

A Study on the Factors Affecting the Intention to Invest in Islamic Social Responsible Investment in Malaysia

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Abstract

Purpose - The purpose of this study is to examine conceptually on the factors affecting the intention to invest in Islamic Social Responsible Investment in Malaysia. Social Responsible Investment is a type of investment that focuses on both the environmental and societal aspects as well as the financial gain. In Malaysia, Social Responsible Investment framework is based on the Shariah-compliant financial products which was formulated by the Securities Commission Malaysia in 2014. Since Islamic SRI has grown at an alarming rate over the previous three decades, this indicates that Islamic SRI has a lot of promise in the Islamic Finance industry.

Design/methodology/approach - The study employs quantitative research through primary data collection of online survey questionnaire. The targeted population of the study is the private investors from Kuala Lumpur (KL) and Selangor. The study will employ Correlational research design and multiple regression analysis.

Findings - Islamic SRI has a good potential to be developed as an innovative Islamic financial instrument. Thus, the findings will address the influential factors, namely attitude, subjective norm, perceived behavioral control, environmental and societal concern, knowledge and religiosity that influence the intention to invest in Islamic SRI.

Practical implications – For a better world and toward sustainability, the factor of environment is equally important as the human well-being. Therefore, this study takes the initiative to look at the factors affecting the intention of the potential investor to invest in Islamic SRI.

Originality/value - This study intends to fill up the gap on the environmental and societal concern, knowledge and religiosity, focusing on the Islamic SRI.

Research Implication - The study will help the future researcher to understand the factors that will affect the intention to invest in Islamic SRI with the added of new variables based on the theories that were employ in the study. The public or community shall gain some awareness on the Islamic SRI. The findings will also assist the industry to expand the Islamic SRI market and attract more potential investors to venture in Islamic SRI.

Research Limitation - There are limited number of sources especially related to the theories of the study with the additional factors that are environmental and societal concern, knowledge and religiosity, focusing on the Islamic SRI.

Keywords: Environmental and Societal concern, Intention to invest, Islamic Social Responsible Investment, Knowledge and Religiosity

Paper Type: Conceptual Paper

Introduction

Social Responsible Investment or also can be known as ‘SRI’ has been part in the economy system since 1980 with the simple activities associated by the societies (Townsend, 2020). Social Responsible Investment is a type of investment that emphasizes both the environmental and societal factors, as according to Mohd Muslimin, (2020), in addition to monetary gain. According to Robinson, (n.d.), since 2011 the movement of SRI in the Asia market has increase up to 22 percent. Thus, this shows that there is a positive growth of SRI in the Asia Market.

Malaysia has become one of the largest social responsible investment in Asia because Malaysia occupied 30% of SRI in the Asia market (Yew et al., 2019). In Malaysia, Social Responsible Investment framework is based on the Shariah-compliant financial products which was formulated by the Securities Commission Malaysia in 2014 (Yew et al., 2019). According to Securities Commission Malaysia, (2019), the establishment of Sustainable and Responsible Investment Sukuk framework in 2014 is to promote the creation of an ecosystem and responsible investing. Besides, one of the main reasons in developing the Islamic SRI in Malaysia is to attract more potential investor to invest in Green, Social and Waqf properties.

The Islamic SRI has shown a rapid growth since the last three decades, thus this shows that there will be a good potential in the Islamic Finance market to capture the demand for the SRI products as well as attracting the potential investors to invest in Islamic SRI (Syed Azman & Engku Ali, 2015). However, even though the SRI shows a positive growth in the market but currently the Malaysian economic condition is not stable and this will lead to a low number of potential investors to invest in SRI (Rahman, Isa, Dewandaru, Hanifa, Chowdury and Sarker, 2020). Moreover, due to lack of awareness of the SRI in the market thus there will be a difficulties to attract more potential investors (Rahman et al., 2020). However, Osman, (2019), has differed the finding because she mentioned that there will be no difficulties to attract more potential investors to invest in SRI due to the awareness created by the government, knowledge on SRI obtained from school as well as people concern on the environment and the societal aspect. Therefore, there is a need for this study to gauge the level of the awareness among the potential investors to attract them to invest in Islamic SRI.

Furthermore, as this research are mainly focus on the intention to invest, thus this study will employ the factors from the Theory of Reasoned Action (Ajzen & Fishbein, 1980) and the Theory of Planned Behavior (Ajzen, 1991). Both of the theories were used to predict an individual’s intention to engage on a specific behavior or action. However, according to Yew et al., (2019), there are some limitations exist in the theories in explaining the intention to invest in SRI. Yew et al., (2019), argued that the theories only see the behavioral factors such as attitude, subjective norm and perceived behavioral control but not the other external factors that considered as an important element. Thus, due to the limitation of the theories, this study intends to fill up this gap by contribute three new variables to determine its influence on the intention to invest in Islamic SRI. Hence, it is an urgent need for this study to investigate the factors that will affect the intention to invest in the Islamic SRI in Malaysia. This study will add up intention to invest (Kasillingam & Sudha, 2010), Attitude (Ajzen, 1991), Subjective Norm (Ajzen, 1991), Perceived Behavioral Control (Ajzen, 1991), Environmental and Societal concern (Sultana et al., 2018; Yew et al., 2019), Knowledge (Coakes, 2004) and Religiosity (Worthington et al., 2003).

Literature Review

According to Bank Negara Malaysia (2015), the principles of Islamic finance is based on the fairness, equality, social justice and encourages sustainable economic activity. SRI has a similar rationale based on the principles of the Islamic finance. As mentioned by Bank Negara Malaysia (2015), sustainable development is a process where human development objectives

are achieved through natural systems. Whereby, this can be achieved by providing the natural resources and ecosystem services upon which the economy and the society depends. Moreover, the consideration has been taken in terms of making a contribution to the society and the environment. Therefore, sustainability can be seen as the key common factor between Islamic finance and SRI. Moreover, Islamic SRI would help to enhance the Islamic finance towards realizing the economic justice, social balance and environmental friendly. Besides, Khouildi & Kassim, (2019), highlighted that Islamic SRI has a great potential to be an innovative financing mechanism as well as high potential to be developed as an innovative shariah-compliant mechanism.

According to Ajzen, (1991), intention can be defined as “the measure of strength of a person’s willingness to act a certain behavior or to conduct a certain behavior”. There will be a high chance of a person’s to perform the behavior if the factors are favorable or positively influencing the intention (Akhtar & Das, 2019). Meanwhile, intention to invest can be defined as an individual act in finding, evaluating, searching, reviewing and acquiring the investment product (Kasillingam & Sudha, 2010). Therefore, this study attempt to look at the willingness of the investors’ intention to invest in the Islamic SRI. The theoretical framework was constructed based on the Theory of Reasoned Action (TRA) (Ajzen & Fishbein, 1980) and the Theory of Planned Behavior (TPB) (Ajzen, 1991). According to Ajzen & Fishbein, (1980), (TRA) explained the behavioral intention of a person to perform a certain act. In this theory, there are two major factors that determine the behavioral intentions, one is Attitude and the second is Subjective Norm (Ajzen & Fishbein, 1980). Meanwhile, (TPB) is actually an extension of (TRA) (Ajzen, 1991). As mentioned by Gopi & Ramayah, (2007), the establishment of the (TPB) is to added other variables towards the intentions as well as to deals with the situations where the person have incomplete control towards their behavior. Perceived Behavioral Control is the additional construct that was added in the (TPB) (Ajzen, 1991).

Attitude can be defined as the form of favorable or unfavorable evaluation of the behavior of his or her interest (Ajzen, 1991). In other words, the more favorable a person’s attitude, the more likely the person will perform the behavior (Osman et al., 2013). Besides, Ajzen & Fishbein, (1980); Gopi & Ramayah, (2007), highlighted that attitude are referring to the personal factor that influence the behavioral intention. Adam, (2012), found that if the investors’ attitude is favorable thus this will lead their behavior to make decision to invest in SRI. Hence, the positive relationship between attitude and the intention to invest in Islamic SRI is to be expected.

Subjective norm known as the perceived social pressure either to perform or not to perform a specific behavior (Ajzen, 1991). To provide a further explanation, Osman, (2019), stated that subjective norm is related to a person’s acceptance about the others perception towards a certain act. For instance, social pressure here are referring to families, friends and others that have a close relationship with a person’s. Raza et al., (2019), highlighted that subjective norm can be either positive or negative outcome in determining a person’s intention. For instance, if the others perception is positive on a specific behavior therefore it is more likely that a person’s will perform the act. Hence, the positive relationship between subjective norm and the intention to invest in Islamic SRI is to be expected.

Meanwhile, perceived behavioral control can be defined as the perception of the ease or difficulty in performing the certain act (Ajzen, 1991). Ajzen, (1991), highlighted that perceived behavior control is based on the past experienced and secondhand information. For instance, through the exchange info from members as well as having an experience in accessing the information from the internet (Osman, 2019). Furthermore, Osman, (2019), expressed that most of Malaysian investors’ would probably have some experience in accessing the information towards the investment through the internet, market activities therefore it may

influence their intention to invest. Hence, the positive relationship between perceived behavioral control and the intention to invest in Islamic SRI is to be expected.

Due to the limitation exist in (TRA) and (TPB) therefore this study aims to examine the extent of the factor of environmental and societal concern, knowledge and religiosity towards the intention to invest in Islamic SRI. According to Fransson & Gärling, (1999), concern can be defined as an opinions or beliefs of an individual on a certain issues, which supported the basis of SRI, that emphasizes both on the financial gain as well as on the ethical aspects of the environmental and social aspect (Chen, 2020; Corporate Finance Institute, 2020; Kłobukowska, 2017; Mohd Muslimin, 2020). As mentioned by Sultana et al., (2017); Yew et al., (2019), environmental concern refer to a person’s consciousness about the environmental aspect while societal concern refer to a person’s consciousness about the community aspect. Hence, the positive relationship between environmental and societal concern and the intention to invest in Islamic SRI is to be expected.

According to Coakes, (2004), knowledge can be defined as the fact or condition of knowing something with familiarity gained through experience or education.. Besides, knowledge also can be referred as awareness or understanding on a specific things (Librarianship Studies & Information Technology, 2017). The higher the knowledge, the higher the awareness of a person towards a certain matter that may lead their decision. Kappal & Rastogi, (2020), highlighted that having a full knowledge and enough time to understanding the investment activities will influence the investor’s intention to invest. Hence, the positive relationship between knowledge and the intention to invest in Islamic SRI is to be expected.

Religiosity can be defined as the degree which adheres a person’s religious beliefs, values and practices in daily life (Worthington et al., 2003). While Amin et al., (2011) stated that religious beliefs act as the role of the religion that affect a person’s behavior act. Jamaludin, (2013) highlighted that Muslim’s intention to invest in Islamic investment is depend on their level of religiosity. For instance, if a Muslim’s religiosity beliefs is high towards the Islamic investment thus it is more likely for them to join the investment. According to Haji Wahab & Naim, (2020), Islam embraces the whole aspect of human life, including economic and financial aspects. Whereby, the concept of Islamic SRI is aligning with the objectives of Islam, which is to preserve the public good, no harm to the world, social justice and promote the well-being of all humankind. Furthermore, the consideration has been taken in terms of making a contribution to the environment and the society. Thus, the positive relationship between religiosity and the intention to invest in Islamic SRI is to be expected. Based on review of literatures, this study employs the conceptual framework, which is presented in Figure 1, as below.

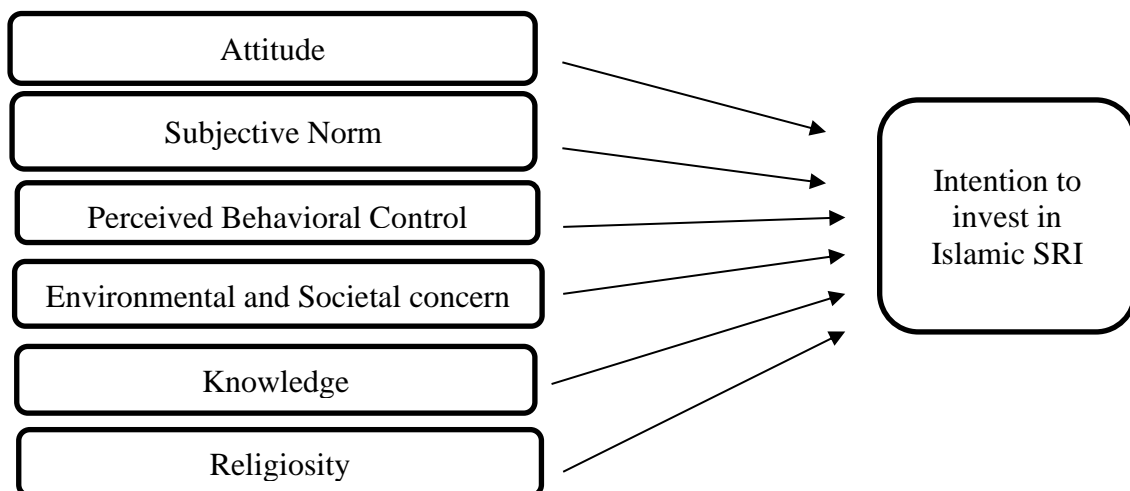


Figure 1: Research Framework

Methodology

In this study, quantitative research method is employed to investigate on how the attitude, subjective norm, perceived behavioral control, environmental and societal concern, knowledge and religiosity can affect the potential investor's intention to invest in Islamic SRI in Malaysia. Correlational research design is conducted in this study in order to determine the relationship between the (attitude, subjective norm, perceived behavioral control, environmental and societal concern, knowledge and religiosity) and (intention to invest in Islamic SRI).

Besides, the population of this study were the potential private investor who stayed in KL and Selangor. This study believes that private investors or also can be known as an ordinary citizen will be the best choices as the targeted population because the study focus on the individual intention. KL and Selangor has been selected because both of these states are the most developed and progressive states in Malaysia and also known for its highly innovative skilled, knowledge-workforce, strategic location, business friendly and high investment performance (Invest KL Malaysia, n.d.; Invest Selangor, 2020). Moreover, according to Hirschmann, (2020), the population in KL and Selangor in 2020 is 7.9 million. Therefore, due to large population in KL and Selangor, this study finds out it is impossible to capture opinion of all KL and Selangor potential private investors. Thus, this study follows suggestion from Sekaran & Bougie (2016), that recommend 384 and not more than 500 of sample size with a confidence level of 95%. The sampling technique for this study is the non-probability sampling by applying the convenience sampling technique.

Furthermore, this study employs primary data as the method for the data collection and online survey questionnaires as the research instruments for the primary data collection. According to Yew et al., (2019), online survey known as one of the effective tools to collect numerous data within short period of time. The study believes that online survey questionnaire will ease the journey in collecting the data especially during this pandemic Covid-19. Moreover, the elements in the questionnaires will be adopted and adapted based on the previous study. The questionnaires will be given to the potential investors with the selected requirement and those who complete the questionnaire will be counted as the respondent.

Besides, this study will use SPSS version 25 to analyze and summarize the data. According to Hanafi & Fadilah, (2017), SPSS is a statistical package designed by the IBM Corporation and widely used by researchers or academicians worldwide and this statistical package is very user friendly and various statistical tests could be conducted by using this software. Besides, SPSS undertakes both comparison and correlational statistical tests in the context of univariate, bivariate and multivariate analysis for both the parametric and non-parametric statistical techniques (Hanafi & Fadilah, 2017).

Conclusion

The paper contributes three new variables on the environmental and societal concern, knowledge and religiosity to determine its influence on the intention to invest in Islamic SRI. The study will help the future researcher to understand the factors that will affect the intention to invest in Islamic SRI with the added of new variables based on the theories that were employ in the study as well as knowing the prospect of the Islamic SRI. By conducting this research, the public or community shall gain some awareness on the Islamic SRI. This perhaps may attract them to invest in the Islamic SRI in the future. Lastly, this study might attract more potential investors to venture in Islamic SRI, thus this will help the industry to expand the Islamic SRI market and increase the Islamic SRI fund so that it can be used to generate more projects on environmental and societal aspect, and attract more outsider to invest in Islamic SRI.

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