

THE ROLE OF ISLAMIC ETHICS IN SHARIA INVESTMENT DECISION-MAKING

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Abstract: *This study explores the role of Islamic ethics in the decision-making process of sharia-based investments among Muslim investors and Islamic financial institutions. The objective is to understand how Islamic ethical values—such as the prohibition of riba (usury), the principles of justice, honesty, and transparency—influence the selection of sharia-compliant investment instruments. This research adopts a qualitative method using literature review and analysis of scholarly articles published within the last five years. The findings indicate that Islamic ethics significantly influence investment decisions through mechanisms such as investment screening, risk perception, and levels of Islamic financial literacy. The study concludes that integrating Islamic ethical values into investment practices not only ensures sharia compliance but also promotes sustainable financial systems and enhances investor trust.*

Keywords: *Islamic Ethics, Investment Decision, Sharia Investment, Financial Literacy, Islamic Finance*

Introduction

Sharia-compliant investment has increasingly captured the attention of Muslim investors and Islamic financial institutions, primarily due to the growing awareness that financial activities should align with Islamic moral and ethical values rather than focus solely on profit maximization. Nevertheless, several challenges persist in practice — including uncertainty about whether financial instruments are genuinely sharia-compliant, varying levels of risk perception, and differences in Islamic financial literacy among investors (Aisha et al., 2024).

Existing literature emphasizes that investment decisions are not merely influenced by market conditions or potential returns, but also by moral and ethical factors such as Islamic ethical consciousness, sensitivity to gharar (uncertainty) and riba (usury), and behavioral control.

A systematic review of Muslim investors found that investor ethics are among the key determinants influencing the decision to invest in Islamic equities (Taufik & Rusmana, 2023). Similarly, a study on Islamic business ethics in financial institutions demonstrated that the implementation of fairness, transparency, and accountability significantly strengthens stakeholder trust and institutional governance (Liestyowati, 2024).

Given these findings, it becomes essential to explore how Islamic ethical values specifically influence the process of sharia investment decision-making, both at the individual and institutional levels. This paper aims to evaluate recent scholarly works to answer three central questions:

1. How are Islamic ethical values integrated into the screening and selection process of sharia investments?
2. How do Islamic ethics influence financial literacy, risk perception, and behavioral control among investors?
3. What are the broader implications of applying Islamic ethics in investment decision-making for sustainable Islamic financial systems?

By addressing these questions, the study seeks to contribute to a deeper understanding of how ethical integration within Islamic investment enhances not only financial outcomes but also moral accountability, investor trust, and long-term sustainability.

Literature Review

Studies reveal that Islamic financial institutions integrate ethical values such as justice, transparency, and supervision by Sharia Supervisory Boards to ensure investment compliance with Islamic principles (Hermawan, 2025).

A systematic review of Muslim investors (2018–2023) found that ethics, motivation, risk, and expected return are major factors influencing decisions in Islamic equities (Taufik & Rusmana, 2023).

Research shows that financial literacy and Islamic business ethics positively affect investment decisions and risk attitudes of investors (Dharma et al., 2024).

Studies indicate that perceived behavioral control and risk attitudes significantly shape investment decisions under Islamic economic law (Hardana et al., n.d.)

A bibliometric study identifies major clusters in the literature, including motivation, literacy, and sharia screening as dominant topics in Islamic investment studies (Ikmatul & Rahman, 2025)

Method

This study adopts a qualitative literature review approach. The stages of analysis include:

1. Literature Selection is Relevant academic papers on Islamic ethics, investment behavior, and sharia financial management (2020–2025) were collected from reputable databases.
2. Screening Process is Articles were categorized based on key themes: ethics, literacy, behavioral finance, and Islamic economic law.
3. Data Analysis is Findings were compared and synthesized to identify patterns, relationships, and the influence of Islamic ethics on investment decision-making.
4. Interpretation is The final step involved synthesizing insights from various studies to develop an integrated understanding of how Islamic ethics shape investor behavior and institutional decision-making.

Result and Discussion

1. Integration of Islamic Ethics in Investment Screening and Selection

The literature reveals that Islamic ethical values such as justice, transparency, and accountability serve as the core framework in sharia investment screening processes. Islamic financial institutions incorporate these principles through mechanisms like the Sharia Supervisory Board, which ensures that investment products comply with Islamic law and are free from *riba* (usury), *maysir* (gambling), and *gharar* (uncertainty). These ethical considerations are not merely theoretical but operationalized in the governance and investment management processes (Soediro et al., 2024)

Consequently, investors interested in sharia instruments evaluate potential investments not only for their financial returns but also for their ethical and sustainability compliance. The systematic literature review on Muslim investors emphasizes that ethical motivation consistently emerges as one of the strongest determinants in investment behaviour (Taufik & Rusmana, 2023). Hence, the integration of Islamic ethics can be understood as a primary filter that guides investors toward morally and financially responsible decisions.

2. The Role of Financial Literacy, Risk Perception, and Behavioral Control in the Context of Islamic Ethics

Another critical finding is that Islamic financial literacy and ethical sensitivity are significantly correlated with sharia investment decisions. Studies indicate that individuals with higher financial literacy and ethical awareness tend to exhibit more cautious and compliant investment behavior. A behavioral model of Islamic investment found that literacy, ethical sensitivity, and risk perception jointly shape ethical investment decisions (Saadah & Rahmawati, 2025).

Moreover, research comparing Islamic and conventional investors revealed that behavioral control—the ability to regulate emotional or impulsive investment decisions—is generally stronger among those who adhere to sharia principles. Ethical and religious considerations encourage investors to act rationally, avoid speculation, and prioritize long-term value creation over short-term gains (Rangga et al., 2025).

This demonstrates that Islamic ethics not only shape what investors choose but also how they think, evaluate risk, and behave within the market.

3. Broader Implications of Islamic Ethics for Investment Decision-Making and the Islamic Financial System

From an institutional and systemic perspective, the application of Islamic ethics in investment practices has broader implications. Integrating ethical principles into Islamic financial instruments can enhance investor confidence and promote the long-term sustainability of Islamic finance. Research has shown that ethical and sustainable investments (such as those aligned with ESG or SDG principles) can perform competitively while also generating social and moral value (Yesuf & Aassouli, 2020).

In the context of Islamic finance, such integration strengthens the moral foundation of investment practices and creates synergy between profitability and social responsibility. Nonetheless, there remains a research gap concerning how factors such as gender, financial experience, and religious knowledge moderate the relationship between Islamic ethics and investment decisions. Future research should further explore these moderating effects to develop a more comprehensive behavioral model of sharia investment decision-making (Saadah & Rahmawati, 2025).

Conclusion

This literature review concludes that Islamic ethics play a crucial role in shaping sharia investment decision-making. Ethical integration in Islamic finance not only ensures compliance with sharia principles but also strengthens investor confidence, promotes transparency, and contributes to sustainable financial systems.

Recommendations:

1. Islamic financial institutions should enhance education on ethical and financial literacy for investors.
2. Future research should explore moderating variables such as education level, gender, and religious knowledge in ethical investment behavior.

3. Policymakers and Sharia Supervisory Boards must continue reinforcing clear ethical standards and governance mechanisms to support responsible investment practices.

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