

UNDERSTANDING SHARIA-COMPLIANT STOCK INVESTMENT IN INDONESIA: A DESCRIPTIVE PHENOMENOLOGICAL STUDY BASED ON SECONDARY DATA

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ABSTRACT

KEYWORDS

Sharia-compliant stocks, Islamic capital market, Phenomenology, Islamic finance.

The development of Sharia-compliant capital markets has become an integral part of the broader expansion of Islamic finance, particularly in Muslim-majority countries such as Indonesia. Sharia-compliant stocks are designed to provide investment opportunities that align with Islamic principles, emphasizing ethical conduct, prohibition of interest-based activities, and avoidance of speculative transactions. Despite significant institutional growth and regulatory support, the practical understanding and perceived meaning of Sharia-compliant stock investment among market participants remain underexplored, especially from a qualitative perspective. Most existing studies rely heavily on quantitative performance analysis, offering limited insight into the normative and experiential dimensions of Sharia compliance. This study aims to explore the phenomenon of Sharia-compliant stock investment in Indonesia using a qualitative descriptive phenomenological approach based entirely on secondary data. The research draws upon peer-reviewed academic literature, regulatory documents issued by financial authorities and Sharia councils, and official statistical publications to capture the shared meanings and interpretations embedded in existing discourse. By synthesizing these sources, the study seeks to identify how Sharia-compliant stocks are conceptualized, justified, and critically assessed within the Indonesian Islamic finance ecosystem. The findings indicate that Sharia-compliant stocks are commonly understood as a hybrid instrument that integrates religious values with modern financial practices. However, variations in Sharia screening standards, limited investor literacy, and concerns regarding the substantive ethical impact of such instruments present ongoing challenges. The study also reveals tensions between normative Islamic economic objectives and the technical implementation of Sharia compliance in capital markets. This research contributes to Islamic finance literature by providing an interpretive framework that complements dominant quantitative approaches. Practically, it offers insights for regulators, policymakers, and educators to strengthen Sharia capital market development through improved transparency, harmonized standards, and enhanced investor education. The study further serves as a conceptual foundation for future qualitative research involving primary data collection.

INTRODUCTION

The rapid growth of Islamic finance has reshaped the global financial landscape by offering an alternative system grounded in ethical norms, social responsibility, and Sharia principles. Islamic finance emphasizes fairness, transparency, and risk-sharing, while explicitly

prohibiting interest (riba), excessive uncertainty (gharar), and speculative activities (maysir). Within this system, Islamic capital markets have emerged as a vital component, enabling the mobilization of funds for productive economic activities while adhering to religious principles. Sharia-compliant stocks, in particular, represent one of the most prominent instruments within Islamic capital markets, allowing investors to participate in equity ownership without violating Islamic legal and ethical norms (Chapra, 2009; El-Gamal, 2006; Obaidullah, 2011).

Unlike conventional equities, Sharia-compliant stocks are subject to a dual-layer screening process that includes qualitative assessment of business activities and quantitative financial ratio thresholds. Firms involved in prohibited sectors such as conventional banking, gambling, alcohol, and tobacco are excluded, while financial ratios related to interest-bearing debt and non-halal income are restricted within permissible limits. This screening mechanism reflects the attempt to integrate Islamic jurisprudence (fiqh muamalah) into modern financial markets. Scholars argue that this integration represents a dynamic interpretation of Islamic law in response to contemporary economic realities, rather than a static replication of classical doctrines (El-Gamal, 2006; Kamla & Rammal, 2013; Hanif, 2019).

Indonesia represents a distinctive and strategically significant environment for analyzing Sharia-compliant stock investment, particularly within the context of emerging Islamic capital markets. As the country with the largest Muslim population worldwide, Indonesia has considerable demographic capacity that can support the growth and diffusion of Islamic financial instruments. This demographic characteristic provides a strong foundation for increasing public interest and participation in Sharia-based investment products, including Islamic equities.

Nevertheless, the Indonesian capital market is primarily rooted in a conventional financial system. The integration of Islamic finance has not occurred through a comprehensive transformation of the system, but rather through regulatory accommodation that allows Sharia-compliant instruments to operate alongside conventional products. This coexistence reflects a dual-market structure in which Islamic capital market instruments are developed within an existing conventional framework, supported by regulatory policies and supervisory mechanisms designed to ensure Sharia compliance without disrupting the overall market system.

An important milestone in the development of Sharia-compliant equities in Indonesia was the establishment of the Jakarta Islamic Index (JII) in 2000. The introduction of JII marked the initial formal recognition of Islamic stocks within the national capital market, providing investors with a clear reference for equities that satisfy Sharia screening criteria. This index played a crucial role in enhancing investor confidence and promoting the legitimacy of Islamic stock investment in Indonesia (Abdalloh, 2019).

Further advancements were made with the launch of additional Sharia stock indices aimed at expanding market coverage and representation. The Indonesia Sharia Stock Index (ISSI) was introduced to include all Sharia-compliant stocks listed on the Indonesia Stock Exchange, thereby offering a more comprehensive overview of the Islamic equity market.

Subsequently, the JII70 index was developed to broaden the scope of selected Sharia stocks while maintaining quality and compliance standards (Setyowati & Mursyid, 2020; Rahman et al., 2021). Collectively, these developments highlight Indonesia's progressive efforts to institutionalize Sharia-compliant stock investment within a predominantly conventional capital market structure.

Regulatory support has played a central role in shaping the development of the Indonesian Sharia capital market. The Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), in coordination with the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), have established formal guidelines for Sharia screening and disclosure. These institutions provide periodic Sharia Securities Lists and oversee compliance mechanisms to ensure that listed equities meet Sharia requirements. Such regulatory frameworks have enhanced market credibility and facilitated investor participation, particularly among retail investors seeking Sharia-compliant investment options (Hasan et al., 2020; Rahman et al., 2021; Nugroho & Hidayah, 2022).

Despite these institutional advances, empirical evidence suggests that participation in the capital market especially in equity investment remains relatively low among Indonesian households. Data published by the Indonesian Central Bureau of Statistics (BPS) indicate that household financial assets are predominantly allocated to savings and deposit instruments, while ownership of stocks and mutual funds remains limited. This pattern reflects broader issues of financial inclusion and investment literacy, which continue to constrain the growth of both conventional and Sharia capital markets. Scholars emphasize that the availability of Sharia-compliant instruments alone is insufficient to stimulate participation without adequate understanding and trust among potential investors (Lusardi & Mitchell, 2014; BPS, 2023; Nugroho & Hidayah, 2022).

The gap between institutional supply and public participation highlights the importance of examining not only structural and regulatory factors but also the meanings and perceptions associated with Sharia-compliant stock investment. Existing literature has largely approached Sharia equities from a quantitative perspective, focusing on performance measurement, volatility analysis, portfolio diversification, and comparative risk-return characteristics relative to conventional stocks. Numerous studies report that Sharia stock indices exhibit competitive performance and, in some cases, greater resilience during periods of financial crisis due to their exclusion of highly leveraged firms and speculative sectors (Ho et al., 2014; Ashraf & Mohammad, 2014; Al-Yahyaee et al., 2020).

While these findings contribute valuable insights into market efficiency and financial performance, they offer limited understanding of how Sharia compliance is interpreted and internalized by investors and other market actors. Quantitative metrics alone cannot fully capture the normative and experiential dimensions of Islamic investment, such as the role of religiosity, ethical motivation, and trust in Sharia governance structures. As a result, there is a growing recognition of the need for qualitative approaches that can illuminate the

underlying meanings and value orientations shaping Sharia-compliant investment behavior (Wilson, 2015; Hassan & Aliyu, 2018; Kuran, 2018).

Phenomenology provides a suitable theoretical and methodological lens for addressing this gap. Rooted in the philosophy of lived experience, phenomenology seeks to uncover the essence of phenomena as they are perceived and interpreted by individuals and communities. In the context of Islamic finance, a phenomenological perspective enables researchers to explore how Sharia principles are experienced not merely as formal rules but as moral and spiritual guidelines that influence economic decision-making. This approach aligns with the normative foundations of Islamic economics, which emphasize intentionality (*niyyah*), ethical conduct, and social responsibility (Chapra, 2009; Wilson, 2015; Asutay, 2012).

Importantly, phenomenological inquiry does not require direct engagement with participants when the objective is to synthesize shared meanings embedded in existing discourse. A descriptive phenomenological approach based on secondary data such as academic studies, regulatory texts, fatwas, and official reports allows researchers to identify recurring themes, interpretations, and tensions surrounding a phenomenon. This approach has been widely applied in social science research to develop conceptual clarity and theoretical insight, particularly in contexts where empirical access is limited or when the research aims to consolidate fragmented knowledge (Giorgi, 2009; Finlay, 2011; Creswell & Poth, 2018).

Within the Indonesian Sharia capital market, the concept of Sharia compliance itself is subject to diverse interpretations. Screening criteria established by DSN-MUI emphasize both qualitative business activities and quantitative financial ratios, which may differ from standards applied by international index providers such as Dow Jones Islamic Market or MSCI Islamic Indices. These differences reflect varying jurisprudential opinions and institutional priorities, but they may also create ambiguity for investors seeking consistent and transparent guidance. Scholars note that inconsistency in screening standards can affect investor confidence and raise questions regarding the substantive authenticity of Sharia-compliant stocks (Derigs & Marzban, 2008; Hanif, 2019; Hasan et al., 2020).

From a wider socio-economic standpoint, Sharia-compliant stocks are normatively envisioned as financial instruments that advance the core objectives of Islamic economics, particularly the pursuit of social justice, fair distribution of wealth, and the strengthening of productive activities within the real sector. In principle, equity participation under Sharia is intended to encourage risk-sharing, discourage excessive financialization, and align investment activities with broader societal welfare. Nevertheless, a growing body of critical scholarship contends that the contemporary implementation of Sharia stock screening especially the heavy reliance on quantitative financial ratio thresholds may compromise these foundational objectives. By permitting companies with significant exposure to interest-based financing or non-permissible income, provided such exposure remains within prescribed limits, Sharia-compliant frameworks risk prioritizing technical compliance over substantive ethical transformation. This situation reflects an inherent tension between the pragmatic need to accommodate existing market structures and the normative aspirations of Islamic

economics, which seek to challenge conventional capitalist practices rather than merely adapt to them. As a result, Sharia-compliant stocks may, in practice, resemble conventional equities more closely than their ethical foundations would suggest, raising concerns about symbolic rather than substantive Islamization of financial markets. This critique emphasizes the importance of critically examining how Sharia principles are translated into operational criteria within modern capital markets, as well as questioning whether current screening mechanisms sufficiently capture the moral, social, and distributive goals embedded in Islamic economic thought (El-Gamal, 2006; Asutay, 2012; Kamla & Rammal, 2013).

Given these complexities, there is a clear need for research that moves beyond technical compliance and performance evaluation to examine the meanings, assumptions, and critiques surrounding Sharia-compliant stock investment. By adopting a qualitative descriptive phenomenological approach grounded in secondary data, this study seeks to synthesize existing knowledge and uncover the shared understandings that shape discourse and practice in the Indonesian Sharia capital market. This approach allows for a holistic examination that integrates normative Islamic principles, institutional frameworks, and socio-economic realities.

The contribution of this study is twofold. Theoretically, it enriches Islamic finance literature by providing an interpretive synthesis of Sharia-compliant stock investment that complements dominant quantitative paradigms. Practically, it offers insights for regulators, policymakers, and educators regarding the challenges of investor literacy, standard harmonization, and ethical substance in Sharia capital market development. Ultimately, this study lays a conceptual foundation for future qualitative research involving primary data, such as in-depth interviews and ethnographic studies, to further deepen understanding of Sharia equity investment in Indonesia.

METHOD RESEARCH

This study adopts a qualitative research design grounded in a descriptive phenomenological approach, with the primary objective of exploring and synthesizing the meanings, interpretations, and conceptual understandings surrounding Sharia-compliant stock investment in Indonesia. Phenomenology is particularly suitable for this research because it seeks to capture the essence of a phenomenon as it is experienced and articulated within a given body of knowledge, rather than measuring it through numerical indicators. In the context of Islamic finance, phenomenology enables a deeper exploration of how Sharia principles are conceptualized, justified, and problematized within academic discourse, regulatory frameworks, and institutional narratives (Giorgi, 2009; Finlay, 2011; Creswell & Poth, 2018).

Research Approach and Philosophical Orientation

The philosophical orientation of this study is rooted in interpretivism, which assumes that social reality is socially constructed and best understood through the interpretation of meanings embedded in texts, discourses, and institutional practices. Sharia-compliant stock investment is not treated merely as a technical financial instrument, but as a socio-economic

phenomenon shaped by religious norms, regulatory decisions, and market practices. Accordingly, this study does not aim to test hypotheses or establish causal relationships, but rather to develop a comprehensive understanding of how Sharia-compliant stocks are framed and understood within the Indonesian Islamic finance ecosystem.

The descriptive phenomenological approach employed in this research follows the tradition articulated by Giorgi (2009), which emphasizes careful description, reduction of presuppositions, and identification of essential structures of meaning. Rather than imposing predefined theoretical categories, the study seeks to allow meanings to emerge inductively from the analyzed texts. This approach is consistent with prior qualitative research in Islamic economics that prioritizes normative interpretation and contextual understanding over positivist generalization (Asutay, 2012; Wilson, 2015).

Data Source and Research Scope

This study relies exclusively on secondary data, which consist of three main categories of sources. First, peer-reviewed academic journal articles in the fields of Islamic finance, Islamic economics, and Sharia capital markets were collected to capture scholarly interpretations and empirical findings related to Sharia-compliant stocks. These articles include both international and Indonesian publications to ensure contextual relevance and theoretical breadth. Second, regulatory and institutional documents issued by relevant authorities such as the Financial Services Authority (OJK), the Indonesia Stock Exchange (IDX), and the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) were analyzed to understand the formal articulation of Sharia compliance, screening mechanisms, and governance structures. Third, official statistical publications from the Indonesian Central Bureau of Statistics (BPS) were incorporated to provide macro-level socio-economic context, particularly regarding capital market participation and financial inclusion.

The use of secondary data is justified by the research objective, which focuses on synthesizing existing knowledge and uncovering shared meanings embedded in documented discourse rather than capturing individual lived experiences through interviews or observations. Previous methodological studies affirm that phenomenological analysis can be effectively conducted through document-based research when the aim is conceptual clarification and theory development (Finlay, 2011; Creswell & Poth, 2018).

Data Collection Procedure

The data collection process followed a systematic and transparent procedure. Academic literature was identified through reputable indexing databases and national journal repositories using keywords such as "Sharia-compliant stocks," "Islamic equity market," "Islamic capital market Indonesia," and "Sharia screening." Only articles published in peer-reviewed journals were included to ensure academic rigor. Regulatory documents were selected based on their official status and relevance to Sharia capital market governance, including Sharia Securities Lists, fatwas, regulatory guidelines, and annual reports. Statistical data were drawn from official BPS publications to ensure reliability and consistency.

To maintain analytical focus, inclusion criteria were applied. Sources were included if they explicitly discussed Sharia-compliant stocks, Sharia screening mechanisms, or the normative objectives of Islamic capital markets, particularly within the Indonesian context or comparable Muslim-majority economies. Sources that focused solely on conventional capital markets without reference to Sharia principles were excluded. This selective approach ensured that the analyzed materials directly contributed to the research objective.

Data Analysis Technique

Data analysis was conducted using qualitative thematic analysis within a phenomenological framework. The analysis proceeded through several iterative stages. First, all selected texts were read repeatedly to achieve immersion and holistic understanding. During this stage, the researcher practiced phenomenological reduction by temporarily setting aside preconceived assumptions about Sharia compliance and capital market performance. Second, significant statements, concepts, and arguments related to the meaning and practice of Sharia-compliant stock investment were identified and extracted from the texts.

Third, these statements were grouped into thematic categories representing recurring patterns of meaning, such as normative objectives of Islamic economics, technical implementation of Sharia screening, investor perception and literacy, regulatory legitimacy, and ethical critiques. These themes were not predetermined but emerged inductively from the data through constant comparison across sources. Fourth, the themes were synthesized to construct a coherent narrative that captures the essential structures of the phenomenon under study. This analytical process aligns with descriptive phenomenological methodology, which emphasizes faithful representation of meanings as articulated in source materials rather than interpretive speculation. The resulting synthesis reflects shared understandings and tensions present within the existing discourse on Sharia-compliant stock investment (Giorgi, 2009; Finlay, 2011).

Trustworthiness and Rigor

To enhance the trustworthiness of the study, several strategies were employed. Credibility was supported through the use of multiple data sources, including academic literature, regulatory documents, and official statistics, allowing for triangulation of perspectives. Dependability was ensured by documenting the data collection and analysis procedures in a systematic manner, enabling transparency and potential replication. Confirmability was addressed by grounding all analytical interpretations directly in documented sources, thereby minimizing researcher bias. Finally, transferability was supported by providing rich contextual descriptions that allow readers to assess the relevance of findings to other Islamic capital market contexts.

Ethical Considerations

As this study is based entirely on publicly available secondary data, no ethical clearance for human subjects was required. Nevertheless, academic integrity was maintained by properly acknowledging all sources and avoiding misrepresentation of original authors' arguments. The study adheres to scholarly ethical standards in qualitative research.

RESULT AND DISCUSSION

This section presents and discusses the findings derived from the phenomenological analysis of secondary data, including academic literature, regulatory documents, and official statistical publications. The results are organized thematically to reflect recurring patterns of meaning and critical issues surrounding Sharia-compliant stock investment in Indonesia. Each theme represents an essential structure of the phenomenon as articulated within existing discourse, allowing for an integrated discussion that connects normative Islamic economic principles, institutional practices, and socio-economic realities.

Sharia-Compliant Stocks as a Normative–Ethical Financial Construct

A key theme identified in the analysis is the positioning of Sharia-compliant stocks as financial instruments grounded in normative and ethical principles derived from Islamic economic thought. In contrast to conventional equities, which are largely legitimized through objectives of profit maximization and the enhancement of shareholder value, Sharia-compliant stocks are understood as mechanisms that integrate moral obligation, distributive justice, and social responsibility. Islamic economic philosophy asserts that participation in equity markets is acceptable insofar as it reflects genuine risk-sharing and engagement in productive economic activities. Through this perspective, financial gains are viewed as a consequence of real value creation rather than speculative or exploitative practices, thereby aligning investment outcomes with broader societal welfare (Chapra, 2009; Obaidullah, 2011; Hassan & Aliyu, 2018). This ethical foundation differentiates Sharia-compliant stocks from purely profit-oriented financial assets and reinforces their role within a moral economic framework.

Within this conceptual structure, ownership of shares is interpreted as a legitimate contractual partnership, commonly associated with the principle of *musharakah*, as long as the firm's core business activities adhere to Sharia guidelines. This interpretation has gained broad acceptance among Islamic jurists, scholars, and financial regulators, contributing to the institutional recognition of Sharia-compliant equities in modern capital markets. As a result, these stocks are frequently presented as ethically preferable alternatives to interest-based instruments, particularly those involving fixed returns detached from real economic performance. Central to this ethical positioning is the strict prohibition of *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling), which are consistently cited as defining characteristics that separate Islamic equity investment from conventional financial practices (El-Gamal, 2006; Wilson, 2015). These prohibitions function not only as legal constraints but also as moral signifiers that reinforce the ethical identity of Sharia-compliant stocks.

Despite the strength of this normative discourse, the phenomenological synthesis indicates that ethical ideals are not always fully translated into market behavior. Although

regulatory frameworks and academic narratives emphasize social justice and moral accountability, empirical observations suggest that investor participation is often motivated by conventional financial considerations such as returns, risk diversification, and market performance. This discrepancy highlights a persistent tension within Islamic finance, where aspirational ethical objectives coexist with practical engagement in predominantly conventional market environments. Consequently, Sharia-compliant stocks may operate more as ethical symbols at the discursive level than as consistently ethical practices in everyday investment decisions. This gap underscores an ongoing challenge within Islamic finance, reflecting the need to reconcile normative principles with the realities of modern financial markets (Asutay, 2012; Kamla & Rammal, 2013).

Institutionalization of Sharia Screening and the Construction of Regulatory Legitimacy

Another prominent theme emerging from the analysis relates to the formal institutionalization of Sharia screening processes and their function in establishing regulatory legitimacy within the Islamic capital market. In the Indonesian context, the classification of Sharia-compliant stocks is carried out through an official screening mechanism overseen by the Financial Services Authority (OJK) in collaboration with the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). This structured process encompasses both qualitative and quantitative dimensions, including the exclusion of business sectors deemed non-compliant with Sharia principles as well as the application of financial ratio thresholds concerning interest-based debt and income derived from non-halal sources (Rahman et al., 2021; Hasan et al., 2020). Through this institutional framework, Sharia compliance is not left to individual interpretation but is instead standardized through authoritative regulatory oversight.

The findings further suggest that institutional approval plays a decisive role in fostering investor confidence and encouraging participation in Sharia-compliant equity markets. For a significant segment of investors, particularly retail investors with limited access to advanced financial knowledge, formal certification by recognized authorities serves as a critical source of assurance. The presence of an official Sharia-compliant designation helps mitigate perceived risks related to religious non-compliance and reduces informational uncertainty in investment decision-making. This pattern reflects a broader tendency within Islamic finance, where regulatory and religious institutions act as mediating agents that translate abstract Islamic norms into operational market practices, thereby reinforcing trust and legitimacy (Nugroho & Hidayah, 2022; Wilson, 2015). As a result, institutional endorsement becomes a central pillar supporting the credibility of Sharia-compliant financial products.

However, despite the strengths of this institutional framework, the analysis also highlights significant challenges associated with the diversity of Sharia screening standards across different jurisdictions. Variations between the criteria applied in Indonesia and those used by international Sharia indices point to the lack of universally harmonized guidelines governing Islamic equity screening. These discrepancies create room for interpretive ambiguity, particularly for investors engaged in cross-border transactions or comparative

investment analysis. Scholars have noted that such inconsistencies may weaken perceptions of authenticity and raise questions about the substantive uniformity of Sharia compliance across markets (Derigs & Marzban, 2008; Hanif, 2019; Hasan et al., 2020). Consequently, while institutional screening enhances legitimacy at the national level, the absence of global standardization continues to pose structural and conceptual challenges for the international integration of Sharia-compliant stock markets.

Market Performance Discourse and the Rationalization of Sharia Compliance

A significant strand of academic literature conceptualizes Sharia-compliant stocks primarily through the discourse of market performance, with particular attention to risk return profiles and comparative efficiency relative to conventional equities. Empirical research frequently demonstrates that Sharia indices tend to perform at levels comparable to their conventional counterparts, both in terms of returns and volatility. Moreover, several studies suggest that Sharia-compliant stocks may display stronger resilience during periods of financial turmoil, largely due to structural characteristics such as lower leverage, restrictions on excessive debt, and the exclusion of highly speculative sectors (Ho et al., 2014; Ashraf & Mohammad, 2014; Al-Yahyaee et al., 2020). Within this body of work, Sharia compliance is implicitly framed not as a financial constraint, but as a factor that may contribute to market stability and risk mitigation.

From a phenomenological standpoint, the prominence of performance-oriented narratives can be interpreted as an attempt to rationalize Sharia compliance within the dominant logic of conventional finance. By emphasizing competitive returns and defensive characteristics, advocates of Islamic finance seek to demonstrate that adherence to Sharia principles does not necessitate sacrificing financial performance. This framing allows Sharia-compliant stocks to be positioned as economically rational investment choices, rather than instruments motivated solely by religious obligation. Such a discourse is particularly relevant in emerging market contexts like Indonesia, where investors often face heightened economic uncertainty and may possess limited prior exposure to capital market instruments. In these conditions, financial viability becomes a critical factor in legitimizing Sharia-compliant investments alongside their religious acceptability.

Nevertheless, the analysis also reveals growing concern among scholars regarding the implications of an excessive focus on market performance. Critics argue that when Sharia-compliant stocks are predominantly evaluated using conventional financial metrics such as returns, volatility, and benchmark comparisons their ethical and moral foundations risk being overshadowed. This tendency may reduce Sharia compliance to a procedural or symbolic label, rather than a substantive commitment to Islamic economic values. Such critiques resonate with broader debates in Islamic finance scholarship, which highlight a gradual convergence between Islamic and conventional financial systems. According to this view, the emphasis on competitiveness and efficiency may prioritize form over substance, thereby diluting the transformative ethical objectives originally envisioned within Islamic finance (El-Gamal, 2006; Asutay, 2012; Kamla & Rammal, 2013). Consequently, while performance-based

discourse strengthens market acceptance, it simultaneously raises critical questions about the preservation of Islamic finance's normative distinctiveness.

Investor Literacy, Cognitive Framing, and Meaning Construction

Investor literacy emerges as a decisive factor in shaping how Sharia-compliant stocks are interpreted, evaluated, and ultimately adopted by market participants. Evidence from the Indonesian Central Bureau of Statistics (BPS) and a wide range of empirical studies indicates that levels of financial literacy in Indonesia remain uneven, with substantial portions of the population exhibiting limited understanding of capital market instruments and investment risk (BPS, 2023; Lusardi & Mitchell, 2014). This condition has important implications for the development of the Sharia capital market, as limited literacy constrains investors' ability to critically assess financial products beyond surface-level attributes. In such contexts, investment decisions are often influenced by simplified cues rather than comprehensive financial or ethical evaluation.

The analysis further indicates that many investors conceptualize Sharia compliance primarily through the presence of institutional approval rather than through an internalized understanding of Islamic economic ethics. Sharia certification issued by recognized authorities functions as a cognitive shortcut that reduces complexity and uncertainty in decision-making. While this framing facilitates participation by lowering informational barriers, it simultaneously narrows engagement with the underlying moral and social principles embedded in Islamic finance. Scholars caution that this form of passive acceptance risks transforming Sharia compliance into a technical or symbolic designation, detached from its original normative intent (Hassan & Aliyu, 2018; Wilson, 2015). As a result, Islamic finance may be perceived less as an ethical alternative and more as a regulated variant of conventional investment.

Conversely, existing studies emphasize that deeper and more meaningful engagement with Sharia-compliant investment is strongly influenced by education, religious discourse, and processes of socialization. Investors who are exposed to integrated forms of financial education combining technical knowledge with ethical reasoning grounded in Islamic values tend to demonstrate greater awareness of the moral objectives underlying Sharia compliance. Such educational initiatives are viewed as essential for cultivating reflective investors who can critically align financial behavior with ethical commitments. Research highlights that structured investor education programs and public literacy campaigns play a strategic role in strengthening both the integrity and long-term sustainability of the Sharia capital market (Nugroho & Hidayah, 2022; Rahman et al., 2021). In this sense, literacy is not merely a technical competency but a key mechanism through which meaning, legitimacy, and ethical substance are constructed within Sharia-compliant investment practices.

Socio-Economic Expectations and Ethical Contestation

A recurring expectation within scholarly and practitioner discourse is that Sharia-compliant stocks should advance broader socio-economic objectives beyond individual

wealth accumulation. These expectations include the promotion of social justice, more equitable wealth distribution, and stronger linkages between financial markets and real-sector economic activity. Such aspirations are firmly rooted in Islamic economic thought, which conceptualizes finance as an instrument for achieving societal well-being rather than an autonomous goal driven solely by profitability. From this perspective, Sharia-compliant equity investment is expected to support inclusive growth and contribute to moral economic order, aligning private investment behavior with collective welfare (Chapra, 2009; Asutay, 2012). Consequently, Sharia-compliant stocks are often framed as vehicles through which ethical finance can exert a transformative socio-economic impact.

Despite these normative expectations, critical scholarship raises doubts regarding the extent to which contemporary Sharia stock practices realize such objectives in practice. One major concern relates to the reliance on quantitative financial ratio thresholds, which permit firms with a degree of interest-based financing or non-halal income to be classified as Sharia-compliant. Critics argue that this approach risks diluting ethical rigor by prioritizing formal compliance over substantive transformation of corporate behavior. As a result, Sharia compliance may be achieved through technical adjustment rather than meaningful commitment to Islamic moral values. This critique underscores a structural tension within Islamic finance between market inclusivity and ethical purity, where efforts to expand participation and liquidity may come at the cost of normative consistency (El-Gamal, 2006; Kamla & Rammal, 2013).

From a phenomenological standpoint, this tension reflects a deeper and unresolved debate within Islamic finance regarding the balance between idealism and pragmatism. On one hand, Sharia-compliant stocks symbolize aspirations for an ethically grounded financial system that challenges the excesses of conventional capitalism. On the other hand, their operationalization within global financial markets necessitates compromise, adaptation, and alignment with dominant economic structures. As a result, Sharia-compliant stocks occupy a liminal position, situated between moral aspiration and practical constraint. They simultaneously embody the promise of Islamic finance as an ethical alternative and its limitations when embedded within a global capitalist system, revealing ongoing contestation over meaning, purpose, and authenticity in Sharia-based investment practices.

Implications for the Indonesian Sharia Capital Market

By integrating the key themes identified in this study, the findings suggest that the evolution of Sharia-compliant stocks in Indonesia is influenced by a multidimensional interaction between ethical principles, institutional regulation, market-oriented logic, and broader socio-cultural dynamics. The growth of the Sharia capital market has been supported by strong regulatory endorsement and narratives emphasizing competitive market performance, which together have enhanced legitimacy and investor confidence. These factors have enabled Sharia-compliant equities to gain wider acceptance within a predominantly conventional financial system. However, alongside this progress, a number of structural and conceptual challenges remain evident, particularly in relation to uneven

investor literacy, inconsistencies in Sharia screening standards, and questions surrounding the depth of ethical implementation.

From a policy and regulatory perspective, the findings highlight several critical areas that require continued attention. Enhancing transparency in the Sharia screening and certification process is essential to strengthen public trust and reduce informational asymmetry. In addition, efforts to harmonize screening criteria both domestically and in relation to international standards are necessary to minimize interpretive ambiguity and facilitate cross-border investment. Expanding and improving investor education programs also emerges as a strategic priority, especially those that integrate technical financial knowledge with ethical reasoning grounded in Islamic values. Such initiatives can help foster more informed and reflective investors who engage with Sharia-compliant stocks not merely as certified products, but as instruments aligned with broader socio-economic objectives.

For academic scholarship, these findings underscore the importance of adopting qualitative and phenomenological research approaches to complement dominant quantitative methodologies in Islamic finance studies. While empirical performance analysis remains valuable, it is insufficient to capture the lived meanings, ethical interpretations, and cognitive frameworks that shape investor behavior. Qualitative inquiry allows for a deeper exploration of how Sharia compliance is understood, negotiated, and enacted within specific institutional and cultural contexts. Overall, this extended analysis demonstrates that Sharia-compliant stock investment in Indonesia cannot be fully explained through technical indicators or performance metrics alone. Instead, it should be understood as a socio-economic phenomenon embedded in religious values, regulatory practices, and continuously evolving market realities.

CONCLUSION

This study set out to explore the phenomenon of Sharia-compliant stock investment in Indonesia through a qualitative descriptive phenomenological approach based entirely on secondary data. By synthesizing insights from academic literature, regulatory frameworks, and official statistical publications, the study sought to uncover the shared meanings, interpretations, and tensions surrounding Sharia-compliant stocks within the Indonesian Islamic finance ecosystem. The findings demonstrate that Sharia-compliant stock investment is not merely a technical financial practice, but a complex socio-economic phenomenon shaped by ethical ideals, institutional arrangements, market rationality, and socio-cultural contexts.

The analysis reveals that Sharia-compliant stocks are widely conceptualized as normative ethical financial instruments grounded in Islamic economic principles, particularly the ideals of justice, risk-sharing, and alignment with real-sector economic activity. From a theoretical perspective, equity investment is viewed as compatible with Sharia principles because it reflects shared ownership and avoids predetermined interest-based returns. This normative framing is consistently reinforced in Islamic economic literature and regulatory discourse, positioning Sharia-compliant stocks as morally legitimate alternatives to conventional equities. However, the study also finds that this ethical ideal often remains aspirational, as

practical investment behavior is frequently influenced by financial performance considerations rather than purely ethical motivations.

Another key conclusion concerns the central role of institutional legitimacy in shaping the meaning and acceptance of Sharia-compliant stocks. In Indonesia, the involvement of regulatory authorities and religious institutions particularly the Financial Services Authority (OJK) and the National Sharia Council (DSN-MUI) provides formal assurance of Sharia compliance and reduces uncertainty for investors. This institutionalization has been instrumental in fostering market growth and investor confidence, especially among retail investors with limited financial literacy. At the same time, variations in Sharia screening standards across jurisdictions highlight the absence of harmonized global criteria, creating ambiguity and raising questions about the consistency and substantive authenticity of Sharia-compliant stocks.

The findings further indicate that market performance discourse plays a significant role in legitimizing Sharia-compliant stocks within a predominantly conventional financial system. Empirical evidence showing competitive risk return characteristics has been widely used to rationalize Sharia compliance and counter perceptions that ethical constraints undermine financial efficiency. While this narrative has contributed to broader acceptance, it also risks subordinating the ethical and social objectives of Islamic economics to conventional market logic. This tension reflects a broader critique within Islamic finance scholarship regarding convergence with conventional finance and the potential dilution of normative substance.

Investor literacy emerges as a critical factor influencing how Sharia-compliant stocks are understood and practiced. The study finds that limited financial literacy and uneven access to capital market education contribute to a passive interpretation of Sharia compliance, where investors rely heavily on institutional certification rather than engaging critically with ethical principles. Although such reliance is pragmatic, it may constrain the transformative potential of Islamic finance. Conversely, the literature highlights the importance of integrated education that combines financial knowledge with ethical and religious reasoning to foster more meaningful engagement with Sharia-compliant investment.

From a socio-economic standpoint, the study underscores persistent expectations that Sharia-compliant stocks should contribute to broader Islamic economic objectives, including social justice, equitable wealth distribution, and support for productive economic sectors. However, critical perspectives question whether current screening practices sufficiently capture these objectives, particularly given the reliance on financial ratio thresholds that allow partial exposure to interest-based activities. This critique reveals an unresolved tension between inclusivity and normative rigor, positioning Sharia-compliant stocks in a liminal space between idealism and pragmatic compromise.

Overall, this study contributes to the literature on Islamic finance by offering an interpretive synthesis that complements dominant quantitative approaches. By adopting a descriptive phenomenological perspective, the research highlights dimensions of meaning, legitimacy, and ethical contestation that are often overlooked in performance-based analyses. Practically, the findings suggest that policymakers and regulators should prioritize greater transparency in Sharia screening, pursue harmonization of standards, and strengthen investor education initiatives that integrate ethical considerations.

The study is not without limitations. Its reliance on secondary data precludes direct engagement with the lived experiences of individual investors and market practitioners. Future research could extend these findings through primary qualitative methods, such as in-depth interviews or ethnographic studies, to capture dynamic behavioral motivations and contextual nuances. Nevertheless, by clarifying the conceptual and normative foundations of Sharia-compliant stock investment, this study provides a solid foundation for further empirical inquiry and policy development in the Indonesian Sharia capital market.

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