

Factors Affecting the Intention to Invest in Islamic SRI in Malaysia

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Abstract: Islamic SRI has shown a flourishing expansion over the last three decades. This demonstrates that there will be a significant opportunity to enhance the Islamic SRI in the Islamic Finance sector. Islamic SRI is a type of investment that facilitates the creation of the ecosystem and promotes responsible investing. The study attempts to look at the factors affecting the intention to invest in Islamic SRI. The theoretical framework is built on the Theories of Planned Behavior (TPB) and Theory of Reasoned Action (TRA). Since the study focuses on the desire to engage in Islamic SRI, the theories are expanded to include three more antecedents: environmental and societal concern, knowledge, and religion. Due to the study's emphasis on Islamic SRI perspectives, these variables ought to be included. According to the multiple regression analysis, four components, namely attitude, subjective norm, environmental and social factors, were revealed to be positively significant on the intention to invest in Islamic SRI. The study employs quantitative research through an online survey questionnaire. The sampling technique for this study is non-probability sampling by applying the convenience sampling technique. Besides, the targeted population of this study is the potential private investors who reside in the states of Kuala Lumpur and Selangor, while the total sample size of the study is 380.

Keywords: *Intention to invest, Islamic SRI, Social Responsible Investment, Malaysia*

1. Introduction and Background

Since 1980, Social Responsible Investment, often known as SRI, has been a component of the economy as a whole, beginning with very modest actions carried out by the societies (Townsend, 2020). According to Kłobukowska (2017). SRI can be defined as an investment vehicle that prioritizes social responsibility and environmental protection despite the financial return. This is further highlighted by Mohd Muslimin (2020), whereby those who invest in SRI are not only focused on making a profit but also seek to have a positive social value and concern for the environment. Therefore, this study believes that SRI is an investment vehicle that places a premium not just on financial return but also on considering its impact on the surrounding community and the natural environment. According to The Edge Market (2020), various terms are used to define the SRI, such as sustainable and responsible investment, socially responsible investment, sustainable sukuk, and green investment. All these terms have the same meaning used to explain SRI.

The establishment of SRI in Malaysia was early in the 1990s, the growth of the SRI started in 2014, while the first Islamic SRI was launched in 2017, known as "sustainable sukuk" (Mohd Muslimin, 2020). In 2014, the Securities Commission initiated the SRI Sukuk Framework, which is now widely regarded as a groundbreaking regulatory innovation because it successfully combines with Shariah principles (Capital Market, 2022). The framework guideline issued by the Securities Commission is to facilitate and encourage rapid growth of Islamic SRI funds in Malaysia as well as to build a good position as a regional Shariah-compliant SRI center (Securities Commission Malaysia, 2019). According to the Securities Commission Malaysia (2019), there are 3 types of eligible SRI projects in Malaysia, which are Green Projects, Social Projects and Waqf Properties.

According to Yew, Ni, Kit & Chen (2019), Malaysia has recently developed into one of the greatest SRI in the Asian Market. Whereby, the majority of Malaysia's SRI assets come from Shariah-compliant products (Asia Sustainable Investment Review, 2014). This indicates that there will be an opportunity to enhance the Islamic SRI in the Islamic Finance sector. Islamic SRI can be defined as a type of investment that facilitates the creation of an ecosystem and promotes responsible investing (Securities Commission Malaysia, 2019). This explains that Islamic SRI aims to protect natural resources and improve the quality of social life. Considering this, the objective of the study is to investigate the elements that influence the desire to engage in Islamic SRI.

According to Securities Commission Malaysia (2019), Islamic SRI has shown a flourishing expansion over the

last three decades. Besides, this demonstrates that there will be an opportunity to enhance the Islamic SRI which will stimulate a fast expansion of Islamic SRI in Malaysia. However, while Islamic SRI is becoming more popular for funding environmental and societal projects, the sector remains undeveloped (Delle Foglie & Keshminder, 2022). The paucity of market data hinders market growth, erodes investor trust and delays the emergence of new SRI Sukuk products (Delle Foglie & Keshminder, 2022). Besides, to lack of understanding, experience and awareness of Islamic SRI results in a slow expansion of Islamic SRI in the market (Rahman et al., 2020).

2. Literature Review

Attitude: defined as the form of favorable or unfavorable evaluation of the behavior towards the action (Ajzen, 1991). Yew et al. (2019) found that attitude has a significant relationship with the intention to invest in SRI. According to Farish & Karim (2021), a positive attitude will affect the investors' intention to invest in Islamic SRI.

H1: There is a significant relationship between attitude and the intention to invest in Islamic SRI.

Subjective Norm: known as the perceived social pressure either to perform or not to perform a specific behavior (Ajzen, 1991). According to Osman (2019), the subjective norm is related to a person's acceptance of others' perception of a certain act. Setyorini & Indriasari (2020) found that the closest individuals play an important role in influencing a person either to perform or not the action. Raut et al. (2020) stated that referent significantly affects investors' intention to invest in SRI.

H2: There is a significant relationship between subjective norms and the intention to invest in Islamic SRI.

Perceived Behavioral Control: is defined as the perception of the ease or difficulty in performing a certain act (Ajzen, 1991). The individual believes in their capacity to control their behavior (Ajzen, 1991). According to Raut et al. (2018), high-experienced investors can be drawn to SRI

H3: There is a significant relationship between perceived behavioral control and the intention to invest in Islamic SRI.

Environmental and Societal Concern: As mentioned by Sultana et al. (2017) and Yew et al. (2019), environmental concern refers to a person's consciousness about the environmental aspect while societal concern refers to a person's consciousness about the community aspect. Since the goal of Islamic SRI is to facilitate the creation of an ecosystem and encourage responsible investing, human welfare and environmental protection are vital to the creation of a better world (Farish & Karim, 2021).

H4: There is a significant relationship between environmental and societal concerns and the intention to invest in Islamic SRI.

Knowledge: defined as the fact or condition of knowing something with familiarity gained through experience or education and can be referred to as awareness. The higher the awareness may result to the higher the intention to invest in SRI.

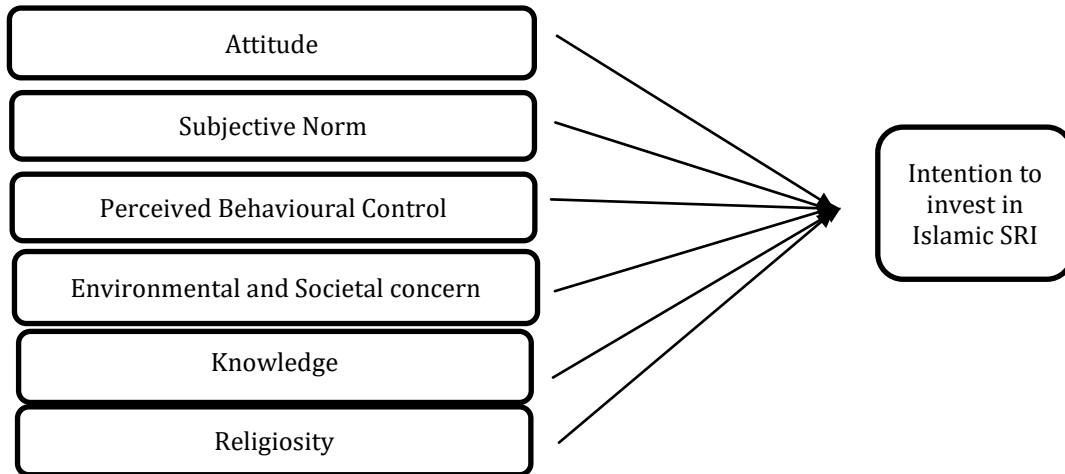
H5: There is a significant relationship between knowledge and the intention to invest in Islamic SRI.

Religiosity: defined as a person's religious beliefs that affect a person's behavior act. The concept of Islamic SRI is to preserve the public good, no harm to the world, social justice and promote the well-being of all humankind. Najib (2019), highlighted the main benefit of investing in Islamic SRI is promoting a better environment and social rights.

H6: There is a significant relationship between religiosity and the intention to invest in Islamic SRI.

Based on the literature review the research framework presented in Figure 1 is below.

Figure 1: Research Framework



3. Methodology

This study employs a quantitative research method to investigate how attitude, subjective norms, 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 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.

Targeted Population: The targeted population of this study is the potential private investors who reside in the states of Kuala Lumpur (KL) and Selangor. Since both states experienced strong investment success, they were chosen as the study's sampling location with a minimum sample size of 146 and a maximum of 500 based on the suggestions from (Sekaran & Bougie, 2016) and calculation in the G-Power.

Sampling Technique: Due to the large population of KL and Selangor, convenience sampling techniques were applied in this study because this technique is conveniently accessible to obtain data from a large population (Yew et al., 2019).

Data Collection Method: This study employs primary data as the method for the data collection and online survey questionnaires as the research instruments. The construction of the questionnaires will be adapted from the previous study. The type of questionnaire applied in this research is a self-administered questionnaire. The study used a Nominal scale to measure the demographic information in section A. Gender, race, range of ages, marital status, occupation, income level, education level and four selected requirements, which are whether the respondent lives in Kuala Lumpur and Selangor or not, whether the respondent has any investment experience or not, whether they are currently investing in Islamic SRI or not and whether they want to invest in Islamic SRI in the future or not, will be answered by the respondent in Section A. In section B, the questions related to the independent and dependent variables.

Data Analysis Technique: After the data has been collected, the data analysis technique assists the study in comprehending and interpreting the data. The data were analyzed using SPSS version 25. To find out the relationship between intention to invest in Islamic SRI and attitude, subjective norm, perceived behavioral control, environmental and societal concern, knowledge, and religiosity depends heavily on the data analysis technique.

4. Results

The demographic segment is used to evaluate the frequency of the respondents. This analysis helps the study to identify the highest and the lowest frequency for the demographic profile of the respondent. Table 1 shows demographic data for respondents of the 380 potential investors analyzed in the survey, 191 of the

respondents were male, while the remaining 189 were female. The sample shows an equal representation of each gender. The largest group that participated in this study is Malay, which stands at 278 followed by Chinese with 90 respondents. Notably, 152 respondents work in the Government sector closely followed by the business sector with 140 respondents. The highest income level earned more than RM10000, equivalent to 102 respondents. Based on the results, it can be concluded that all potential investors want to participate in Islamic SRI. The demographic frequency analysis for the 380 respondents participating in this survey is shown in Table 1.

Table 1: Demographic Profile

| No and Variables | Items | Frequencies | Percentages |
|---|----------------|-------------|-------------|
| 1 Gender | Male | 191 | 50.3 |
| | Female | 189 | 49.7 |
| 2 Races | Malay | 278 | 73.2 |
| | Chinese | 90 | 23.7 |
| | Indian | 12 | 3.1 |
| 3 Occupation | Government | 152 | 40.0 |
| | Private Sector | 65 | 17.1 |
| | Business | 140 | 36.8 |
| | Self Employed | 20 | 5.3 |
| | Retirement | 3 | 0.8 |
| 4. Income Level | RM0-RM2500 | 20 | 5.3 |
| | RM2501-RM4500 | 61 | 16.1 |
| | RM4501-RM6500 | 53 | 13.9 |
| | RM6501-RM8500 | 62 | 16.3 |
| | RM8501-RM10000 | 82 | 21.6 |
| | >RM10000 | 102 | 26.8 |
| 5. Do you want to invest in Islamic SRI | Yes | 380 | 100 |
| | NO | 0 | 0 |

Reliability Analysis: The value of Cronbach's alpha for each variable is above 0.694. Hence, all the measurements for the independent variables in the study are accepted and reliable. This shows that all the questions adopted and adapted by the researcher were good, accepted, and reliable to be used to determine the findings of the study. The Reliability Analysis is shown in Table 2.

Table 2: Reliability Analysis

| Variables | Items | Cronbach's Alpha |
|-----------------------|-------------------------------------|------------------|
| Dependent Variable | Intention to invest in Islamic SRI | 0.908 |
| | Attitude | 0.840 |
| Independent Variables | Subjective Norm | 0.835 |
| | Perceived Behavioral Control | 0.797 |
| | Environmental and Societal Concerns | 0.850 |
| | Knowledge | 0.694 |
| | Religiosity | 0.868 |

Multiple Regression Analysis: The multiple regression tests between attitude, subjective norm, perceived behavioral control, environmental and societal concern, knowledge, and religiosity to invest in Islamic SRI. The confidence level of the study is 95% while the p-value shall not be greater than 0.05. Based on the multiple regression analysis, only four out of six independent variables were found to be significant on the intention to invest in Islamic SRI, which are attitude ($p=0.00$), subjective norm ($p=0.00$), environmental and societal concern ($p=0.033$) and religiosity ($p=0.042$). Unfortunately, perceived behavioral control and knowledge were found to be not significant with the intention to invest in Islamic SRI, since the p-value for both variables was above 0.05. The multiple regression analysis is shown in Table 3 below.

Table 3: Multiple Regression

| Model | Unstandardized Coefficient (Beta) | t | Sig | Collinearity |
|-------------------------------------|-----------------------------------|-------|------|---------------|
| (constant) | .212 | .915 | .361 | Tolerance VIF |
| Attitude | .463 | 6.674 | .000 | .344 2.908 |
| Subjective Norm | .254 | 5.297 | .000 | .550 1.817 |
| Perceived Behavioral Control | .043 | .892 | .384 | .594 1.682 |
| Environmental and Societal concerns | .140 | 2.136 | .033 | .387 2.584 |
| Knowledge | -.021 | -.672 | .502 | .887 1.127 |
| Religiosity | .067 | 2.037 | .042 | .766 1.306 |

Coefficient Determination: This analysis determines a difference in one variable that can be explained by the difference in another variable. The adjusted R square value is 0.536, which indicates that 53.6% of the variation in the intention to invest in Islamic SRI can be explained by attitude, subjective norm, environmental and societal concern, and religiosity except for the perceived behavioral control and knowledge. The results are shown in Table 4 below.

Table 4: Coefficient Determination

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .737 ^a | .544 | .536 | .32720 |

Hypotheses Testing: Table 5 shows the description of the hypothesis test for each construct of independent variables which are attitude, subjective norm, perceived behavioral control, environmental and societal concern, knowledge, and religiosity to invest in Islamic SRI. Tables 4 and 5 show that attitude has the highest value of Beta with $\beta = .463$ and $p (0.00)$. Notably, closely followed by subjective norm with $\beta = .254$ and $p (0.00)$, environmental and societal concern with $\beta = .140$ and $p (0.033)$ and religiosity with $\beta = .067$ and $p (0.042)$. The hypotheses for attitude, subjective norm, environmental and societal concern, and religiosity were accepted. However, the hypotheses for perceived behavioral control, and knowledge were not accepted because the p-value is more than the significant level of 0.05.

Table 5: Hypotheses Testing

| Hypothesis | Relationship | P-value | Sig | Supported |
|------------|---|---------|-----------------|-----------|
| H1 | Attitude -> Intention to invest in Islamic SRI | .000 | Significant | Yes |
| H2 | Subjective Norm -> Intention to invest in Islamic SRI | .000 | Significant | Yes |
| H3 | Perceived Behavioral Control -> Intention to invest in Islamic SRI | .384 | Not Significant | No |
| H4 | Environmental and Societal concerns -> Intention to invest in Islamic SRI | .033 | Significant | Yes |
| H5 | Knowledge -> Intention to invest in Islamic SRI | .502 | Not Significant | No |
| H6 | Religiosity -> Intention to invest in Islamic SRI | .042 | Significant | Yes |

Discussion: The first objective is to find out the variables that influence the intention to invest in Islamic SRI. Since the study emphasizes behavioral intention, therefore theoretical framework is constructed based on the Theory of Planned Behaviour (TPB) and the Theory of Reasoned Action (TRA). As a result, there are six factors affecting the intention to invest in Islamic SRI, namely attitude, subjective norm, perceived behavioral control, environmental and societal concern, knowledge, and religiosity.

The second objective is to examine the relationship between attitude, subjective norm, perceived behavioral control, environmental and societal concern, knowledge, and religiosity on the intention to invest in Islamic SRI. The study finds out that there are four variables found to be significant in the intention to invest in Islamic SRI, which is the attitude with $p (0.00)$, the subjective norm with $p (0.00)$, environmental and societal concern with $p (0.33)$ and religiosity with $p (0.042)$. Having a positive attitude will encourage people to

perform the action; therefore the study believes that a positive attitude may encourage potential investors to engage in Islamic SRI. Besides, public opinion such as families and peers will influence the potential investors to participate in Islamic SRI. Concern on issues related to environment and social well-being may assist the potential investors to invest in Islamic SRI. Lastly, religious value motivates the potential investors to take part investing in Islamic SRI. However, perceived behavioral control and knowledge were found to be insignificant to the intention to invest in Islamic SRI, since the p-value is above 0.05 which are (0.384) and (0.502). This explains that potential investors do not believe in their capabilities to engage in Islamic SRI and low knowledge leads to poor awareness and prevents the potential investors from investing in Islamic SRI.

The last objective is to investigate the most influential factors that influence the intention to invest in Islamic SRI. Based on the result of multiple regression in Table 3 the most influential factor is attitude. The data shows that attitude has the highest value of coefficient Beta with $\beta = .463$ and $p (0.00)$.

5. Research Implications and Recommendations

Commonly, people think investment is mainly because of profit gain but not for Islamic SRI. The main indication for Islamic SRI is concern with issues related to environmental and societal aspects. For instance, illegal lodging, wastewater, global warming, hunger, medical costs, essential services and education costs. Looking at the result of the study, helps the reader to know more about Islamic SRI and increases awareness. Besides, the concept of the Islamic SRI is aligned with the objectives of Islam, which are to preserve the public good, no harm, social justice, and promote the well-being of all humankind. Consideration has been taken in terms of not harming the world as well as contributing to society and the environment. Therefore, this reveals that profit and return are not the main causes that investors wish to gain as their goals to solve environmental and societal issues.

The study recommends that future research examine other variables that may be useful in the context of the intention to invest in Islamic SRI so that the framework will be more comprehensive. Since the the value of R^2 was recorded at 0.536 equivalent to 53.6% of the variance can be explained by attitude, subjective norm, environmental and societal concern, and religiosity and leaves 46.4% unexplained. Besides, the study recommends future research to make a study by involving real investors instead of potential investors so that this will lead to a high number of investors in Islamic SRI as well as lead to the growth of the Islamic SRI in Malaysia.

Conclusion: Based on multiple regression, only 4 out of 6 independent variables show a positively significant relationship to invest in Islamic SRI, which are attitude, subjective norm, environmental and societal concern, and religiosity. However, perceived behavioral control and knowledge were insignificant to the intention to invest in Islamic SRI.

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