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Determination of Internal and External Factors in Sharia Investment Management Optimization

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Abstract: *This study aims to analyze internal and external factors that influence the optimization of Islamic investment management in Indonesia. The focus of the study is on how financial literacy, investor competence, risk management, and the development of Islamic capital market instruments contribute to the effectiveness of investment management. A qualitative approach was used through literature analysis from accredited national journals and relevant previous studies. The results show that internal factors such as Islamic financial literacy, investor understanding, religious attitudes, and portfolio management skills play a significant role in improving the quality of investment decision-making. Meanwhile, external factors including government regulations, the development of the Islamic capital market, support from financial institutions, and advances in digital technology also encourage increased participation and performance in Islamic investment. This study confirms that the optimization of Islamic investment requires synergy between increasing individual capacity and strengthening the Islamic capital market ecosystem. These findings are expected to serve as a reference for academics, regulators, and practitioners in developing investment strategies that are in line with Islamic principles and dynamic market conditions.*

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Introduction

The development of the Islamic finance industry in Indonesia continues to show significant growth. This can be seen from the increase in Islamic financial instruments and the growing public interest in investing in accordance with Islamic principles that emphasize halal, justice, and blessings (Al-Faruqi & Suryana, 2024). Sharia investment is now not only seen as a religious choice, but also as a stable, ethical alternative that better reflects the value of prudence in modern financial management (Mubarok & Rahmadani, 2025).

Unlike conventional investments, sharia investment management must comply with fiqh muamalah provisions and be free from elements of riba, gharar, and maisir. Every portfolio management process must also be under the supervision of the Sharia Supervisory Board (DPS) to ensure that all activities remain in accordance with sharia provisions (Syamsuddin & Hawa, 2024). These principles require a high level of caution and competence from investment managers, especially in the sharia screening process, fundamental analysis, and portfolio risk management (Hidayanti & Azzahra, 2024).

In Indonesia, the development of Sharia instruments such as Sharia stocks, sukuk, and Sharia mutual funds is growing rapidly, in line with increasing public awareness and financial literacy. The digitization of capital market platforms and investment education have also encouraged the younger generation to become more involved in the Sharia capital market (Putri & Mahfudz, 2024). However, the quality of investment management is greatly influenced by two main factors, namely internal factors such as analytical capabilities, governance, and portfolio strategy, as well as external factors such as economic conditions, OJK regulations, capital market developments, and the level of public literacy (Aminullah & Pradana, 2024).

Additionally, several studies indicate that Islamic financial literacy, investment gallery activities, and risk understanding significantly influence public interest in investing in Islamic instruments (Setiawan & Nurhayati, 2023). Conversely, low literacy can hinder investors in understanding screening mechanisms, market risks, and portfolio diversification strategies (Siregar & Munawaroh, 2023). Therefore, it is important to examine in more depth how these internal and external factors affect the effectiveness of Islamic investment management in Indonesia.

Considering these phenomena, this study was designed to comprehensively analyze the dynamics of sharia investment management and the role of internal and external factors in determining the success of sharia portfolio management. The results of this study are expected to contribute theoretically and practically to improving the quality of the sharia financial industry in Indonesia.

Research Methods

This study uses a descriptive qualitative approach to describe in depth how internal and external factors play a role in optimizing Islamic investment management. This approach was chosen because it provides a contextual understanding of the dynamics of investor behavior and the characteristics of Islamic instruments through interpretive explanations. This method is relevant because qualitative research allows for the exploration of meaning from various sources of literature, as also applied in Setiawan Nurhayati's (2023) research on interest in Islamic investment.

The research process was conducted through library research, where all data analyzed

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was sourced from scientific journals, academic articles, official reports, and literature discussing the development of the Islamic capital market, financial literacy, investor behavior, risk management, and Islamic-based investment instruments. The selection of literature focused on publications from the last five years to ensure that the analysis remained relevant to the latest developments in the Islamic finance sector.

Data analysis was conducted using content analysis. The researcher read, sorted, and grouped findings from various references to obtain patterns of relationships between internal factors such as financial literacy levels, risk perception, knowledge of instruments, and investors' religious orientation with external factors such as regulations, availability of sharia instruments, capital market developments, and the role of supporting institutions such as sharia investment galleries.

The analyzed literature provides a diverse picture of how these two groups of factors can strengthen or even hinder the optimization of Islamic investment management, as also emphasized by Mubarok & Rahmadani (2025).

To improve the accuracy of the findings, this study uses source triangulation, which is comparing the results of various references so that the data obtained is more consistent and accountable. Through this strategy, this study produces a comprehensive understanding of how investors and Islamic financial institutions respond to market dynamics, as well as how these internal and external factors interact in optimizing Islamic investment management practices in Indonesia.

Results and Discussion

The results of the literature analysis show that the optimization of Islamic investment management is influenced by a combination of interrelated internal and external factors. Internal factors are mainly related to the capacity, motivation, and characteristics of individual investors. One important finding is the role of Islamic financial literacy, which has been proven to be a key element in the formation of financial decision-making skills. Investors with a good level of knowledge about the principles, instruments, and mechanisms of the Islamic capital market tend to have a more mature investment orientation. This is in line with the findings of Setiawan & Nurhayati (2023), which show that Islamic-based financial understanding has a direct effect on the level of readiness and interest of investors in participating in the Islamic capital market.

In addition, other internal factors such as risk perception and religious motivation also make an important contribution. Muslim investors generally consider sharia compliance as the basis for their preferences in choosing investment instruments. This spiritual orientation acts as a filter in decision-making, so that instruments that are not sharia-compliant tend to be rejected even if they offer high potential returns. This attitude is consistent with the description of Muslim investor behavior in the analyzed literature, and is reinforced by the conceptual review in the sharia investment study presented by Siregar & Munawaroh (2023).

On the external side, the analysis results show that regulations and sharia capital market infrastructure play a crucial role. The development of the sharia capital market in

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Indonesia has grown stronger in line with increased regulatory support, the emergence of new instruments, and the role of institutions such as the Financial Services Authority (OJK), the Indonesia Stock Exchange (IDX), and the National Sharia Council (DSN-MUI). These policies create a market ecosystem that is safe and in accordance with sharia principles, thus providing certainty for investors. This is consistent with the study by Aminullah & Pradana (2024), which highlights how government policies and regulatory developments support the acceleration of the growth of the sharia investment industry.

Another influential external element is the availability of public education and investor development facilities. The existence of Islamic investment galleries in various campuses and educational institutions plays a major role in encouraging the public, especially the younger generation, to learn about and participate in the Islamic capital market. These educational facilities provide practical understanding of investment mechanisms, helping prospective investors understand investment risks and opportunities more realistically. These findings are in line with the results of research by Hidayanti & Azzahra (2024), which states that such educational programs and supporting facilities can increase student interest in investing in the Islamic sector.

In addition to the role of education, the development of Islamic investment instruments such as Islamic stocks, Islamic mutual funds, sukuk, and ESG (Environmental, Social, and Governance) based instruments also contributes to the optimization of investment management. Investors now have more choices of instruments with varying levels of risk and return. According to Rahmadi & Yuliani (2024), the diversity of these sharia instruments increases investor flexibility in compiling portfolios according to their respective needs and preferences.

The findings also show that synergy between internal and external factors is the key to achieving optimal sharia investment management. Investors with high literacy will be more effective in taking advantage of opportunities generated by regulatory developments, public education, and instrument innovation. Conversely, low literacy or a lack of supporting facilities can hinder the optimization of investment management even if the market infrastructure is well developed.

Overall, the research results confirm that improving the quality of sharia investment cannot be achieved through one factor alone. The success of sharia investment management is the result of the interaction between the capabilities and awareness of individual investors and supportive market conditions. Therefore, improving literacy and public education must go hand in hand with policy innovation and strengthening the market ecosystem so that sharia investment practices in Indonesia can develop optimally and sustainably.

Conclusion and Recommendation

This study confirms that the optimization of Islamic investment management is influenced by a combination of internal and external factors. Internal factors include Islamic financial literacy, risk perception, and religious motivation that encourage investors to make rational decisions in accordance with Islamic principles. Meanwhile, external factors such as

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regulations, support from Islamic financial institutions, Islamic investment galleries, and the availability of diverse instruments contribute to creating a conducive Islamic capital market ecosystem and strengthening public interest in investing.

The research recommendations emphasize the importance of increasing investor understanding of Islamic finance principles, innovation of instruments by Islamic financial institutions, and strengthening regulations by the OJK and DSN-MUI to maintain market integrity. Additionally, future researchers are advised to use a quantitative approach to statistically measure the influence of these factors and expand the focus on specific investor groups or comparisons between Islamic and conventional instruments.

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