

Sharia Business Ethics in Capital Market Investment on the Indonesian Stock Exchange Study of the Application of Sharia Principles Bei

Lalu Jedi Muawari¹ Karmelia Sasmita Ningtias² Prameswari Cuzenti Adinda³
Riska Sudianti⁴ Ziqurrahman Irsyad⁵ Nuraini⁶

Administrasi Bisnis, Fakultas Ilmu Sosial Dan Ilmu Politik, Universitas Muhammadiyah Mataram

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Abstract

Sharia-based investment in the Indonesian capital market has experienced rapid development along with increasing public awareness of the importance of sharia principles in economic activities. This study aims to examine the application of sharia business ethics in investment on the Indonesia Stock Exchange (IDX), especially in stocks listed on the Jakarta Islamic Index (JII) and the Indonesian Sharia Stock Index (ISSI). Using a literature study method, this study explores the application of sharia principles such as fairness, transparency, and the prohibition of usury in capital market investment. The results of the study indicate that the application of sharia business ethics not only strengthens investor confidence but also increases the growth of sharia financial instruments in Indonesia. However, several challenges such as the lack of sharia financial literacy and regulatory barriers still require more attention. This study is expected to contribute to developing a fairer and more inclusive sharia capital market.

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Corresponding Author:

Lalu Jedi Muawari

Universitas Muhammadiyah Mataram

Email: lalujedimuawari@gmail.com

1. INTRODUCTION

The capital market is an important instrument in the economic development of a country, including Indonesia. According to Menaung et al. (2022), the capital market is a market for various long-term financial instruments that can be traded, be it debt securities (bonds), equity (shares), mutual funds, derivative instruments, or other instruments. Annisa (2022) added that the capital market is a place where people trade long-term financial instruments such as bonds, shares, mutual funds, derivatives, and other products, as well as mechanisms by which investors provide funds to other institutions (companies or governments) to generate profits from their investments.

In recent years, sharia-based investment in the capital market has become increasingly popular, in line with the increasing awareness of the Muslim community regarding the importance of conforming economic activities with sharia principles. The Indonesian Stock Exchange (BEI) has provided a special platform through the Jakarta Islamic Index (JII) and the Indonesian Sharia Stock Index (ISSI), which allows investors to participate in halal investments.

Sharia investments are based on key principles in Islam, such as the prohibition of usury, gharar (uncertainty), and maysir (speculation). In addition, sharia business ethics emphasizes fairness, transparency and responsibility in all aspects of financial transactions. These principles are designed to create a sustainable and fair economic system for all stakeholders. However, even though sharia capital market instruments continue to develop,

their implementation still faces a number of challenges, such as low financial literacy and a lack of public understanding of sharia concepts in the capital market.

This research aims to examine the application of sharia business ethics in investing in the Indonesian capital market, especially in shares listed in JII and ISSI. This study also seeks to identify the main challenges and provide recommendations for developing a more inclusive and sustainable Islamic capital market.

2. METHOD

This research uses a qualitative approach with a literature study method (library research). The literature study was selected to analyze the application of sharia business ethics principles in investment in the capital market based on relevant secondary data. The data used includes:

1. Regulations issued by the Financial Services Authority (OJK) and the National Sharia Council-Indonesian Ulema Council (DSN-MUI).
2. Annual report of the Indonesian Stock Exchange (BEI).
3. The results of previous research focused on sharia-based investment in the capital market.

This method allows researchers to explore the application of sharia principles in various aspects of capital market investment, such as fairness, transparency, and the prohibition of usury.

3. RESULTS AND DISCUSSION

1. Application of Sharia Principles in Capital Market Investment

The application of sharia principles in investment in the Indonesian capital market has become a major concern in efforts to create a more inclusive and just economic system. Fatwa of the National Sharia Council-Indonesian Ulema Council (DSN-MUI) No. 80/DSN-MUI/2011 is the main guideline in ensuring that sharia stock trading activities are free from elements prohibited in sharia, such as *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling). These guidelines ensure that traded instruments, such as shares listed on the Jakarta Islamic Index (JII) and the Indonesian Sharia Stock Index (ISSI), meet halal criteria, including prohibitions against investment in haram sectors such as alcohol, gambling and pornography (Dewan National Sharia-Indonesian Ulema Council, 2011).

The main principles in sharia investment are fairness, transparency and responsibility in every financial transaction. Annisa (2022) emphasized that the application of these principles aims to create trust between investors and market players. Meanwhile, Karim (2019) stated that the success of sharia implementation is very dependent on the issuer's integrity and strict monitoring mechanisms. This fatwa provides guarantees to Muslim investors that their investment activities do not violate sharia law, while strengthening trust in the sharia capital market.

Sharia Capital Market Growth

The growth of the Islamic capital market in Indonesia over the last decade shows significant potential. The Financial Services Authority (2023) noted that the number of sharia shares on the Sharia Securities List (DES) has increased to more than 400 shares, which covers around 60% of the total issuers listed on the Indonesia Stock Exchange (BEI). This reflects the growing interest of domestic and international investors in Islamic financial instruments.

However, this growth does not fully reflect the true market potential. The proportion of sharia share transaction value compared to total transactions in the Indonesian capital

market is still relatively low. Annisa (2022) identified that one of the main obstacles is the public's lack of understanding regarding the benefits of sharia investment, including the low level of sharia financial literacy in Indonesia. Additionally, the lack of fiscal incentives, such as tax reductions for Islamic investors, also limits the attractiveness of these instruments.

Research by Huda and Nasution (2020) shows the importance of public education to increase participation in the Islamic capital market. This education should include an introduction to sharia instruments such as shares, sukuk and sharia mutual funds, as well as an emphasis on the ethical and sustainability advantages offered by sharia-based investments. With the right educational approach, the growth potential of the Islamic capital market in Indonesia can be maximized.

Challenges in Implementing Sharia Ethics

Even though the sharia capital market continues to develop, the implementation of sharia business ethics faces various challenges. One of the main obstacles is the low level of sharia financial literacy in Indonesian society. Siddiqi (2022) states that many investors still have difficulty distinguishing between sharia and conventional investments, especially in terms of trading mechanisms and types of instruments used.

Apart from that, transparency of issuers registered in the Sharia Securities Register is also an important issue. Nuryanta and Wibowo (2018) found that investors' perceptions of the level of transparency and compliance of issuers with sharia principles greatly influence investment interest. Meanwhile, Sari and Widarsono (2021) noted that limited supervision and supporting regulations are also obstacles in ensuring the integrity of the Islamic capital market.

Stricter supervision is needed to ensure that issuers comply with sharia principles, both in their business activities and financial reporting. Regulations that provide incentives, such as tax reductions or government support for sharia products, are also needed to encourage the growth of this sector. In comparison, Malaysia has succeeded in implementing a fiscal incentive policy to attract sharia investors, which can be used as a reference by Indonesia (Antonio, 2020).

The Impact of Sharia Ethics on Investor Confidence

The application of sharia business ethics has a significant impact on investor confidence. Research by Sari and Widarsono (2021) shows that shares listed on the Jakarta Islamic Index (JII) tend to have lower volatility than conventional shares, making them an attractive choice for long-term investors. This advantage comes from a strict screening mechanism, which ensures that issuers meet sharia criteria and have strong business fundamentals.

The application of the principles of justice, transparency and accountability in sharia investment also provides a sense of security for investors. Karim (2019) states that the Islamic capital market does not only attract Muslim investors, but also non-Muslim investors who value an ethical approach to investing. To support this growth, the Financial Services Authority (2023) recommends synergy between regulators, market players and the public in increasing sharia financial literacy and expanding access to halal investment products.

In the long term, strengthening the sharia capital market requires product innovation, such as green sukuk or environmentally based sharia mutual funds, which not only comply with sharia principles but also support sustainable development goals. With an

inclusive and integrated approach, the Islamic capital market can become an important pillar in supporting sustainable economic growth in Indonesia.

4. CONCLUSION

This research reveals that the application of sharia business ethics in capital market investment on the Indonesia Stock Exchange has been accommodated through various regulations and mechanisms, such as the Sharia Securities List (DES), the Jakarta Islamic Index (JII), and the Indonesian Sharia Stock Index (ISSI). Sharia principles, including fairness, transparency and the prohibition of usury, are applied to ensure that investment activities comply with Islamic values. DSN-MUI Fatwa, especially Fatwa No. 80/DSN-MUI/2011, is the main guide for sharia stock trading in Indonesia.

Even though the sharia capital market shows significant growth in the number of issuers and transaction value, challenges are still faced, such as low sharia financial literacy, lack of public understanding of sharia instruments, and the need for tighter supervision of issuer transparency. This shows that even though the system has been designed comprehensively, implementation optimization is still needed.

The application of sharia business ethics also has a positive impact on investor confidence, especially those who are looking for investment alternatives that are more stable and in accordance with Islamic principles. However, sustainable growth of the sharia capital market in Indonesia requires synergy between regulators, market players and the public in increasing sharia financial literacy, providing attractive incentives and promoting sharia instruments more widely.

This research contributes to strengthening the literature on sharia business ethics in the capital market and provides recommendations for developing a more inclusive and sustainable sharia investment ecosystem in Indonesia.

5. SUGGESTION

Increasing Sharia Financial Literacy: The government and related authorities, such as the OJK, must increase educational efforts about sharia finance to the public. Literacy programs can be carried out through seminars, digital media, and collaboration with the investor community.

Development of Fiscal Incentives: Regulators need to consider providing tax incentives for investors who invest in Islamic capital market instruments, as has been implemented in other countries, to attract the interest of more investors.

Supervision of Issuer Transparency: BEI and DSN-MUI must tighten supervision of issuers registered on the Sharia Securities List (DES) to ensure compliance with sharia principles.

Sharia Product Innovation: The Indonesia Stock Exchange can encourage the development of new sharia products, such as green sukuk and environmentally based sharia mutual funds, to expand choices for investors.

Sharia Investment Digitalization: Accelerate the digitization process in sharia investment services, including user-friendly mobile applications, to increase investment accessibility for the younger generation.

Inter-Agency Collaboration: Synergy between the government, sharia financial institutions and educational institutions is needed to create a sustainable and inclusive sharia capital market ecosystem.

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