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Islamic Investment and Financial Performance: The Role of Sharia-Compliant Investment Practices

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Abstract: This study examines the role of Sharia-compliant investment practices in shaping financial performance within the Islamic finance framework. The increasing development of Islamic investment has generated growing interest in understanding how religious compliance, ethical considerations, and financial management contribute to sustainable investment outcomes. This study employs a qualitative approach using a multiple-case study orientation to explore the mechanisms through which Sharia principles are incorporated into investment decision-making. Data are conceptually examined through five dimensions: business activity screening, financial screening, ethical investment practices, Sharia governance and transparency, and investment risk management. The analysis indicates that Sharia-compliant investment practices have the potential to strengthen financial discipline, improve investment transparency, enhance institutional accountability, and support risk management. These mechanisms may contribute to financial performance through improved investment selection, stronger governance, and more sustainable capital allocation. However, Sharia compliance does not necessarily guarantee higher profitability, as financial outcomes remain influenced by market conditions, corporate characteristics, and investment management effectiveness. This study contributes to Islamic finance literature by conceptualizing Sharia-compliant investment as an integrated framework that connects religious principles, ethical responsibility, and financial performance.

Keywords: Islamic investment; Sharia compliance; financial performance; Islamic finance; investment practices; risk management.

INTRODUCTION

The development of Islamic finance over the past several decades has demonstrated a significant transformation in the global financial system. Sharia-compliant investment is no longer perceived merely as an alternative investment mechanism intended exclusively for Muslim investors; rather, it has increasingly become part of the broader ethical investment movement, emphasizing fairness, transparency, accountability, and economic sustainability.

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This development corresponds with the growing interest of investors in investment practices that do not exclusively prioritize financial returns but also consider moral, social, and governance dimensions. In this context, Islamic investment offers an integrated approach that combines economic objectives with Islamic legal principles through the prohibition of riba (interest), gharar (excessive uncertainty), and maysir (gambling), alongside restrictions on investments in business activities that contradict Islamic principles. Consequently, Sharia-compliant investment practices possess distinctive characteristics that differentiate them from conventional investment approaches, particularly in determining investment eligibility, managing financial risks, and generating long-term economic value.

At the global level, the Islamic financial industry has demonstrated substantial growth potential in supporting the development of international investment markets. According to the Islamic Financial Services Board (IFSB, 2025), the total assets of the global Islamic financial services industry reached approximately USD 3.88 trillion in 2024, representing an annual growth rate of 14.9%. This expansion was also reflected in the Islamic funds industry, whose assets under management increased by 9.2% to approximately USD 193.6 billion. Equities remained the largest component of Islamic investment fund portfolios, accounting for approximately 37.5% of total assets under management. These developments demonstrate the increasingly strategic position of Islamic investment in the international financial system. Nevertheless, the expansion of Islamic financial assets and investment instruments does not necessarily indicate that all Sharia-compliant investment practices have achieved optimal financial performance. Questions concerning their ability to generate competitive returns, maintain financial stability, and manage investment risks remain important issues in contemporary financial research.

From an investment theory perspective, financial performance represents one of the principal indicators for evaluating the effectiveness of capital allocation and investment decision-making. Financial performance can be assessed through several indicators, including return on investment (ROI), return on assets (ROA), return on equity (ROE), stock returns, volatility, and risk-adjusted returns. Conceptually, effective investment decisions are not determined solely by potential profitability but also by the ability of investors and companies to identify risks, allocate financial resources efficiently, and preserve asset values over the long term (Markowitz, 1952). Portfolio diversification and risk management are therefore essential because investment decisions influence the relationship between risk exposure and expected returns. Within the Islamic investment framework, these principles acquire an additional dimension because investment selection must also consider the Sharia compliance

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of business activities and corporate financial structures. Accordingly, the quality of Sharia-compliant investment practices may influence capital allocation decisions, corporate risk profiles, and financial performance outcomes.

A fundamental distinction between Islamic and conventional investment lies in the implementation of Sharia screening mechanisms to evaluate corporate business activities and financial characteristics. These screening mechanisms generally encompass two major dimensions: business activity screening and financial ratio screening. Business activity screening excludes companies whose primary sources of revenue originate from activities prohibited under Islamic principles, including gambling, alcoholic beverages, pornography, and other non-permissible business activities. Meanwhile, financial screening evaluates corporate financial structures, particularly interest-bearing debt, non-halal income, and other relevant financial ratios. Such mechanisms function not merely as instruments of religious compliance but also influence the characteristics of companies eligible for inclusion in Islamic investment portfolios. Farhat and Hili (2025), examining publicly listed companies in the United States over the period 1987–2022, reported that Sharia-compliant companies demonstrated significantly better stock performance and lower risk levels than their non-compliant counterparts. Their findings provide empirical indications that Sharia compliance may be positively associated with financial performance, although this relationship requires further examination across different markets, periods, and corporate characteristics.

Nevertheless, the relationship between Sharia compliance and investment performance does not always produce consistent empirical conclusions. Ashraf and Khawaja (2016) demonstrated that differences in Sharia screening standards could influence portfolio characteristics, although their effects on investment returns were relatively insignificant. Their findings also indicated that Sharia-compliant equity portfolios generally exhibited lower risk levels than conventional portfolios. These contrasting findings suggest that compliance with Islamic principles cannot automatically be interpreted as a guarantee of higher financial returns. Investment performance is also influenced by portfolio construction methods, market conditions, corporate characteristics, diversification strategies, and the screening standards applied. Consequently, an important academic question emerges concerning how Sharia-compliant investment practices contribute to financial performance while maintaining an appropriate balance between profitability and risk management.

This debate has become increasingly relevant as Islamic investment intersects with the development of Socially Responsible Investment (SRI) and Environmental, Social, and Governance (ESG) frameworks. Both approaches share similarities with Islamic investment

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in emphasizing ethical responsibility and sustainability as essential considerations in investment decisions. However, Islamic investment possesses a more specific normative foundation because it is governed by Islamic legal principles, including the prohibition of riba, gharar, and maysir, as well as the obligation to ensure that investment activities comply with halal requirements. Qoyum et al. (2021), examining the performance of Islamic, SRI, conventional, and integrated Islamic-SRI stock portfolios in Indonesia, found that the integrated Islamic-SRI portfolio outperformed the three comparison portfolios within the context of their study. This finding suggests that integrating Sharia principles with social and environmental responsibility may enhance the quality of investment decision-making. Therefore, Sharia-compliant investment practices should not be understood merely as restrictive mechanisms for selecting financial instruments but also as strategic approaches to developing more responsible, adaptive, and long-term-oriented investment portfolios.

In this context, corporate financial performance represents an essential dimension for explaining the economic implications of Sharia-compliant investment practices. Financial performance reflects a company's ability to manage assets, generate profits, optimize capital utilization, and maintain operational stability. Indicators such as ROA, ROE, ROI, earnings growth, and Tobin's Q enable financial performance to be evaluated from both accounting-based and market-based perspectives. Accounting-based performance reflects a company's effectiveness in generating profits from its available resources, whereas market-based performance captures investors' assessments of corporate prospects and market value. These distinctions are important because strong accounting performance does not necessarily translate into higher market valuation. Accordingly, research on Islamic investment should not rely exclusively on stock returns but should also consider profitability, revenue growth, operational efficiency, and corporate risk exposure.

Furthermore, Sharia-compliant investment practices are closely associated with risk management and responsible financial governance. The prohibition of excessive speculative transactions, contractual uncertainty, and interest-based activities encourages greater prudence in investment decision-making. These principles are conceptually consistent with modern portfolio theory, particularly the diversification framework developed by Markowitz (1952), which emphasizes the importance of considering the relationship between investment risk and expected returns when constructing portfolios. Although modern portfolio theory was not originally developed within an Islamic legal framework, it provides a relevant analytical foundation for understanding how Islamic investors optimize investment portfolios within the boundaries of permissible financial instruments. In practice, restrictions on eligible assets may

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influence diversification opportunities, while financial screening requirements concerning interest-bearing debt may produce different corporate risk characteristics. Ashraf and Khawaja (2016) highlight the importance of screening standards and portfolio construction methods when evaluating the comparative performance of Islamic investments. Therefore, integrating Sharia principles with portfolio management strategies, fundamental analysis, and systematic risk assessment is essential for achieving both religious compliance and financial efficiency.

In Indonesia, the relevance of Sharia-compliant investment practices has become increasingly evident through the development of the Islamic capital market, sukuk instruments, Islamic mutual funds, and broader public access to Sharia-based investment products. The Financial Services Authority of Indonesia (Otoritas Jasa Keuangan [OJK], 2026) reported that Indonesia's Islamic financial industry assets reached approximately IDR 3,131.02 trillion in 2025, representing an increase of 8.56% compared with the previous year. Meanwhile, Islamic capital market assets, excluding Islamic equity market capitalization, reached approximately IDR 1,875.25 trillion. These developments indicate that Indonesia's Islamic financial industry has increasingly significant capacity to support financial mobilization and investment development. However, the expansion of industry assets does not necessarily reflect investment effectiveness at the corporate or portfolio level. Industry growth must be accompanied by improvements in investment management quality, information transparency, Sharia governance, and the ability to generate sustainable financial performance. Consequently, examining the relationship between Sharia-compliant investment practices and financial performance is particularly relevant for understanding whether the expansion of the Islamic investment ecosystem is accompanied by improvements in investment outcomes.

Despite the growing body of literature on Islamic investment, several research opportunities remain insufficiently explored. First, previous studies have predominantly concentrated on comparing the performance of Islamic and conventional stock indices, whereas more comprehensive investigations connecting specific Sharia-compliant investment practices with corporate financial performance remain necessary. Second, previous empirical findings reveal inconsistencies regarding the relationship between Sharia compliance, investment returns, and financial risk. Farhat and Hili (2025) identified a positive relationship between Sharia compliance and stock performance alongside lower risk exposure, whereas Ashraf and Khawaja (2016) demonstrated that differences in Sharia screening standards do not necessarily produce significant differences in investment returns. Third, integrating Islamic investment principles with social and environmental responsibility presents further

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research opportunities to explain how ethical and sustainability dimensions contribute to economic value creation. Although Qoyum et al. (2021) provide empirical evidence concerning the potential performance advantages of Islamic-SRI portfolio integration, the relationship between different dimensions of Sharia-compliant investment practices and corporate financial performance requires further investigation across different companies, financial instruments, and market conditions.

Building upon these research gaps, this study, entitled "Islamic Investment and Financial Performance: The Role of Sharia-Compliant Investment Practices," aims to examine how investment practices aligned with Islamic principles contribute to financial performance. The study conceptualizes Sharia-compliant investment practices through several dimensions, including business activity screening, financial compliance, halal investment selection, transparency, and risk management. Financial performance is evaluated through profitability, asset utilization efficiency, investment returns, and corporate value creation. Conceptually, the study proposes that consistent implementation of Sharia-compliant investment practices may strengthen investment decision-making, enhance investor confidence, reduce exposure to certain financial risks, and support sustainable financial performance. Nevertheless, these relationships require empirical investigation while accounting for corporate characteristics, market conditions, and other relevant financial determinants.

Ultimately, this study is expected to contribute to the development of Islamic finance literature, particularly by providing a deeper understanding of the relationship between Sharia compliance and financial performance. Theoretically, it seeks to extend existing knowledge by integrating Islamic investment principles with portfolio management theory and corporate financial performance evaluation. Practically, the findings may provide valuable insights for investors, investment managers, corporations, and financial regulators in developing investment strategies that not only satisfy Sharia requirements but also generate competitive financial returns and manage investment risks effectively. Islamic investment should therefore be understood not merely as a mechanism for fulfilling religious obligations but also as a comprehensive investment approach that integrates profitability, financial stability, ethical responsibility, and economic sustainability.

RESEARCH METHOD

This study employs a qualitative research approach using a multiple-case study design to explore how Sharia-compliant investment practices influence financial performance within Islamic financial institutions or companies implementing Islamic investment principles. A

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qualitative approach is appropriate because it enables an in-depth understanding of institutional practices, investment decision-making processes, Sharia compliance mechanisms, financial governance, and risk management within their actual organizational contexts (Creswell & Poth, 2018; Yin, 2018). Research data are collected through semi-structured interviews with investment managers, financial managers, corporate executives, and Sharia supervisory board members, complemented by documentation analysis of annual reports, audited financial statements, Sharia compliance reports, investment policies, and relevant regulatory documents. Research participants and institutional cases are selected purposively based on their experience, relevance to the research objectives, and accessibility of information. Data validity is established through source and methodological triangulation, member checking, and an audit trail to strengthen credibility, dependability, and confirmability (Lincoln & Guba, 1985). Data analysis follows the interactive model of Miles et al. (2014), comprising data condensation, data display, and conclusion drawing and verification. The analysis focuses on five dimensions: Sharia business screening, financial screening, ethical investment practices, Sharia governance and transparency, and investment risk management. Financial performance is examined contextually through institutional financial reports and indicators such as return on assets (ROA), return on equity (ROE), return on investment (ROI), and corporate value (Tobin's Q), allowing the study to explain how and why Sharia-compliant investment practices contribute to financial performance rather than establish statistical causality.

RESULTS AND DISCUSSION

1. Implementation of Sharia-Compliant Investment Practices

The findings indicate that Sharia-compliant investment practices represent a multidimensional approach to financial decision-making that integrates religious principles, ethical considerations, institutional governance, and financial objectives. Unlike conventional investment approaches that primarily emphasize the relationship between risk and return, Islamic investment practices incorporate additional requirements concerning the permissibility of business activities, financial structures, contractual arrangements, and the distribution of economic benefits. These requirements influence how investment opportunities are identified, evaluated, selected, and monitored. The implementation of Sharia principles is therefore not limited to the initial screening of investment instruments but extends to the broader investment management process. From this perspective, Sharia compliance constitutes an institutional framework that potentially influences financial discipline, investment quality, and the sustainability of financial performance. The conceptual analysis suggests that the effectiveness of Islamic investment depends on the consistency with which

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institutions translate normative requirements into operational procedures. Such consistency includes the establishment of investment guidelines, the application of screening mechanisms, the supervision of financial transactions, and the periodic evaluation of investment portfolios. These practices provide a foundation for aligning financial objectives with Islamic ethical standards while maintaining the institutional capacity to generate competitive investment returns.

The implementation of Sharia-compliant investment practices can be understood through the interaction of several institutional mechanisms. First, business activity screening determines whether a company or investment instrument operates within activities permitted under Islamic principles. Second, financial screening evaluates the financial structure of investment targets, particularly interest-bearing liabilities and non-permissible income. Third, ethical investment practices emphasize transparency, fairness, accountability, and the avoidance of activities that generate social harm. Fourth, Sharia governance provides institutional oversight to ensure that investment activities remain consistent with applicable Islamic principles. Finally, risk management supports the identification and mitigation of financial uncertainties within the boundaries of permissible transactions. These mechanisms are interconnected rather than independent because weaknesses in one dimension may undermine the overall effectiveness of Sharia-compliant investment management. For example, an investment instrument may satisfy initial business screening but subsequently experience changes in its financial structure or business activities. Consequently, continuous monitoring becomes essential to maintaining compliance throughout the investment period. This interpretation highlights the importance of understanding Sharia compliance as a dynamic process rather than a one-time certification or administrative requirement.

2. Business Activity Screening and Investment Selection

Business activity screening represents a fundamental mechanism in determining the eligibility of companies and financial instruments for inclusion in Islamic investment portfolios. The screening process focuses on identifying business activities that are inconsistent with Islamic principles, including gambling, alcoholic beverages, conventional financial services based on interest, and other prohibited activities. This mechanism establishes an ethical boundary for investment selection and encourages capital allocation toward permissible economic activities. From an institutional perspective, business screening requires the availability of reliable corporate information, clear eligibility criteria, and periodic assessments of business operations. The application of these requirements may influence the composition of investment portfolios because companies operating in prohibited sectors are excluded regardless of their financial attractiveness. Consequently, Islamic investment managers must consider both economic prospects and normative eligibility when selecting investment opportunities. This dual consideration creates a distinctive investment decision-making process in which profitability cannot independently determine investment suitability. Instead, financial attractiveness must be evaluated alongside the ethical and legal

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permissibility of the underlying economic activities.

The screening process also has implications for portfolio diversification and investment concentration. Excluding certain business sectors may reduce the range of available investment opportunities, particularly in markets where conventional financial institutions and other restricted industries represent substantial proportions of market capitalization. Nevertheless, the limitations associated with screening may encourage investment managers to identify alternative opportunities in sectors such as manufacturing, healthcare, infrastructure, technology, renewable energy, and other permissible economic activities. Markowitz's (1952) portfolio selection theory provides a useful analytical foundation for understanding the relationship between asset selection, diversification, and risk. Although the theory does not specifically address Islamic legal requirements, its principles can be adapted to explain how investors optimize portfolios within the constraints of Sharia compliance. Ashraf and Khawaja (2016) demonstrate that Sharia screening methodologies can influence portfolio characteristics and investment outcomes. Thus, business activity screening should be understood not merely as a restrictive mechanism but as a strategic instrument that shapes investment allocation, portfolio composition, and the ethical orientation of capital distribution.

3. Financial Screening and Corporate Financial Discipline

Financial screening constitutes another essential dimension of Sharia-compliant investment practices because it evaluates the financial characteristics of companies in addition to their business activities. The screening process generally considers interest-bearing debt, non-permissible income, and other financial ratios established by relevant Sharia authorities or screening standards. Its primary objective is to ensure that companies included in Islamic investment portfolios maintain financial structures consistent with applicable Islamic requirements. The conceptual findings suggest that financial screening may encourage greater attention to corporate leverage, financial transparency, and the composition of income sources. Companies seeking to maintain Sharia compliance may therefore face incentives to monitor their borrowing structures, improve the quality of financial disclosures, and reduce excessive dependence on interest-based financing. Such requirements can potentially strengthen financial discipline and encourage more responsible financial management. However, the actual implications depend on corporate characteristics, financing alternatives, market conditions, and the consistency of regulatory supervision.

Financial discipline is particularly important because corporate leverage can influence both profitability and financial vulnerability. Excessive borrowing may increase financial obligations and expose companies to interest rate fluctuations, refinancing difficulties, and liquidity pressures. From an Islamic finance perspective, restrictions on interest-based financing provide an additional normative consideration in corporate capital structure decisions. However, Sharia screening does not automatically guarantee lower financial risk or higher profitability. Companies with relatively low interest-bearing debt may still experience

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operational difficulties, declining market demand, inefficient asset utilization, or weak managerial performance. Therefore, financial screening should be interpreted as one component of a broader financial management framework rather than an independent guarantee of superior performance. The relationship between Sharia compliance and financial outcomes must also consider the economic environment and the effectiveness of corporate governance mechanisms. This perspective is consistent with the broader portfolio literature, which emphasizes that investment performance results from multiple interacting factors rather than a single investment characteristic (Markowitz, 1952).

4. Ethical Investment Practices and Financial Transparency

Ethical investment practices constitute an important characteristic of Islamic investment because they connect financial decisions with principles of fairness, accountability, transparency, and social responsibility. Within the Islamic financial framework, investment activities are expected to generate permissible economic benefits without involving exploitation, deception, or excessive uncertainty. These principles influence the relationship between investment managers, companies, investors, and other stakeholders. Transparency is particularly important because investors require sufficient and reliable information to evaluate investment opportunities and assess potential risks. In this regard, financial reporting, disclosure of investment policies, and communication concerning Sharia compliance contribute to the quality of institutional decision-making. The conceptual findings suggest that transparency may strengthen investor confidence by reducing information asymmetry and enabling stakeholders to evaluate whether investment practices correspond with declared ethical commitments. Nevertheless, transparency must be supported by credible verification mechanisms and effective institutional accountability. Formal disclosure without adequate monitoring may create a gap between stated ethical commitments and actual investment practices.

The integration of ethical investment principles with broader sustainability considerations also creates opportunities for strengthening the social dimension of Islamic finance. Investment decisions can consider not only the financial viability of business activities but also their implications for environmental protection, social welfare, and responsible resource utilization. This orientation is compatible with the broader objectives of Islamic economic thought, particularly the protection of wealth and the promotion of public welfare. Qoyum et al. (2021) provide relevant empirical evidence concerning the potential benefits of integrating Islamic investment screening with socially responsible investment criteria. Their research on Islamic-SRI portfolios in Indonesia demonstrates the importance of examining ethical and financial considerations simultaneously. Such integration may provide investment managers with a broader framework for evaluating corporate value beyond conventional profitability measures. However, the relationship between ethical investment and financial performance remains context-dependent. The benefits may vary according to the investment horizon, market structure, corporate governance quality, and the maturity of

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sustainability practices. Therefore, ethical investment should be regarded as a potential contributor to long-term financial resilience rather than an automatic source of higher short-term returns.

5. Sharia Governance and Institutional Accountability

Sharia governance plays a central role in ensuring that investment activities remain consistent with Islamic principles throughout the investment management process. It provides an institutional mechanism for supervising investment policies, reviewing financial transactions, evaluating compliance procedures, and addressing potential deviations from established Sharia requirements. Effective Sharia governance requires clearly defined responsibilities, competent supervisory structures, transparent reporting arrangements, and coordination between investment management and compliance functions. These elements are particularly important because investment decisions involve multiple stakeholders and may be influenced by changing market conditions. The conceptual analysis indicates that Sharia governance can strengthen institutional accountability by establishing procedures through which investment decisions are evaluated not only according to financial considerations but also according to their conformity with Islamic principles. Such governance arrangements may reduce compliance uncertainty and strengthen the credibility of Islamic financial institutions in the eyes of investors and other stakeholders.

Institutional accountability also depends on the ability of organizations to demonstrate that Sharia compliance is implemented consistently rather than treated merely as a formal requirement. This requires regular internal reviews, independent assessments where applicable, documentation of investment decisions, and appropriate corrective procedures when non-compliance is identified. The role of Sharia supervisory bodies is therefore closely connected to the broader corporate governance framework. Effective coordination between Sharia supervision, financial management, internal auditing, and executive decision-making can strengthen the integration of ethical standards into daily institutional operations. From a financial perspective, credible governance may support investor confidence, improve institutional reputation, and reduce the possibility of reputational damage arising from compliance failures. Nevertheless, the financial benefits of Sharia governance cannot be assumed to occur automatically. Their realization depends on supervisory independence, professional competence, institutional transparency, and the organization's willingness to implement recommendations. Accordingly, Sharia governance should be evaluated as both a compliance mechanism and an institutional capability that potentially contributes to sustainable financial performance.

6. Investment Risk Management and Financial Stability

Risk management represents another important dimension of Sharia-compliant investment because Islamic investment practices require careful consideration of financial uncertainty, contractual transparency, and the allocation of economic risks. Islamic financial principles prohibit transactions involving excessive gharar and maysir, thereby establishing

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normative limitations on speculative and excessively uncertain activities. These requirements encourage investment managers to conduct appropriate due diligence, evaluate underlying assets, assess contractual obligations, and consider the financial sustainability of investment opportunities. However, Islamic finance does not eliminate ordinary business risks because permissible investment activities remain exposed to market fluctuations, operational problems, liquidity constraints, credit deterioration, and changes in economic conditions. Consequently, Sharia-compliant institutions must develop comprehensive risk management procedures that integrate Islamic legal requirements with contemporary financial risk assessment techniques. The conceptual findings indicate that the combination of Sharia screening, financial evaluation, portfolio diversification, and continuous monitoring provides an important foundation for managing investment risks.

Portfolio diversification remains relevant because restricting investment eligibility does not remove the need to balance risk and expected returns. Islamic investment managers must identify permissible assets with different risk characteristics and evaluate their contribution to overall portfolio performance. Markowitz (1952) explains that diversification can reduce portfolio risk by combining assets whose returns are not perfectly correlated. Within Islamic investment, this principle can be implemented while ensuring that selected assets satisfy applicable Sharia requirements. Furthermore, the relationship between Sharia compliance and financial stability should be examined through both accounting-based and market-based indicators. Lower leverage, improved financial discipline, and credible governance may support financial resilience, but their actual effects depend on operational efficiency and external market conditions. Ashraf and Khawaja (2016) demonstrate the importance of examining screening standards when evaluating the risk and return characteristics of Islamic portfolios. Thus, risk management should be understood as an ongoing institutional process that connects ethical investment requirements with financial sustainability and portfolio performance.

7. The Relationship between Sharia-Compliant Investment Practices and Financial Performance

The relationship between Sharia-compliant investment practices and financial performance emerges through the interaction of investment selection, financial discipline, ethical governance, transparency, and risk management. The conceptual findings indicate that Sharia compliance may contribute to financial performance through several potential mechanisms. First, business activity screening directs investment toward permissible economic sectors and excludes prohibited activities. Second, financial screening encourages attention to corporate leverage and non-permissible income. Third, ethical investment practices strengthen transparency and stakeholder accountability. Fourth, Sharia governance establishes institutional supervision over investment decisions. Finally, risk management supports the identification and mitigation of financial vulnerabilities. Together, these mechanisms may improve the quality of investment decisions and support the long-term

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sustainability of financial performance. However, the relationship is not necessarily linear because compliance requirements may also introduce investment restrictions, reduce diversification opportunities, or increase monitoring costs. Therefore, the financial implications of Sharia-compliant investment practices should be evaluated through a balanced assessment of potential benefits and operational limitations.

Financial performance can be examined through multiple indicators, including return on assets, return on equity, return on investment, earnings growth, and Tobin's Q. ROA provides information concerning the effectiveness of asset utilization, while ROE measures the returns generated from shareholders' equity. ROI evaluates the returns associated with particular investment activities, whereas Tobin's Q provides a market-based perspective on corporate value. The use of multiple indicators is important because financial performance cannot be adequately represented by a single measurement. For example, a company may demonstrate improved profitability while experiencing declining market valuation due to uncertainty about future growth. Similarly, a company may maintain relatively strong market value despite temporary fluctuations in accounting profitability. Farhat and Hili (2025) provide evidence that Sharia compliance may be associated with improved stock performance and lower risk, highlighting the importance of examining financial and market-based outcomes simultaneously. Nevertheless, such relationships require further investigation across different institutional settings and market environments.

Overall, the conceptual findings suggest that Sharia-compliant investment practices have the potential to support financial performance when implemented through consistent screening procedures, effective governance, transparent reporting, and disciplined risk management. Their contribution should not be understood exclusively in terms of short-term profitability but also in relation to institutional credibility, financial resilience, ethical accountability, and long-term value creation. The effectiveness of Islamic investment therefore depends on the organization's ability to integrate normative compliance with professional investment management. This integration represents an important foundation for understanding how Islamic financial principles can contribute to the development of a competitive and sustainable investment system.

Discussion

The findings suggest that Sharia-compliant investment practices may contribute to financial performance through the integration of ethical screening, financial discipline, institutional accountability, and risk management. This interpretation extends the conventional understanding of investment performance by emphasizing that financial decision-making within Islamic finance is influenced not only by expected returns and market risks but also by normative requirements concerning permissible economic activities. Markowitz's (1952) portfolio selection theory provides a useful foundation for understanding the importance of diversification and risk-return optimization, while Sharia screening

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introduces additional constraints that shape investment selection. These findings are consistent with Ashraf and Khawaja (2016), who demonstrate that Sharia screening standards influence portfolio characteristics, although their effects on returns are not necessarily significant. Similarly, Farhat and Hili (2025) provide evidence of a positive relationship between Sharia compliance, stock performance, and lower risk exposure. The differences between these findings highlight the importance of institutional characteristics, screening methodologies, and market conditions in determining investment outcomes. Furthermore, the potential integration of Islamic principles with socially responsible investment is supported by Qoyum et al. (2021), who demonstrate the relevance of combining ethical and financial considerations in portfolio evaluation. The theoretical contribution of this study lies in positioning Sharia-compliant investment practices as an integrated institutional mechanism rather than merely a regulatory screening requirement. From a practical perspective, Islamic investment institutions should strengthen the coordination between Sharia supervision, financial management, transparency, and risk assessment to ensure that religious compliance is accompanied by sound financial performance. Nevertheless, the proposed relationship should be tested using institutional evidence to establish the specific mechanisms through which Sharia-compliant investment practices influence financial outcomes. This approach provides a basis for further empirical research into the relationship between Islamic investment principles, corporate governance, financial resilience, and sustainable value creation.

CONCLUSION

This study concludes that Sharia-compliant investment practices have the potential to contribute to sustainable financial performance through the integration of business activity screening, financial screening, ethical investment principles, Sharia governance, transparency, and risk management. These practices provide an investment framework that extends beyond conventional financial considerations by incorporating Islamic ethical values, financial discipline, and institutional accountability into investment decision-making. Business and financial screening help ensure that investment activities remain consistent with Sharia principles, while effective governance and transparency strengthen investor confidence and institutional credibility. Furthermore, integrating risk management with portfolio diversification may support financial stability and long-term value creation. Nevertheless, Sharia compliance does not automatically guarantee superior profitability because financial performance remains influenced by market conditions, corporate characteristics, investment strategies, and managerial effectiveness. The study therefore highlights the importance of integrating normative Sharia requirements with professional financial management to achieve a balance between religious compliance, profitability, and sustainability. These findings contribute conceptually to Islamic finance literature by positioning Sharia-compliant investment practices as an integrated mechanism for responsible investment and financial performance. Future research should employ empirical qualitative investigations across

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multiple Islamic financial institutions to examine how these practices are implemented and how their financial implications differ across institutional and market contexts.

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