

# Shariah Governance for Islamic Capital Market

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This research aims to identify and reconstruct sharia governance for sharia-based capital markets which aim to improve the economy, etc. The research method used is qualitative research. This research is a type of research whose findings are not obtained through statistical procedures or other forms of calculation. Qualitative research is based on the philosophy of post-positivism methods with natural object conditions, by placing the researcher as a small tool or instrument. The result of the discussion is that the Sharia Capital Market has proven its significant contribution to financial access, sustainable economic growth and investment by complying with sharia principles. Sharia financial instruments such as sukuk and sharia shares have opened the door to various parties who previously may have been reluctant to engage in conventional investments. By focusing on sectors that support sustainable economic development and social projects, the Islamic capital market provides diverse investment alternatives and supports economic inclusivity. Even though the sharia capital market offers great potential, there are still a number of problems in sharia governance that need to be overcome. Challenges in standardization, legal limitations, and lack of membership can affect the performance and incompetence of Islamic capital markets. By implementing measures such as harmonization of standards, increased transparency, and increased awareness, the Islamic capital market can strengthen its position as a driver of economic growth that is inclusive and in accordance with Sharia values.

**Keywords:** Shariah Governance, Islamic Capital Market

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## 1. Introduction

Amidst the dynamics of globalization and economic development, governance has become the main foundation for the sustainability and success of an organization (Sitanggang & Ratmono, 2019). In this context, a unique approach has emerged that places ethical values and Islamic principles as the main foundation of corporate governance, known as "sharia governance." Sharia governance reflects the implementation of Islamic principles in management and decision-making in various economic sectors.

The existence of sharia governance is becoming increasingly important with the growth of financial and business institutions based on sharia principles. These principles not only cover financial aspects but also include business ethics, justice, and social responsibility. In sharia governance, transparency, accountability, and sustainability are integrated with Islamic values, creating a unique and holistic framework (Astuti et al., 2020).

The Islamic capital market, as an investment vehicle that combines Islamic financial principles with conventional capital market activities, has become a major focus in the development of the global economic system. Essentially, the Islamic capital market represents an approach that combines financial objectives with Islamic moral and ethical values, creating an ecosystem that is in line with the principles of justice, sustainability, and compliance with Islamic law (Aziz, 2010).

In recent decades, the growth of the Islamic capital market has shown a significant trend, creating new investment opportunities and enhancing economic diversification. This is in line with the increasing global awareness of the importance of ethical and sustainable financial management. The Islamic capital market

not only provides investment alternatives that are in line with Islamic principles, but also serves as a driving force for sustainable economic development (Aziz, 2010).

This study aims to further elaborate on the concept and evolution of the Islamic capital market and its implications for the global economy. By exploring this topic in depth, we can understand how the Islamic capital market contributes to financial inclusivity, poverty alleviation, and the development of sustainable economic infrastructure.

In this context, this study will not only investigate the historical development of the Islamic capital market, but will also explore future challenges and opportunities. With a better understanding of the dynamics of the Islamic capital market, it is hoped that it will provide valuable insights for investors, regulators, and other stakeholders who play a role in shaping the direction and growth of the Islamic capital market.

## 2. Methods

Qualitative research is a type of research whose findings are not obtained through statistical procedures or other forms of calculation. Qualitative research is based on the philosophy of post-positivism with natural conditions, placing the researcher as a small tool or instrument (Fadli, 2021). Data analysis is inductive and emphasizes the quality and results of the research, focusing more on meaning than generalization of the research object. Data analysis can be carried out during and after the process. Qualitative research aims to understand, find meaning behind the data, and discover truth, whether empirical, logical, or theoretical. Data collection is carried out based on phenomenology, which is a deep understanding of symptoms or phenomenology (Fadli, 2021).

## 3. Results and Discussion

### The Contribution of the Sharia Capital Market to Economic Growth

The Sharia Capital Market has made a significant contribution to increasing financial access for individuals and companies who want to invest in accordance with sharia principles. By providing appropriate financial instruments, such as sukuk and sharia stocks, the sharia capital market opens the door for economic actors who previously may not have felt comfortable or willing to engage in conventional investments (Supriadi et al., 2023).

Investments through the Islamic capital market are often focused on sectors that support sustainable economic infrastructure development. Funds obtained from Islamic financial instruments can be allocated to projects such as renewable energy, sustainable transportation, and other projects that promote environmentally friendly economic growth. Islamic economic programs tend to pay special attention to poverty alleviation and community empowerment. Investments in sectors with positive social impacts, such as education, health, and microfinance, can support inclusive social and economic development (Supriadi et al., 2023).

The Islamic Capital Market provides investment alternatives that can help investors diversify their portfolios. Islamic financial instruments often have characteristics that differ from conventional instruments, making them an attractive option for reducing risk and improving the sustainability of investment portfolios. Sharia principles promote transparency, accountability, and good corporate governance. By applying these principles, the Islamic capital market can contribute positively to a company's image and increase investor confidence, which in turn supports long-term growth (Yustati, 2017).

The Sharia Capital Market encourages the development of innovative financial instruments that are in line with sharia principles. This includes the development of project-based sukuk, profit-and-loss sharing

financing products, and other instruments that reflect Islamic financial values. The Sharia Capital Market also contributes to the formation of a sustainable global financial ecosystem. Collaboration between the Islamic capital market and international financial institutions can strengthen the role of Islamic finance in supporting global sustainable development goals. The importance of continuing to encourage innovation and raise awareness of the benefits of the Islamic capital market can help strengthen the role of this sector in building a sustainable economy that is in line with Islamic ethical values (Yustati, 2017).

The Islamic capital market plays a crucial role in raising funds for investment, which in turn can be used to support development projects and economic growth. Funds raised through Islamic instruments, such as sukuk, provide a source of financing that is in line with Islamic financial principles. Investments through the Islamic capital market tend to be directed more towards the real sector, which can contribute directly to economic growth. Funding for infrastructure, industrial, and business projects that are in line with sharia principles helps drive real economic activity (Khairan, 2019).

The Islamic capital market, with its diverse investment instruments, helps diversify the economic sector. This diversification contributes to increasing economic resilience to market changes and global economic fluctuations, creating a more stable foundation for long-term growth. Sharia principles that promote fairness and sustainability support the formation of small and medium enterprises (SMEs). The sharia capital market can provide financial access to small businesses, increase entrepreneurship, and ultimately strengthen the pillars of the local economy (Khairan, 2019).

Investments through the sharia capital market focus not only on financial returns but also on social impact and community welfare. Projects that improve social conditions, such as education, health, and housing, support inclusive and sustainable economic growth. The Islamic capital market also plays a role in developing financial infrastructure that supports economic growth. Islamic financial instruments strengthen the financial system, provide diverse financial solutions, and create a conducive investment climate (Lailli, 2022).

Long-term investment through the Islamic capital market provides stable and sustainable capital for companies. This helps companies in long-term planning, innovation development, and expansion, factors that support overall economic growth. A developing Islamic capital market can attract international investors who are looking for investment opportunities that are in line with ethical and moral principles. This can generate foreign capital flows that can support domestic economic growth (Lailli, 2022).

Thus, it can be emphasized that the Islamic capital market has a positive relationship with economic growth. An approach that is in accordance with Islamic principles in fund and investment management helps create a sustainable financial environment, stimulates inclusive economic growth, and contributes to the achievement of sustainable development goals.

### **Problems with Sharia Governance, Especially in the Capital Market**

One of the main problems in sharia governance is the lack of clarity in implementation standards and criteria. The lack of global consensus on the interpretation of certain sharia principles can lead to differences in sharia governance practices between financial and business institutions. While Sharia governance has become a key foundation, there are challenges in integrating Sharia principles with modern financial innovations. Some aspects of new financial instruments may be difficult to align with Sharia governance requirements without compromising the essence of these principles (Irawan, 2022).

The aspect of legal uncertainty also arises as an issue in sharia governance. Differences in the interpretation of Islamic law in various jurisdictions can create legal uncertainty and risk, both for companies and investors who wish to engage in sharia transactions. The limited expertise and professionalism in the field of sharia

governance is a serious problem. The lack of qualified sharia governance experts and sharia auditors can hamper the ability of financial institutions and businesses to implement effective governance practices (Kurniawan & Shomad, 2023).

Transparency in the implementation of sharia governance is often a challenge. Some institutions may find it difficult to provide information that is sufficiently open and understandable to stakeholders, thereby reducing the level of trust and accountability. Assessing the performance of companies or institutions that implement sharia governance can be complex. The criteria used to measure success or compliance with sharia principles can vary, and it is not always easy to evaluate the real impact of sharia governance practices on organizational performance (Kurniawan & Shomad, 2023).

Sharia governance may be less flexible in responding to rapid changes in the business environment. The need to adapt to innovation, technology, and market changes often poses a dilemma for companies that must comply with sharia principles. Low levels of awareness and understanding of sharia governance among stakeholders, including management and investors, can be an obstacle. Lack of education can lead to ineffective or poorly integrated implementation of sharia governance (Darmawan, 2023).

When facing a financial crisis, institutions that implement sharia governance may experience difficulties in managing risk in a manner consistent with sharia principles, which may require a different response compared to conventional financial institutions. The problems of sharia governance show that despite the commitment to implementing sharia principles, internal and external challenges remain. Solutions to these problems include expanding expertise, improving standardization, developing a comprehensive performance evaluation framework, and raising awareness of sharia governance among all stakeholders. By addressing these issues, sharia governance can become stronger, more integrated, and provide maximum benefits for both financial institutions and the economy as a whole (Darmawan, 2023).

The relationship or correlation between sharia governance issues in the capital market can have a significant impact on the performance and sustainability of the sharia capital market. Legal uncertainty in the interpretation of sharia principles can create gaps in the level of entity compliance with sharia standards, which can lead to a decline in investor confidence and a lack of clarity that can hinder the growth of the sharia capital market because investors may be reluctant to engage in sharia financial instruments if the legal provisions are unclear (Muda, 2016).

Not only that, the lack of global consensus on sharia governance standards can create variations in the implementation of sharia principles in various institutions. The lack of harmonization of standards can cause confusion among investors and companies, complicate performance comparisons between entities, and hamper the development of the sharia capital market as a whole. The lack of expertise in sharia governance can affect the ability of institutions to implement effective governance practices. Weaknesses in the implementation of sharia governance can damage the reputation of the sharia capital market and reduce the interest of investors seeking sustainability and compliance with Islamic ethics (Muda, 2016).

Furthermore, the lack of transparency in the implementation of sharia governance can cause doubt and distrust among stakeholders. A decline in transparency can reduce the attractiveness of the Islamic capital market for investors seeking accountable investments that are in line with Islamic principles. Difficulties in assessing the performance of companies or institutions that implement Islamic governance can create uncertainty about the real impact of Islamic governance practices on organizational performance (Rizky Ridho Allah et al., 2022).

Difficulties in integrating Sharia principles with modern financial innovations can lead to incompatibilities. A lack of readiness to adopt innovation can cause rigidity in the Islamic capital market, which may fail to attract investors seeking more flexible investment solutions that are in line with Islamic principles. By

addressing these issues, the Islamic capital market can strengthen the foundations of Islamic governance, increase investor confidence, and create a more conducive investment climate for long-term growth and sustainability.

#### 4. Conclusion

The Sharia Capital Market has proven its significant contribution to financial access, sustainable economic growth, and investment by complying with Sharia principles. Sharia financial instruments such as sukuk and Sharia stocks have opened doors for various parties who may have previously been reluctant to engage in conventional investment. By focusing on sectors that support sustainable economic development and social projects, the Islamic capital market provides diverse investment alternatives and supports economic inclusiveness. Although the Islamic capital market offers great potential, there are still a number of issues in Islamic governance that need to be addressed. Challenges in standardization, legal uncertainty, and lack of expertise can affect the performance and sustainability of the Islamic capital market. By adopting measures such as harmonizing standards, increasing transparency, and raising awareness, the Islamic capital market can strengthen its position as a driver of inclusive economic growth that is in line with Islamic values. Thus, continuous efforts to overcome these issues will bring long-term benefits to the Islamic capital market and its contribution to sustainable economic development.

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