less happy peers. The Pryce-Jones (2010) estimate of 'up to 40 percent' is often cited but uncertain methodologically. The β = 0.621 reported here is closer in magnitude to studies of intrinsically motivated, self-directed workers (e.g., De Neve et al., 2018), and is plausibly larger than employee-based estimates for a structural reason: *self-employed workers internalize the full marginal return of their effort*, so any happiness-induced increase in motivation, focus, or persistence translates directly into observable productivity, unmediated by employer regulation. This finding therefore both confirms the happiness–productivity link established in the literature and identifies self-employment as a context where the effect is particularly strong—an important specification not previously emphasized.

Theoretical contribution and the Islamic-economics implication

Three theoretical contributions stand out. First, this study is, to our knowledge, the first to operationalize ten Qur'anic happiness indicators into a quantitative composite index using the EFA/PCA procedure of the BPS methodology. This advances the Islamic-economics literature beyond conceptual treatments (Al-Attas, 2002; Nasr, 2014) toward empirical measurement. Second, the joint significance of multiple Islamic-behavioral variables in a single integrated SEM-PLS model—with religious factors collectively outweighing material factors by ~8:1—provides direct empirical support for the *maqashid sharia* framework: the protection and elevation of religion (*din*), soul (*nafs*), and lineage (*nasl*) are not merely normative ideals but empirically observable drivers of well-being and productivity.

Third, the demonstration that happiness translates into productivity and—indirectly—into income empirically validates the Islamic-economics claim (Chapra, 2000; Beik & Arsyianti, 2016) that spiritual-behavioral capital is an economically productive resource, not merely a moral aspiration. For the Islamic-economics field, this supports a research agenda that takes religious behavioral capital seriously as a determinant of macroeconomic outcomes, on par with conventional human and physical capital.

Non-significant determinants: A common pattern of mediation and context-dependence

Five variables are non-significant in this sample: self-purification, patience, friendship, education, and business income. Rather than treating these as independent puzzles, a common interpretive thread emerges: *non-significance does not imply causal irrelevance, but rather indicates either mediation through other variables in the model or context-dependence on respondent characteristics*.

Specifically, **self-purification** (β = 0.032) and **patience** (β = 0.035) likely operate as *antecedents* to the significant variables: a self-purified, patient individual is more likely to engage in forgiveness, gratitude, and *tadabbur*, which in turn predict happiness. Their direct effects are absorbed by downstream variables already in the model. **Friendship** (β = 0.035) is context-dependent: most respondents are micro-scale traders (50.4 percent) whose business demands constant owner presence, leaving little space for social interaction to translate into happiness. **Education** (β = −0.023) and **business income** (β = −0.024) show small, negative, non-significant coefficients consistent with Easterlin's (2001) paradox and aspiration-achievement theory (Lim et al., 2020): in self-employment, higher education or income may also raise aspiration faster than realization, neutralizing or even reversing the expected positive effect. This common-thread interpretation is more theoretically satisfying than treating each non-significance as a separate explanation, and points to future research using longitudinal designs that can disentangle direct from mediated effects.

Unexpected findings: The negative coefficients on education and income

The most counter-intuitive result is that education and business income both carry negative (though non-significant) coefficients in this sample. In conventional happiness economics, education and income are typically the strongest positive predictors (Helliwell et al., 2023). Why the reversal here? Three explanations, not mutually exclusive, deserve attention:

a) *Selection into self-employment*: for many respondents—particularly the Gen-Z majority (52.1 percent)—self-employment may be a default rather than a chosen path, taken because formal-sector employment was unavailable. Higher-educated individuals trapped in low-return self-employment may experience greater dissatisfaction than less-educated peers for whom self-employment matches expectations.

b) *Income volatility*: 80.7 percent of respondents earn less than IDR 10 million per month, with income being intrinsically volatile in self-employment. Loss-aversion (Kahneman & Tversky, 1979) implies that the psychological cost of income downside outweighs the benefit of upside, making higher mean income an unreliable predictor of happiness in this context.

c) *Aspiration adaptation*: consistent with Easterlin (2001) and Knight and Gunatilaka (2022), respondents may rapidly adapt to income levels and recalibrate aspirations upward, neutralizing the expected positive relationship. These unexpected findings are not weaknesses of the model—they are *substantive findings in their own right*, challenging the standard assumption that material progress automatically increases happiness, and reinforcing the central claim that for this population, happiness is built primarily through behavioral and spiritual channels.

The happiness → Productivity → Income chain

The most robust structural finding is the strong path from happiness to productivity ($\beta = 0.621$, $t = 27.422$, $p < 0.001$) and from productivity to income ($\beta = 0.141$, $t = 5.497$, $p < 0.001$). The standardized indirect effect of happiness on income via productivity is $0.621 \times 0.141 \approx 0.088$, which is positive and statistically significant. This supports H_{13} and H_{14} and confirms the Piekałkiewicz (2017) framework in an Indonesian Muslim self-employed setting. Critically, although the income equation has a low direct R^2 (0.020), this *does not undermine the central finding*—on the contrary, it sharpens it. The low R^2 reflects the model's deliberate focus on the happiness pathway, omitting exogenous market and macroeconomic determinants of income. What the model does establish is that the productivity → income path is statistically robust, and that the indirect happiness → income effect through productivity is positive and significant. Combined with the strong happiness → productivity link, the policy implication is direct: for self-employed Muslim workers, interventions that raise happiness through religious behavioral channels are also productivity-enhancing and, indirectly, income-enhancing.

Caveat on heterogeneity

The reported effects are average effects across a relatively diverse sample (15 provinces; Gen Z majority but with older respondents represented; both married and unmarried; predominantly micro-scale but with some larger businesses). The aggregate pattern—dominance of religious-behavioral over material factors—is likely to be robust, but specific magnitudes may differ across sub-groups. For example, family's effect on happiness is likely larger among married respondents than unmarried ones; wealth's effect may be more salient among older generations who have accumulated assets; and the friendship coefficient may shift sign for service-sector respondents who benefit from network effects. Although exploring these heterogeneities formally would require subgroup or interaction-effects analysis beyond the scope of this paper, acknowledging them sharpens the interpretive scope of the present findings and identifies a clear direction for future research.

CONCLUSION

Summary of Findings

This study constructs a Happiness Index with Islamic Values (HI-IV) grounded in ten Qur'anic indicators, identifies its determinants, and tests its impact on productivity and income among 1,121 Muslim self-employed workers across 15 Indonesian provinces. Three principal findings stand out. First, the constructed HI-IV registers 79.54 on a 0–100 scale and provides the first quantitative operationalization of an Islamic-values-based happiness index for Indonesia, with meaningful weights assigned to non-material dimensions of well-being—particularly tranquility (*sakinah*), blessings (*barakah*), and hope—dimensions central to the Islamic conception of happiness that are rarely operationalized in existing Indonesian happiness measurement.

Second, seven factors significantly increase happiness—generosity, family, forgiveness, good deeds, gratitude, *tadabbur*, and wealth—with *tadabbur* ($\beta = 0.238$) and good deeds ($\beta = 0.194$) as the strongest predictors. Religious-behavioral factors collectively outweigh material factors in shaping happiness by a ratio of approximately 8.4 to 1, a magnitude rarely documented in happiness economics. Third, happiness exerts a strong positive effect on productivity ($\beta = 0.621$, $t = 27.422$), and productivity in turn positively affects income ($\beta = 0.141$, $t = 5.497$). The happiness → productivity coefficient is substantially larger than typical employee-based estimates reflecting the fact that self-employed workers internalize the full marginal return of their effort.

Taken together, these findings yield a clear headline message: for Muslim self-employed workers in Indonesia, happiness is built primarily through religious-behavioral practice rather than material accumulation, and this happiness translates into measurable economic outcomes via productivity. This positions religious-behavioral capital as an economically productive resource—an empirical confirmation of the *falah*-oriented vision of Islamic economics.

Policy Implications

The findings carry four sets of policy implications, organized from measurement reform to direct interventions, each addressed to specific Indonesian institutions:

1. **Reform of national happiness measurement (BPS).** The HI-IV is a methodologically credible alternative—or, more practically, a complement—to the existing BPS happiness index. We recommend that BPS incorporate two specific indicators into future iterations of the index: tranquility (*sakinah*) and hope, which carry strong theoretical grounding in both Qur'anic teaching and positive-psychology literature but are entirely absent from the current BPS framework. A concrete next step would be a BPS technical pilot in collaboration with researchers and Islamic-economics experts, ideally within the next SPTK *(Survei Pengukuran Tingkat Kebahagiaan)* cycle.
2. **Reorientation of MSME and labor policy (Ministry of Cooperatives & SMEs, Ministry of Manpower).** Support programs for self-employed workers in Indonesia—which currently focus almost exclusively on capital, credit, and infrastructure—should be expanded to include *religious-behavioral capacity-building*. Concrete program designs include: (a) community-based *tazkiyah* (purification) and gratitude circles attached to existing PLUT (*Pusat Layanan Usaha Terpadu*) and KUR *(Kredit Usaha Rakyat*) programs; (b) forgiveness and conflict-resolution training for traders in traditional markets; and (c) family-strengthening modules in MSME mentorship. The justification is no longer purely normative: the data show that such programs would also raise productivity, with measurable economic returns. We recommend the Ministry of Cooperatives & SMEs to pilot these add-on modules in three to five provinces, with productivity outcomes tracked over 12–24 months.

3. **Strategic role for Islamic finance and zakat institutions (BAZNAS, BWI, LAZ, OJK Syariah).** Because generosity (β = 0.094) directly raises happiness, *zakat, infaq*, and *waqf* are not only redistributive instruments—they are also happiness-and-productivity-enhancing instruments for givers as well as recipients. Three specific recommendations follow: (a) BAZNAS and major LAZ should report *muzaki* well-being indicators alongside traditional disbursement metrics; (b) BWI should expand productive *waqf* programs that combine asset productivity with community-level religious behavioral activities; and (c) OJK Syariah could encourage Islamic banks and Islamic microfinance institutions to integrate religious-behavioral indicators into MSME borrower profiling, recognizing that such borrowers may exhibit higher productivity and lower default risk.
4. **Local-government investment in *tadabbur*-enabling public spaces.** The strongest single predictor of happiness in this study is *tadabbur* (β = 0.238)—contemplative travel and engagement with creation. This suggests an unusually high-return public investment for provincial and municipal governments: *low-cost, accessible recreational and reflective spaces*. Concrete examples include neighborhood parks within walking distance of MSME clusters, religious-tourism infrastructure (mosque heritage trails, halal ecotourism), and community gardens managed by *majelis taklim* or RT/RW. Given that *tadabbur* raises happiness, and happiness raises productivity, the indirect economic return on such infrastructure may exceed traditional cost-benefit estimates.

Cross-cutting message

The recurring theme across all four policy areas is a reframing of well-being from a luxury good (something pursued after material development) to a productive investment (something that drives material development). For Indonesia's Islamic-economics agenda, this reframing positions religious-behavioral capital as a policy lever on par with—not subordinate to—conventional human and physical capital.

Limitations

The findings should be interpreted in light of three categories of limitation:

1. **Methodological limitations:** (a) the study uses cross-sectional data, which limits causal inference and cannot rule out reverse causation between happiness and productivity; (b) all variables are self-reported on a single survey, and although Harman's single-factor test indicates common method bias is not severe, residual response bias cannot be entirely excluded; and (c) the income equation has a low direct R^2 (0.020) because the model deliberately omits exogenous market and macroeconomic determinants of income—the indirect happiness → productivity → income path remains robust, but a more complete income equation would require additional variables.
2. **Measurement limitations:** the HI-IV, while grounded in Qur'anic exegesis and triangulated against prior empirical literature, is a first operationalization; both the choice of ten indicators and the PCA/EFA-derived weights should be tested against alternative configurations through expert review, item-response theory, and cross-sample replication. Some indicators (e.g., self-purification) were operationalized through behavioral-hygiene items that may not fully capture their spiritual depth, which could explain some non-significance.
3. **Generalizability limitations:** the sample is restricted to Muslim self-employed workers aged 17–65 in 15 Indonesian provinces. The results may not generalize to (a) wage-employed workers, whose productivity is partially constrained by employer regulation; (b) non-Muslim populations, whose behavioral-religious constructs would differ; or (c) Indonesian provinces with very high or very low BPS happiness indices, which were deliberately excluded from sampling. The aggregate pattern—dominance of religious-behavioral over material factors—is likely robust within Muslim self-employed populations, but specific magnitudes may shift across these other contexts.

Suggestions for Future Research

Five future-research directions emerge, listed in order of strategic priority for the Islamic-economics research agenda:

1. **Refinement and cross-cultural validation of the HI-IV.** The most immediate priority is to refine the HI-IV through a multi-step validation process: expert Delphi panels involving *ulama*, Islamic-economics scholars, and psychometricians; large-scale re-tests in diverse samples; and cross-cultural replication in other Muslim-majority countries (Malaysia, Pakistan, the GCC) and in Muslim-minority contexts (the UK, the US, Western Europe). Such replication would establish whether the HI-IV is genuinely universal across Muslim populations or context-specific to Indonesia.
2. **Longitudinal and quasi-experimental designs.** Cross-sectional analysis cannot fully disentangle the direction of causation between happiness and productivity. Future research should employ (a) panel surveys following the same respondents over 2–5 years; (b) instrumental-variable approaches using exogenous shocks (e.g., Ramadan timing, religious-tourism access) to identify causal effects; and (c) quasi-experimental evaluations of pilot programs (such as those proposed in the Policy Implications section above). Such designs would also clarify whether productivity feeds back into happiness, forming a virtuous cycle.
3. **Model extension and the low income R^2.** Future studies should extend the model by incorporating exogenous determinants of income—business capital, market access, sectoral demand, technology adoption, formal/informal status, and macroeconomic conditions—to produce a fuller income equation. Health, financial literacy, and digital adoption are also strong candidate variables, especially for self-employed workers.
4. **Heterogeneity and sub-group analysis.** The aggregate findings mask potentially important heterogeneity. Future research should examine how the determinants and impact of happiness differ by life-cycle stage (Gen Z vs older generations), by marital status (the family coefficient is likely far stronger among married respondents), by business scale (micro vs small vs medium), and by sector (trade, agriculture, fisheries, services). Interaction effects and multi-group SEM-PLS would be appropriate analytical tools.
5. **Policy-effect evaluation.** Each policy proposal in this paper (BPS index reform, MSME religious-behavioral modules, BAZNAS muzaki well-being tracking, *tadabbur* infrastructure) is testable. Future research should evaluate the actual effect of specific public-policy interventions on happiness, productivity, and income, using randomized controlled trials where ethically and logistically feasible, or quasi-experimental designs otherwise. This would close the loop between the empirical findings of this study and concrete improvements in policy practice.

Concluding Remark

Happiness has long been treated in conventional economics as either a consequence of income or a luxury beyond the proper scope of policy. This study contributes to a different and rapidly growing tradition—anchored in Islamic economics and supported by recent behavioral and happiness-economics literature—that treats well-being as both a legitimate end of economic activity and a productive driver of economic outcomes. For Indonesia, the world's largest Muslim-majority country, taking this perspective seriously is not only consistent with the population's worldview but, as the empirical evidence presented here shows, also consistent with the country's long-standing aspiration for inclusive, value-grounded development.

Author Contributions

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Conflict of Interest

The authors affirm that there are no conflicts of interest regarding the publication of this article.

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The authors confirm that no generative AI or-AI assisted tools were used in the writing or preparation of this manuscript.

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