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Investor Perceptions of the Quality of Sharia Financial Reporting and Its Impact on Investment Decisions Study on Companies Listed in the Jakarta Islamic Index (JII)

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ABSTRACT

This study aims to analyze investor perceptions of the quality of Islamic financial reporting and its impact on investment decisions in the Jakarta Islamic Index (JII). The background of this research is based on the growth of Indonesia's Islamic capital market capitalization, but has not been followed by a significant increase in retail investor participation. This research uses the Descriptive Method with a qualitative approach to collect and analyze literature related to the research topic. The research shows that the quality of Islamic financial reporting significantly influences investors' perceptions. The more positive investors' perceptions of the quality of Islamic financial reporting, the more likely they are to invest in stocks in the Jakarta Islamic Index. However, regulators and issuers need to improve disclosure standards and socialization. This study has real-world consequences, such as the suggestion that OJK and the National Sharia Council (DSN) create more detailed reporting guidelines and that investors should be educated about Islamic financial standards.

1. INTRODUCTION

As public awareness of sharia-based investments grows, the Islamic capital market in Indonesia, particularly the Jakarta Islamic Index (JII), is experiencing a favorable trend. Nevertheless, financial returns are not the sole determinant of investor interest; the caliber of Islamic financial reporting, which reflects transparency, accountability, and compliance with Islamic principles, also influences investor interest. This issue warrants investigation, as many investors remain skeptical about the consistent application of sharia accounting standards and the reliability of the information provided in the financial statements of JII issuers. According to signaling theory, high-quality financial reports should effectively communicate with both companies and investors, mitigate information asymmetry, and promote more informed investment decisions.

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According to data from the Financial Services Authority (OJK), the market capitalization of Islamic stocks has been on the rise, reaching IDR 6,500 trillion by 2023, with the Jakarta Islamic Index (JII) serving as a key benchmark. However, this growth has not been accompanied by a corresponding increase in the number of retail investors. Uncertainty about the quality of Islamic financial reporting, including inconsistencies in the application of Sharia PSAK and the lack of disclosure regarding non-halal income, is a deterrent, according to a preliminary survey of some investors. This finding aligns with earlier research by Sari & Pratama (2021), which revealed that Islamic investors exhibit heightened sensitivity to the risks associated with *gharar*, or uncertainty, in financial statements. Conversely, a study by Hakim & Rahman (2020) concluded that sharia compliance has a greater influence on investment decisions than financial performance, although it did not address the impact of financial reporting quality on this perspective. Additionally, research by Nasution et al. (2022) emphasizes the critical role of corporate governance in bolstering investor confidence, yet it has not fully integrated the elements of Islamic accounting. It is essential to understand the investor viewpoint to guide regulators, issuers, and Islamic accounting standard setters in enhancing the quality of financial reporting.

If distrust of Islamic financial reporting is not addressed, the growth of the Islamic capital market could potentially stagnate due to lack of investor participation. This research can aid the National Shariah Council (DSN) and the Indonesian Institute of Accountants (IAI) in enhancing the standards of Islamic financial reporting. Furthermore, the result can support issuers in crafting financial communication strategies that align more closely with Islamic principles. Investors' perceptions of Islamic capital markets are heavily influenced by the quality of financial reporting. Research by Abdullah et al. (2020) indicates that Islamic investors prioritize transparency and sharia compliance in financial reports more than their conventional counterparts. The study revealed that investment choices are significantly affected by the extent of disclosure regarding halal and non-halal income. However, the study only conducted a quantitative analysis and did not look at the overall perspective of investors. Additionally, investor perceptions are shaped by the technical aspects of Islamic accounting.

In their 2019 study, Haniffa and Hudaib identified ongoing challenges in Indonesia regarding the implementation of Sharia PSAK 101 for the Presentation of Sharia Financial Statements. They noted that issuers on the Jakarta Islamic Index (JII) often misclassify sharia income and financing, leading to potential confusion among investors. This observation is supported by research from Nurhayati and Hadiprajitno (2021), which emphasizes the necessity for more stringent disclosure standards for Islamic transactions. Investors assess Islamic accounting through the lens of *gharar*, which refers to uncertainty. A study by El-Halaby and Hussainey (2020) developed a *gharar* measurement index for Islamic financial statements and found a significant negative correlation between investment interest and *gharar*. This research indicates that investors are likely to steer clear of stocks that present a high degree of informational uncertainty, particularly concerning income sources and fund allocation. This study has not investigated how retail investors perceive this *gharar*. Research by Khan et al. (2021) applied this theory within the context of the Islamic capital market, revealing that high-quality financial reporting serves as a positive indicator for investors. However, the study found that there is a difference between investors' expectations and actual reporting practices, especially in terms of disclosure of sukuk and other Islamic financial instruments.

The aims of the current study, as previously stated, is to assess investors' perceptions regarding the quality of Islamic financial reporting and its influence on their investment decisions in the Jakarta Islamic Index (JII). This research will employ a case study approach and conduct in-depth interviews to identify key factors that shape investors' perceptions, including transparency, compliance with sharia principles, and the reliability of accounting information.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Company management performs an action called signaling theory to give investors an idea of the company's prospects. Companies with favorable prospects prefer to stop selling shares and look for other ways to raise new capital, as unprofitable businesses tend to sell their shares (Brigham & Houston, 2014; Nur et al., 2024). Financial statements that comply with PSAK Syariah are a positive signal in a high-quality Islamic capital market because they can reduce uncertainty and increase investor confidence, thereby producing high-quality financial statements. According to research conducted by Amilia Rohma et al. (2023), the Sharia stock index plays a significant role in balancing the relationship between investment efficiency and financial reporting quality. This supports the idea that investors use good reporting as an important measure in decision-making.

Legitimacy Theory

Legitimacy theory can be understood from Lindblom's statement as follows: "a condition or status that exists when the value system of an entity is compatible with the value system of the larger social system of which the entity is a part. Legitimacy theory is associated with social disclosure. This theory suggests that companies to disclose legitimacy because they operate in the area of Society. Ikhsan, A. (2017). In the Islamic capital market, financial statements that comply with Islamic principles are an important form of legitimacy because they show that companies uphold Islamic integrity and values rather than financial gain. Fadilah (2024) shows that Sharia compliance improves transparency and attracts investors by improving Islamic banking financial reporting.

Quality of Financial Statements

Financial reports are intended as management accountability for resources to company owners and contain information about the company's performance and condition. Good reports are essential to achieve economic and social goals, reduce information asymmetry, and attract investors by providing clear information that is useful to all interested parties. Financial statements are the most important accounting reports, which provide information to interested parties (Lindary W, 2022). Sadli et al. (2021) found that sharia-based social disclosure (ISR) increases company profits on the JII, which means that investors also consider sharia-based social disclosure.

Investor Perception

According to Schermerchon (2002), and referenced by Ulinuha and colleagues in 2020, perception involves choosing, structuring, interpreting, and reacting to the information present in the environment. People possess the capacity to develop varying perceptions of comparable stimuli. Perception is subjective and situational, so it is possible that investors' views on investment instruments vary. A positive perception of transparent and Sharia-compliant financial statements will increase investment interest. This finding is in line with the research by Haniffa and Hudaib (2018) that transparency of information regarding sharia compliance increases investors' positive perceptions and encourages them to invest.

Investment Decision

Investment decisions are actions taken to assess various investment options that can generate future profits (Budiarto, 2017; Lestari et al., 2022). Investment products are used to make a decision whether the investment is feasible by expecting future profits. During the investment process, there is a parallel and linear relationship between expected returns and the threat of risk. This shows that the greater the risk that must be faced, the higher the desired return. An in-depth analysis of the prospective returns and risks, as well as how the investment fits the risk profile and financial goals, is the basis of good investment choices. By reducing the risk of loss, maintaining financial stability, and preparing for future needs, investors can make the most profit. Conversely, poor investment decisions, such as a lack of research, can

lead to huge losses and even threaten financial stability. Therefore, a good understanding and proper preparation are important for every phase of investment.

Investors will consider Sharia financial statements supported by Sharia compliance, adequate social disclosure, and rigorous auditing, according to theoretical research and empirical evidence. Ultimately, their investment decisions for companies in the Jakarta Islamic Index (JII) will be influenced by this perception. Thus, the research propositions are: (a). Investors' positive perceptions of the quality of Islamic financial reporting have a positive effect on investment decisions in companies listed on the Jakarta Islamic Index (JII). And (b). Persepsi investor terhadap tingkat pengungkapan Islamic Social Reporting (ISR) berpengaruh positif terhadap keputusan investasi pada perusahaan JII.

3. RESEARCH METHOD

This study uses a qualitative literature review approach, which allows researchers to study phenomena comprehensively, understand their context, and find meaning from various relevant sources of information (Rodiah et al., 2019). According to the principles described by Damayanti et al. (2023), literature studies must be based on valid and up-to-date sources. After determining the objectives and scope of the research, the next step is to identify, analyze, and synthesize information from various academic and practical sources, such as scientific journals, books, research reports, and official publications from financial institutions. After that, an analysis is conducted on literature discussing Islamic financial reporting standards, principles of transparency and accountability in the Islamic context, and factors that shape investor confidence. One of the advantages of this approach is its ability to provide a diverse and comprehensive view of how investor perceptions change. The table below summarizes recent journal articles relevant to this study.

Table 1. Article Classification Based on Theme

No	Author & Year	Article Title	Theme	Source/ Indexing	Number of Citations	Key Findings
1	Nurhayati & Hadiprajitno (2021)	The Implementation of PSAK 101 on Islamic Financial Reporting In Indonesia	Sharia Financial Reporting Standards/Compliance	SINTA 2	25	The Implementation of PSAK 101 Is Not Transparent → Investor Confusion
2	Abdullah Et Al. (2020)	Does Sharia Compliance Matter?	Transparency & Sharia Compliance	Google Scholar	40	Disclosure of Halal And Non-Halal Affects Investor Preferences
3	Sari & Pratama (2021)	The Impact of Gharar Disclosure on Investment Decisions	Investor Perception & Gharar Risk	GARUDA	18	High Gharar → Reduces Investment Interest
4	Hanifa& Hudaib (2018)	Exploring The Ethical Identity of	Communication & Ethics In Reports	Google Scholar	60	Ethical Communication

		Islamic Banks Via Communication In Annual Reports				Enhances Investor Trust
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Sources: SINTA, GARUDA, and Google Scholar (2025)

First, the literature collected from the SINTA, GARUDA, and Google Scholar databases was summarized in tables based on themes such as PSAK/SAS compliance, transparency of Islamic social disclosure, gharar/uncertainty, audit quality, governance, investor perception, sources/indexing, and number of citations. The thematic synthesis reveals a consistent pattern: PSAK/SAS compliance and transparency in Islamic disclosure (halal or non-halal, zakat, DPS) shape investor perceptions. Conceptually, the hypothesis that positive perceptions of Islamic reporting quality have a positive impact on investment decisions is supported by the literature synthesis. However, the significance of the impact requires further empirical testing.

4. RESULTS AND DISCUSSION

Compliance with Sharia Accounting Standards (SAS)

The SAS is a set of accounting standards that are based on Islamic principles. It is designed to ensure that financial transactions are conducted in accordance with Islamic law. The SAS is a set of accounting standards that are based on Islamic principles. It is designed to ensure that financial transactions are conducted in accordance with Islamic law. Siagian, A., & Firdaus, R. (2024). In this case, Sharia accounting standards (SAS), established by the Financial Accounting Standards Board (FASB) of the Indonesian Institute of Accountants (IIA), serve as the main guideline for companies participating in the Sharia capital market in preparing their financial statements. Sharia accounting standards are designed to ensure that the financial statements of companies participating in the sharia capital market reflect Islamic principles such as honesty, fairness, and accountability. The purpose of implementing SAS is to provide relevant, reliable, and accessible financial information to all stakeholders. For the general public, compliance with SAS demonstrates that companies in the Islamic capital market emphasize integrity in financial management, thereby enhancing public trust in such institutions. The results of the study indicate that full compliance with SAS, as established by the IAI Sharia Accounting Standards Board, is an important factor in improving the credibility of financial reports. Companies that regularly implement SAS demonstrate greater transparency, reduce the risk of information asymmetry, and increase public trust (Siagian & Firdaus, 2024).

Transparency in Sharia Accounting Financial Reporting

One of the key elements in Islamic accounting is transparency, which ensures that the financial information presented by Islamic financial institutions is accurate and reliable for all parties. By implementing transparency, to maintain its credibility, Islamic financial institutions can ensure compliance with Islamic principles in their activities and avoid prohibited practices, such as usury, gambling, and uncertainty (Syukri, 2023). Transparency is demonstrated through complete, accurate, and relevant information about the activities of financial institutions that apply moral and ethical values in their operations. Transparency is an important component of Islamic accounting because it serves to build and maintain public trust in Islamic financial institutions. Islamic financial institutions can demonstrate their commitment to openness and accountability by implementing transparency (Waluya, 2020). Full and accurate disclosure of information about halal and non-halal sources of income, zakat

distribution, and businesses that are free of *riba*, *maysir*, and *gharar* has been shown to improve investor perceptions of financial reporting quality (Syukri, 2023; Waluya, 2020).

Investor Perceptions of the Quality of Islamic Financial Reporting

Investors are inclined to trust Islamic financial statements produced by independent, well-regarded organizations, including international Islamic audit authorities, according to Hanifa (2018). Furthermore, a high degree of transparency about zakat distribution, halal revenue, and usury avoidance boosts investor confidence (Farooq & AbdelBari, 2021). Investors are more inclined to purchase equities in the Jakarta Islamic Index if they have a positive perspective on the quality of Islamic financial reporting. If issuers have a good track record of transparency and their financial statements are audited by internationally recognized independent authorities, investors tend to give positive assessments of these issuers. A good perception makes people more likely to buy and hold shares in the JII (Hanifa, 2018; Farooq & AbdelBari, 2021).

Financial Statement Quality and Investment Decision Impact

The quality of Islamic financial reporting has a significant impact on investors' decisions when they assess the Jakarta Islamic Index (JII). According to signal theory, effective financial reporting provides a signaling mechanism to decrease information imbalances between issuers and investors (Spence, 1973; Baydoun & Willett, 2000). Regarding Sharia, the primary indicators that impact investor trust in the Sharia system are disclosures with specific characteristics, such as zakat distribution, halal/non-halal revenue sources, and Sharia Supervisory Board (DPS) audit findings. Investment decisions are greatly influenced by financial statements, especially if they provide clear, relevant, accurate, and reliable information. Good financial statements can help investors and company managers share information. This enables better investment decisions. Investment efficiency is achieved when organizations can avoid excessive investment, which means excessive allocation of funds, and lower investment, which means lower allocation of funds than the optimal target. Arsal (2025). Based on agency theory, good financial statements increase investor confidence because they prevent managers from misusing the information they have. Good financial statement disclosure can also help investors and companies communicate better, which encourages more logical decision-making based on data.

5. CONCLUSION

Whenever making investment decisions, investors' perceptions of Islamic financial reporting are very important. Investors are inclined to trust and be interested in investing in a company that provides financial reports that are accurate, transparent, and compliant with Sharia principles. Good Islamic financial reporting lowers uncertainty risk and boosts investment appeal by offering investors assurance that companies are operating honorably and in accordance with Islamic principles. On the other hand, if investors think a company's financial records are unacceptable or do not accurately reflect Sharia principles, they are likely to decline to invest. As a result, the quality of Islamic financial reporting has a significant impact on investor confidence and their investment choices.

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