

CHAPTER I

INTRODUCTION

A. Background of the Problem

Investment is the activity of allocating funds to various financial instruments as assets that grow over a period of time. In Islam, investment is considered a recommended *muamalah* activity. As mentioned in Surah At-Taubah verses 34-35, Islam prohibits hoarding wealth without distributing it.¹ This is in line with the principle of investment, which is to develop assets productively to avoid stagnation and provide benefits to the wider community.²

Sharia investment instruments are an option in fulfilling Islamic principles, namely avoiding usury (interest), *gharar* (exploitative uncertainty), and activities that are contrary to sharia, such as gambling or haram businesses.³ Some sharia investment products such as sukuk, also known as Islamic bonds, Islamic stocks, Islamic mutual funds, Islamic deposits and so on has more advantages than conventional investment products because the investments are offered in addition to a fairly high return in the form of working principles in accordance with Islamic sharia, free from elements of *maisir*, *gharar* and usury.⁴

The capital market has an important role in the economic activities of a country because the capital market has two functions at once, namely economic functions and financial functions. In the economic function, the capital market provides facilities to bring together two parties in buying and selling investments, namely

¹ Rino Rianto and Ainil Fhadilah, "The Influence of Sharia Stock Investment Perception on Student Investment Interest in Investing (Study on Sharia Investment Gallery (GIS) of Islamic Universities in Jambi Province," *ISTIKHLAF: Journal of Sharia Economics, Banking and Management*, Vol. 4, No. 2 (2022), p. 97–107

² Rino Rianto and Ainil Fhadilah, "The Influence of Sharia Stock Investment Perception on Student Investment Interest in Investing (Study on Sharia Investment Gallery (GIS) of Islamic Universities in Jambi Province," *ISTIKHLAF: Journal of Sharia Economics, Banking and Management*, Vol. 4, No. 2 (2022), p. 97–107

³ Ummi Kulsum and Tamimah Tamimah, "Instrumen-Instrumen Investasi Syariah Sebagai Alternatif Investasi Bodong," *BISEI: Jurnal Bisnis Dan Ekonomi Islam*, Vol. 6, No. 2 (2021), p. 116–134,

⁴ Nadhiratul Sukma, "Pengaruh Persepsi Return Dan Persepsi Risiko Pada Keputusan Berinvestasi Di Saham Syariah (Studi Pada Galeri Investasi Syariah FEBI UIN Ar-Raniry Banda Aceh)" (Thesis: UIN Ar- Raniry, 2021).

those who has excess funds (investors) and those who need funds (issuing companies).⁵

Millennials are a generation born and living in an era of rapid development of information technology influenced by a rapidly changing environment. Demographers Neil Howe and Willian Straus are the creators of the term “millennial generation”. They are also known as generation Y, which covers the years 1980-2000.⁶ According to another study from Benesik, millennials were born in 1980-1995.⁷

Generation Z is a transition from millennials who utilize new technological developments. In presentations made by marketing agency Sparks and Honey, he always uses the term “gen z” in his presentations.⁸ According to Benesik, Csikos, and Juhes identified generation Z as those born between 1995-2010.⁹ Although they are also referred to as the “internet generation”, “net generation”, or “internet generation”, Gen Z is considered to have the ability to do all things at once.

According to Lyons, millennials are known to be adaptive to technology and open to change. They seek meaning in work, not just financial gain, and prefer a collaborative work environment. Millennials also value a balance between personal and professional life, making them an innovative and socially values-oriented generation¹⁰ Generation Z has unique characteristics, especially in social interactions and relationships. According to McKinsey & Company, they love open dialog and communal interaction. Their key characteristics include: an undefined identity where they experiment with self-discovery, tend to prefer dialog over confrontation, love groups and are inclusive of differences and realistic, in addition,

⁵ Yanuar Musri Amin, “Pengaruh Pengetahuan Investasi, Motivasi Investasi, Literasi Pasar Modal Dan Teknologi Informasi Sebagai Variabel Moderasi Terhadap Peningkatan Minat Investasi Di Pasar Modal”, Vol. 8, No. 2 (2023), p. 241–69.

⁶ Hardika, *Transformasi Belajar Generasi Milenial*, Universitas Negeri Malang (Malang: UM Penerbitan & Percetakan, 2019).

⁷ Bencsik Andrea, Horváth Csikós Gabriella, and Juhász Tímea, “Y and Z Generations at Workplaces,” *Journal of Competitiveness*, Vol. 8, No. 3 (2016). p. 90–106,

⁸ Dinda Muhajirina et al., "Identification of the Millennial Generation of Group Z in Tuntungan II Village, Pancur Batu District," *PENDIS (Journal of Social Science Education)*, Vol. 2, No. 2 (2024),

⁹ Andrea, Gabriella, and Tímea, “Y and Z Generations at Workplaces.”

¹⁰ Hardika, *Transformasi Belajar Generasi Milenial*.

generation Z is also known as the “independent learner generation” who learn more online than through traditional education.¹¹

According to the Head of the East Java IDX Representative Office, generation Z and Millennials are the main groups of stock market investors in East Java. Based on the records of the Regional Information System (SID) of the Indonesia Stock Exchange (IDX) in the East Java region, in December 2022 there were 214,894 investors aged 18-25 years. This figure has increased by 17.09% compared to 2021, which was 183,514. For the 26-30 age category, the number of investors reached 135,248 SIDs, a sharp increase of 40.84% from the previous 96,025 in 2021. Meanwhile, investors aged 31-40 years increased by 39.41% to 127,963 from 91,787 previously. Investors over 41 years old also showed significant growth of 33.74%, reaching 108,058 in 2022 from 80,794 in 2021.¹²

From the Director of Information Analysis and Crisis Management of the Capital Market, Derivative Finance and Carbon Exchange, Sujanto said that the development of Islamic products in the capital market has grown from year to year. If observed over the past five years, sharia products in the capital market has grown consistently. Islamic stock market capitalization experienced a growth of 67.62% in 2023 compared to 2018. As of May 2024, the Islamic stock market capitalization has reached Rp6,619 trillion, or 52.68% of the total stock market capitalization on the Indonesian stock exchange. In addition, as of April 2024, the number of Islamic securities ownerships in East Java province was in the top three positions nationally. Islamic share ownership reached more than 227 thousand investors, or 13.06% of the third highest proportion of Islamic share ownership nationally.¹³

The increasing number of investors in sharia investment indicates that investors are starting to look at Islamic stocks in the Islamic capital market which of course

¹¹ Novance Silitonga and Harsen Roy Tampomuri, “Generasi Z Dan Tantangan Etika Digital Dalam Pembelajaran Modern,” *Jurnal Communitarian*, Vol. 6, No. 1 (2024), p. 28

¹² *Gen Z Dan Milenial Mendominasi Investor Pasar Modal Di Indonesia*, <<https://kanalsatu.com/id/post/59713/gen-z-dan-milenial-mendominasi-investor-pasar-modal-di-indonesia>> viewed on January 2023.

¹³ OJK, *Improving Sharia Investment Literacy, OJK Holds Training of Trainers for Sharia Capital Markets in East Java*, Financial Services Authority, <<https://pasarmodal.ojk.go.id/News/Detail/20636#:~:text=Kapitalisasi the Islamic stock market experienced, East related to the Islamic capital market>> viewed on July 2024.

always maintains the purity of Islamic principles.¹⁴ Meanwhile, the existence of retail investors is dominated by millennials and students. Great potential in increasing public participation in investing in the Islamic capital market.¹⁵

Investors' decisions to invest are subjective depending on expected costs, increased technical knowledge and risk perceptions.¹⁶ The right investment decision requires investors to fully and comprehensively understand the opportunities available so that the decision taken does not cause errors. The wrong investment decision can cause losses for yourself. Besides being careful in deciding something it is important for each individual or group to understand the basic ideas of investment decisions.¹⁷

In terms of investment decision making, investors are influenced by several significant factors such as risk, perception, ambiguity, and options that do not match the expectations of an outcome. In addition, investment decision making tends to be based on incomplete information and inaccurate analysis, causing losses to investors.¹⁸

Adiyono in his research states that the internal factor that influences individuals in making investment decisions is risk perception. In this case, risk perception is a full awareness for individuals regarding the risks that will be faced. Individuals who understand a risk tend to be more considered in making decisions, especially in investment decisions.¹⁹

¹⁴ Nadia Ramadani et al., "Pecepatan Pemulihan Ekonomi Pasca Pandemi Covid-19", *Yustisi: Jurnal Hukum & Hukum Islam*, Vol. 11, No. 2 (2024), p. 149–162.

¹⁵ Muhammad Hammam Rafati Lubis and I Gede Komang Chahya Bayu Anta Kusuma, "Analisis Pertumbuhan Investor Ritel Pada Masa Pandemi Dan Implikasi Pajak Penghasilan Final Atas Penjualan Saham Di Bursa," *JURNAL PAJAK INDONESIA (Indonesian Tax Review)*, Vol. 6, No. 2 (2022), p. 245–264.

¹⁶ Ranti Juwita Sari, "Analisis Pengaruh Overconfidence Dan Risk Tolerance Terhadap Pengambilan Keputusan Investasi Pada Investor Di Kota Bandar Lampung" (*Thesis: Institut Informatika dan Bisnis Darmajaya*, 2019).

¹⁷ Nurshadrina Kartika Sari et al., "Dampak Perilaku Bias Terhadap Pengambilan Keputusan Investasi," *Jurnal Ilmiah Bisnis Dan Ekonomi Asia*, Vol. 17, No. 2 (2023), p. 196–211.

¹⁸ Ana Aqidatun Niswah and Bayu Tri Cahya, "Factors Influencing Investment Decision Making in the Capital Market with Investment Interest as an Intervening Variable," *JEBISKU: Journal of Islamic Economics and Business IAIN Kudus*, Vol. 1, No. 2 (2023), p. 246.

¹⁹ Meitta Adiyono et al., "Analysis of Alternative Investment Options in the Era of Digitalization," *Journal of Accounting Trisakti*, Vol. 8, No. 2 (2021), p. 227–248.

The effect of risk perception in an individual's view of a risk is different from the actual risk. As quoted from Mamduh's research, risk is a possibility that the results obtained deviate from what is expected.²⁰ That way individuals see risk as significant when making investment decisions, they will consider all aspects of investment carefully. In contrast to individuals who feel that risk is not a significant thing, the investment decisions taken tend to be less careful because there are no special considerations in investing.²¹

Apart from risk perception, return expectations also has a positive and significant influence on stock investment interests and decisions. According to Widiastiti, return expectation is an internal factor that comes from the individual. When making investment decisions, the first thing investors pay attention to is the correlation between risk and return that may be obtained. Therefore, return expectations are the main consideration in choosing investment instruments, because the goal of investing is to achieve maximum returns.²²

On the other hand, spiritual intelligence also plays an important role in investment decision-making. Garlans states that spiritual intelligence is closely related to spirituality in financial management. Spiritual intelligence is defined as an ability that shapes attitudes and influences practical human actions, including financial decision-making. This concept is seen as a life principle that is passed down through generations and becomes an important foundation in determining human behavior patterns.²³ In the Islamic context, spirituality is referred to as

²⁰ Mamduh M Hanafi, *Risiko, Proses Manajemen Risiko, Dan Enterprise Risk Management*, (2014).

²¹ Isna Harry Ardita Putri & Adi Santoso, "The Influence of Investment Knowledge, Risk Perception and Technological Advances on Investment Decisions," *Econo Insentif*, Vol. 18, No. 1 (2024), p. 24–33,

²² Dewa Ayu Dwiki Widiastiti and I Gede Agus Pertama Yudiantara, "The Influence of Minimum Capital, Return Expectations, Technological Advancements, and the Role of Social Media Influencers on Stock Investment Interest among Generation Z in the City of Denpasar," *Journal of Professional Accounting*, Vol. 14, no. 02 (2023), p. 430–441.

²³ M. Saiful Bahri, "The Influence of Risk Tolerance, Risk Perception and Spiritual Intelligence on Investment Decisions," *Eprints.Perbanas.Ac.Id*, (2018).

tasawuf, which means an effort to get closer to Allah SWT by cleansing oneself from actions that has the potential to bring sin.²⁴

Spiritual intelligence is defined as intelligence that is religiosity where individuals make a decision always orientated to the value of their religious life. With the existence of spiritual intelligence, it makes it a complement in addition to intellectual intelligence and emotional intelligence and can be a useful thing in dealing with life problems to decide on attitudes or decisions taken by individuals.²⁵

Reporting from Zahra's research on Islamic financial management students 2018-2021 shows that spiritual intelligence has a significant effect on investment decisions.²⁶ This finding is in line with Gakhar's research which reveals a significant difference in the level of spiritual intelligence with investor risk-taking behavior, indicating that spirituality can moderate attitudes towards risk.²⁷ However, research conducted by Putri Reno produced a different conclusion, namely that spiritual intelligence has no impact on individual investment decisions. More specifically, for Muslim investors, the level of spirituality does not influence investment preferences, as they tend to separate spiritual awareness from professional judgement a unique phenomenon that confirms the compartmentalisation between spiritual values and business practices.²⁸

Overall, spiritual intelligence, risk perception and return expectations influence investment decisions. Spiritual intelligence helps individuals make decisions in accordance with religious values, risk perception influences the assessment of

²⁴ Retno Kiyarsi, "The Influence of Spirituality, Investment Understanding, Capital and Sharia Attractiveness on Students' Interest in Investing in Sharia Stocks" (*Thesis: Tidar University*, 2022).

²⁵ M. Riduan Abdillah, Astia Putriana, and Gati Anjaswari, "Spiritual Intelligence as a Moderating Variable on the Influence of Narcissism on Investment Decision Behavior," *Owner*, Vol. 6, No. 4 (2022), p. 3369–3378.

²⁶ Yasmin Labibah Zahra & Deny Yudiantoro, "Pengaruh Literasi Keuangan, Modal Minimal Dan Kecerdasan Spiritual Terhadap Keputusan Investasi (Studi Kasus Mahasiswa Manajemen Keuangan Syariah Angkatan 2018-2021)," *Angewandte Chemie International Edition*, Vol. 6, No. 3 (2023), p. 654–662.

²⁷ Divya Verma Gakhar and Deepti Prakash, "A Study of Factors Affecting Investment Decisions: With Special Reference to Spiritual Intelligence," *SSRN Electronic Journal*, (2013), p. 1–10.

²⁸ Putri Reno Kemala Sari & Ananda "Spiritual Intelligence and Financial Experience On Personal Investment Muslim Scholar," in *Islamic Banking, Accounting and Finance International Conference (IBAF) 2020*, (2020), p. 12.

potential losses, and return expectations are the main consideration to achieve maximum returns. By balancing all three factors, individuals can achieve satisfactory investment results that are aligned with their financial goals and life principles.²⁹

This study is to measure the effect of risk perception, return expectations and spiritual intelligence on investment decision making, with the East Java region as a research sample and investors from millennials and generation Z who invest in Islamic investment products as a research model. Based on the problems described above and to develop it with different indicators, an analysis will be carried out in the Effect of Risk Perception, Return Expectation and Spiritual Intelligence on Sharia Investment Decision Making in East Java.

B. Research Questions

Sharia investment is increasingly popular in East Java, especially among millennials and generation Z. However, investment decisions are not only influenced by financial factors, but also by risk perception, return expectation, and spiritual intelligence. This study aims to analyze the influence of these three factors on sharia investment decision-making, in order to help investors, especially the younger generation, make more informed and appropriate decisions. Based on the background description and problem formulation above, the research questions of this study are:

1. Does risk perception has a positive effect on sharia investment decision making in East Java?
2. Does return expectation has a positive effect on sharia investment decision making in East Java?
3. Does spiritual intelligence have a positive effect on sharia investment decision making in East Java?

²⁹ Yudiantoro, "Pengaruh Literasi Keuangan, Modal Minimal Dan Kecerdasan Spiritual Terhadap Keputusan Investasi (Studi Kasus Mahasiswa Manajemen Keuangan Syariah Angkatan 2018-2021)."

C. Research Objectives

Based on the description of the background above, the research objectives of this study are:

1. To determine the positive effect of risk perception on sharia investment decision making in East Java.
2. To determine the positive effect of return expectations on sharia investment decision making in East Java
3. To determine the positive effect of spiritual intelligence on sharia investment decision making in East Java.

D. Research Benefits

1. Benefits for Academics

This research is expected to provide useful information and insights for other academic researchers, especially in the scope of financial management related to the influence of risk perception, return expectations and investment intelligence on making investor investment decisions.

2. Benefits for Practitioners

For other practitioners, it is hoped that it can add insight and serve as a comparison glass in further research by developing and perfecting several research deficiencies, especially in the influence of risk perception, return expectations and investment intelligence on investor investment decision making.