An Analysis of Social Responsibility Dimension in Islamic Investment Funds: Evidence from Malaysian Investors

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AN ANALYSIS OF
SOCIAL RESPONSIBILITY DIMENSION
IN ISLAMIC INVESTMENT FUNDS:

EVIDENCE FROM MALAYSIAN INVESTORS

by

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ABSTRACT

In view of the 'divergence dilemma' between the aspirations of Islamic economics and the commercially oriented nature of Islamic finance, this research explores the prospect of incorporating social responsibility dimension in the practice of Islamic investment, in line with the normative goals of Islamic economics. The significance of the study is further emphasised in the face of the rapidly growing Socially Responsible Investment (SRI) movement, which uses various social, ethical, and environmental issues in investment to promote socially responsible behaviours among corporations. The conceptual discussion and empirical analysis of the study aims to explore and examine four important areas relevant to the research: the Islamic perspective of social responsibility and its normative foundations; the investment strategies that can be used to address social responsibility dimension; the investors' perspective on the importance of social responsibility dimension and its various issues; and the investors' level of commitment to incorporate these criteria into actual investment.

In the light of the SRI experience, the conceptual discussion focuses on delineating the Islamic perspective of social responsibility, resulting in a unified behavioural framework of social responsibility issues and commitment. The theoretical model is based on the ethical values embedded in the *Shari'ah* and its underlying objectives (M*aqasid al-Shari'ah*), the precepts of justice (*'adl*) and beneficence (*ihsan*), and the notion of ultimate happiness (*falah)*. The discussion further evaluates the present practices of Islamic investment in relation to social responsibility dimension and explores the potential of applying various SRI strategies in the Islamic investment sector.

The empirical component of the study aims to explore and examine the perceptions, attitudes and behaviours of the investors of Islamic funds in Malaysia in relation to the prospect of incorporating social responsibility dimension and its various issues in investment. Overall, social responsibility dimension is recognised by the respondents as part of an essential component in *Shari'ah* based investments. Nevertheless, there seemed to be a hierarchy in the component they perceived as important, with social responsibility dimension came third in the list after the *fiqh* injunction and economic dimensions. Additionally, the examination on the perceived importance of various social responsibility issues revealed that the underlying factor that influenced this perception is shaped by the nature of the criteria, particularly the distinction between harm prevention and the promotion of good, and the differentiation between internal business practice and external stakeholders. The study also found encouraging results on the willingness of the respondents to incorporate social responsibility criteria in their actual investment.

The findings suggest that important factors influencing investors' perceptions and commitment to incorporate social responsibility dimension in Islamic investment include participation in individually oriented behaviour, socio-demographic variables such as ethnicity, religion, age, income, education, types of occupation and organisation, as well as the level of SRI awareness. Additionally, while individual's investment decision is shown to be highly influenced by normative consideration, favourable financial expectation remains a strong driving factor in all of the behaviours examined; obedient, altruistic and sacrificial behaviours. In view of the prominent influence of financial motive in the decisions of individuals, the interpretive discussion explores the potential of a strategic framework of social responsibility as a complement to the normative foundations in creating additional incentive and enabling environment towards goal realisation in an Islamic economy.

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GLOSSARY

Transliteration		Translation
'Adl	:	Justice
Bai' bithaman 'ajil	:	This contract refers to the sale of goods on a deferred payment basis. Equipment or goods requested by the clients are bought by the bank which subsequently sells the goods to the client at an agreed price which includes the bank's mark-up (profit). The client may be allowed to settle the payment by instalments within a pre-agreed period, or in a lump sum. Similar to a *murabahah* contract, but with payment on a deferred basis.
Dzulm	:	Injustice
Falah	:	Ultimate success or happiness; The literal meaning of *falah* is to thrive, to prosper, to become happy, to have luck or success. It covers both worlds and its dimension constitutes various aspects including spiritual, economic, cultural as well as political.
Fiqh	:	Islamic jurispudence; Refers to the huge collection of juridical opinions that were given by various jurists from various schools of thought, in regards to their understanding of the *Shari'ah* and its application on various real life situations throughout the past fourteen centuries.
Gharar	:	The root word of *gharar* denotes deception or ambiguity. In exchange, it involves elements of deception or excessive uncertainty either through ignorance of the goods, the price, or through misleading or incomplete description of the goods.
Hadith	:	Prophetic tradition; Refers to the sayings of Prophet Muhammad (pbuh).
Halal	:	Permissible according to *Shari'ah*
Haram	:	Prohibitions according to *Shari'ah*
Ihsan	:	Beneficence
Khayr	:	Goodness
Mafsadah	:	Harm or destruction
Maqasid	:	Objectives; refers to the objectives of the *Shari'ah*
Maslahah	:	Public benefit or interest
Maisir	:	Gambling

Murabahah	:	A contract sale between the bank and its client for the sale of goods at a price which includes a profit margin agree by both parties. As a financing technique, it involves the purchase of goods by the bank as requested by the client. The goods are sold to the client with a mark-up. Repayment, usually in instalments is specified in the contract.
Riba	:	Literally means an increase or addition. Technically it denotes any increase or advantage obtained and accrued by the lender in a loan transaction without giving an equivalent counter-value or recompense in return to the borrower. In a commodity exchange it denotes any disparity in the quantity or time of delivery.
Shari'ah	:	Literally, the *Shari'ah* means 'the path to water' – the source of all life, the clear path to be followed and the path which the believer has to tread in order to obtain guidance in this world and the deliverance in the next. Technically, it means a set of norms, values and laws that govern Muslim's lives, deduced from the revealation (the Holy Qur'an) and the Prophetic tradition.
Shukr	:	Gratefulness to God
Taqwa	:	Piousness or God-consciousness. It denotes total submission to the will of Allah by abiding to all His commands and avoiding whatever He prohibits.
Tazkiyyah	:	Self purification and growth
Waqf	:	The word *waqf* is used in Islam to mean holding certain property and preserving it for the confined benefit of certain philanthropy and prohibiting any use or disposition of it outside that specific objective.
Zakah	:	Alms-giving

ABBREVIATIONS

Abbreviations		Meaning
AAOIFI	:	Accounting and Auditing Organisation for Islamic Financial Institutions
CSR	:	Corporate Social Responsibility
DJIMI	:	Dow Jones Islamic Market Index
EIA	:	Ethical Investment Association
EIRIS	:	Ethical Investment Research and Information Services
ESG	:	Environmental, social and corporate governance
EuroSIF	:	European Social Investment Forum
FMUTM	:	Federation of Malaysian Unit Trust Managers
FTSE	:	Financial Times Stock Exchange
IFIR	:	Islamic Funds and Investment Report
ILO	:	International Labour Organisation
MIFC	:	Malaysia International Islamic Financial Centre
MAB	:	Malaysian Association for the Blind
OECD	:	Organisation for Economic Cooperation and Development
Pbuh	:	Peace be upon him; referring to Prophet Muhammad
SIO	:	Social Investment Organisation
SEE	:	Social, ethical and environmental
SIF	:	Social Investment Forum
SRI	:	Socially Responsible Investment
UN	:	United Nations
UNPRI	:	United Nations' Principles of Responsible Investment
WEF	:	World Economic Forum

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE RESEARCH

The escalating socio-economic problems throughout the world today, which include widespread poverty, unemployment, inequality, and underdevelopment, have led to increasing public expectations of the role of businesses in society. Correspondingly, incidents of corporate scandals, corruptions, and environmental pollution have raised global concerns on the ethical, social and environmental behaviours of business practices. These have subsequently contributed to the emergence of the doctrines of corporate social responsibility, corporate citizenship, corporate governance, sustainable development, triple bottom line, as well as numerous other international standards and code of ethics concerning the policies and behaviours of corporations. This entails that firms are expected of not only fulfil their obligation to become profitable from the economic point of view, but also they are expected to meet other obligations related to legal, ethical and philanthropic responsibilities towards the society (Carroll, 1979; 1991).

Concurrently, social responsibility issues have also flourished in the area of investment. Investors, individual and institutional alike, are taking an increasing interest in the activities of companies they are investing. These companies are evaluated not only on their financial standing, but also increasingly to a wider spectrum of their activities, such as in terms of their products and services, their impact on the environment and on local communities, or on how their treat and develop their workforce. These factors, together with the financial performance and the quality and integrity of management have been incorporated by a growing number of investors in their investment decision. While there are numerous terms referring to such investors, including ‘green’, ‘social’, or ‘mission-based', the most common term used in the literature, both popular and academic, are the ethical or socially responsible investors.

The consequence of the rise in interest in the ethical and social performance of firms, particularly through the emergence of the ethical or socially responsible investment (SRI) movement, has put pressure on companies to review their policies on social, ethical, and environmental (SEE) issues. The World Commission on Environment and Development (WCED), also known as the Brundtland Commission, recognises the role of financial institutions which can exercise considerable influence, and in some cases, control over investment and management decisions, which could be brought into play for the benefit of the environment (United Nations, 1987). This acknowledges the important role of SRI investors who use various social, ethical and environmental (SEE) criteria in their investment decision, and in many instances, actively engage with the management and participate in filing resolution to promote SEE issues. Such recognition renewed when Kofi Annan, then the UN Secretary General, launched the *Principles of Responsible Investment*, which he described as a "mechanism to support and reward social responsibility initiatives of corporations" (UNPRI, 2006: 2).

The emergence of a socially responsible investment requires an examination and reflection from an Islamic perspective. The rapid growth of Islamic finance and its global reach, which includes the Western and developed markets, has raised the possibility of convergence of the two 'ethically-based' industries. Many scholars of Islamic finance have called for the industry, particularly the Islamic investment sector, to build bridges with the SRI movement (DeLorenzo, 2004; Wilson, 2004). In fact, some have even underscored the importance of learning the experience of SRI, including the issues, approaches and strategies used in influencing good SEE practices among corporations (Wilson, 1997a; Sairally, 2007). This proposition seems to be very appealing, especially within the context of the 'transformative' paradigm of Islamic economics, where efforts and policies, where necessary, should be in place to bring the 'positive' realm of economics closer towards its 'normative' ideals (Zaman, 2009). Nevertheless, any attempt of such nature necessitates a careful analysis and assessment, especially from the perspective of the *Shari'ah* and Islamic worldview.

1.2 RESEARCH PROBLEM: THE DIVERGENCE DILEMMA

The Islamic economics project envisioned in the early part of the twentieth century, particularly in the face of the economic revivalism of the post-colonial era, was considered an antithesis to socialism and capitalism in the form of "an Islamic response to what were perceived as God-less western ideologies" (Siddiqi, 2007a: 93). Based on the underlying philosophical foundation shaped by the Islamic worldview, it was aspired to be civilisationally oriented in the sense of formulating the political economy of Islam within a system understanding, and concerned with social justice and human wellbeing, where critical subjects such as poverty, underdevelopment, illiteracy, inequalities, and the level of health and education of the newly independent Muslim world were prominently addressed in the literature (Siddiqi, 1981). This has brought issues such as the fulfilment of basic needs (*e.g*. food, clothing, shelter, medical care, and education); equitable distribution of income and wealth; equality of opportunity to all; sustainable growth and stability; and individual freedom, social cohesion and moral excellence to be important aspects of the objectives of Islamic economics (Chapra, 1979; Siddiqi, 1996).

Subsequently, the emergence of Islamic banks in the mid-1970s was seen as an important milestone, and celebrated to be the operational aspect of the Islamic economic project. It was envisaged that the Islamic banking and finance industry would not only be more robust and efficient, but also aspired to address socio-economic predicament of the under-developed state of the Muslim worlds. Among others, the two most important practical aspect of Islamic banking were said to be its risk-sharing philosophy and the emphasis on the promotion of economic and social development, in place of the "exploitative, socially unproductive and economically wasteful" system of interest-based banking (Warde, 2000:5).

Nevertheless, driven by the market pressure, the industry has focused its attention on mimicking the functionality of conventional products and services, and set forth to produce Islamic alternative to such instruments (El-Gamal, 2006). In doing so, the industry has become heavily involved in the financial engineering of the new *Shari'ah* compliant instruments that serve similar function with their conventional counterpart, which is understandably highly demanded by the market due to its familiar features and characteristics. Many have expressed their concerns on the lack of Islamic substance in this approach, particularly on the absence of the risk-sharing philosophy as debt-like instruments are pre-dominant in the balance sheets of Islamic financial institutions, to the extent that some have labelled it as being plagued by the '*murabahah* syndrome' (Yousef, 2004). The equity based financing, which has long been celebrated as the wholemark of Islamic banking and finance, has been shown to be sparsely practised by the industry players (Hasan, 2002; 2005; Farooq, 2007).

Critics have also argued that the pursuit of profit maximisation and shareholder value by Islamic financial institutions often overrides the supposed faith-based ethical principles, which turns Islamic banking and finance into "mere mechanisms for a means to an end" (Parker, 2005 cited by Sairally, 2007: 281). Related to this is the fact that Islamic finance has bolstered itself with multi million or even multibillion megadeals like *sukuk* and infrastructure development. While these are important for economic growth, many of these projects are extravagance and luxurious in nature, which perhaps are only beneficial to the few and the 'haves', and not to the majority of the 'have nots'. Instruments such as micro financing, which has proven to be a valuable tool in uplifting the livelihood and the quality of life of the poor masses, has yet to be mobilised in a manner proportionate to its problem (Rahman, 2007). In fact, some even argued that Islamic financial institutions should be viewed as a commercial entity whose objectives are to remain profitable and continue to survive in the business world. Social responsibility objectives, however, should be addressed by other entities within the community such as the non-profit organisations and the government. Such a pragmatic approach to Islamic finance has certainly contributed to the tremendous growth of the sector as huge Western banks has jumped into the bandwagon in the pursuit of the lucrative profit potentials, while the idealised form of socially motivated Islamic institutions remain practically elusive, and can only be found in academic literature. In other words, "rather than being part of the Islamic political economy, Islamic finance has been pursuing policies away from the theoretical underpinnings and systemic understanding of Islamic economics and has located a surrogate financial framework in neo-classical economics" (Asutay, 2007a: 168).

Another aspect to this shortfall can be found in the behavioural norms of the industry players, where *homo Islamicus* is said to mirror its neo-classical counterpart of *homo economicus* (Asutay, 2007a). Time and again, Muslim economists are quick to point on the nature of *homo economicus* whose aim is to maximise material gain and consider economic rationality as the only rationality as the fundamental factor to the failure of the neo-classical mainstream construct in addressing externalities and socio-economic problems. *Homo Islamicus* however, given its outlook on the multiple sources of utility that can be derived from worldly gain and spiritual rewards of the hereafter, is claimed to be more accommodative in promoting the interest of the society (Asutay, 2007b). While it has become evident that the prevalent of individualistic primacy of the neo-classical paradigm has frustrated the notion of 'invisible hand' which is assumed to transform rationally self-interested behaviour into public interest, the behavioural norms of *homo Islamicus, as* observed by the experience of Islamic finance practices have not been too poles apart (Farooq, 2011). As highlighted earlier, profit motive has been a dominant factor in influencing the behaviour of Islamic financial institutions, whereas socio-economic objectives if considered at all, constitute a mere peripheral status from the overall activities. This reality is very unsettling for the scholars of Islamic economics, especially in the face of the scepticisms against the discipline, which argue that religious norms are not as strong as the economic incentive in shaping the behaviour of economic agents in the idealised Islamic economic system (Kuran, 1983).

The frustration of various stakeholders of the industry, especially among the Islamic economists on the shortfall of Islamic finance in addressing the normative goals of Islamic economics was clearly expressed in the ‘Round table on Islamic Economics: Current State of Knowledge and Development of the Discipline’, held in Jeddah in 2004. In his keynote address to the gathering of leading scholars of the discipline, Siddiqi (2004) started his observation with the big question of ‘what went wrong?’. Among others, he blamed the methodology adopted by Islamic jurists and economists who relied on dated *fiqh* rules in providing the framework in which the problems of present modern economics and finance are to be understood and solved. This observation is widely shared by other scholars and commentators of the industry. Many have expressed that the operation of Islamic financial services has been pre-dominantly shaped by a ‘legalistic’ approach, and subsequently resulted in a ‘prohibition driven’ industry (El-Gamal, 2006). The emphasis on the compliant nature of products and transactions based on its contractual forms, and the neglect of its substance, has led some to conclude that the practice of Islamic finance has come to a ‘formalist deadlock’ (Bazl, 2008). An equally worrying fact is the belief among some advocates of Islamic economics and finance who presume that the abolition of the prohibited interest takes care of all the current problems in finance and economics. While this is a necessary requirement, it is not sufficient in achieving the goals of an Islamic economic system (Siddiqi, 1999).

In this respect, the *Shari’ah* scholars, who form the core of *Shari’ah* advisory and compliant mechanism in the industry, have also come under scrutiny. In fact, many of them, who assume numerous advisory committees of financial institutions, are now accused of being bankers' window-dressers and of over-stretching the rules of *Shari’ah* to provide easy *fatwa*s for the new breed of bankers (Kahf, 2004). The Islamic financial institutions are also said to be giving too much emphasis on “the standing of their *Shari’ah* regulators rather than stressing on the moral teaching that governs Islamic finance” (Wilson, 2002: 51). In addition, there are concerns on the lack of sound theoretical foundations within the discipline of Islamic economics that can provide clear conceptual framework on the role of Islamic finance as one of the components of Islamic economics, in the realisation of the latter's objectives (Asutay, 2007a; Farooq, 2008). While Islamic banking and finance industry has increased in both size and sophistication, the growth of literature in Islamic economics as the body of knowledge which supposedly support the underlying foundation of the practice has been severely compromised, as both practitioners and academics alike turn their attention to the rapidly expanding industry.

The 'divergence dilemma' as discussed above has raised critical questions on the future direction of the industry, particularly in the effort in bridging the gap between the Islamic economics position on Islamic finance and the actual practice of the industry. As noted by El-Gamal (2006: xii), the branding of the industry as 'Islamic' finance naturally implies that the industry would "emphasise issues of community banking, microfinance, socially responsible investment, and the like". While the call to address social responsibility issues by Islamic finance is getting stronger by the day, some have resigned to recognise the inevitably profit oriented nature of the present framework of Islamic banks, and attempted to conceptualise a social banking model in addressing the lack of social and developmental orientation of the former (Asutay, 2007a). Similarly, avenues such as microfinance, *waqf* (endowment fund) and other institutional set-up are also explored for similar reason. In the light of this, the present study attempts to explore the prospect of incorporating social responsibility dimension in Islamic investment, which has gained tremendous growth, and developed into a strong and viable area in the Islamic financial services industry. The call to address this 'neglected' dimension is further emphasised in the face of the rapidly growing Socially Responsible Investment (SRI) movement in the developed financial markets, which uses various social, ethical, and environmental issues in its investment decision, in the effort to promote socially responsible and sustainable behaviour among corporations. The incorporation of the social responsibility dimension will essentially bring the industry to a new phase and move closer to the idealised aspiration of Islamic economics.

1.3 MOTIVATION OF THE STUDY

The emergence of the SRI movement within the capitalist framework requires a deep reflection particularly from those who subscribe to Islamic perspective. Despite being governed by *Shari'ah* principles, the failure of Islamic finance to address social responsibility issues has frustrated many of its advocates. Recent developments, however show an encouraging gesture by the industry's leading players towards the issue of social responsibility. In the 11th International Islamic Finance Forum held in 2008, one of the largest gatherings of world's leaders in Islamic finance, the subject of linking Islamic finance with microfinance and poverty eradication programs has been the highlight. Prior to that in 2006, the same forum emphasised the need for the Islamic investment industry to incorporate social dimension into its investment criteria in addition to the rules (Zawya.com, 2006). In other words, despite complying with *Shari'ah* principles, which mainly shun certain impermissible activities, the Islamic investment industry recognises the need to address broader social responsibility issues and promote socially responsible practices. One example of the effort to incorporate such criteria is the introduction of the Dow Jones Islamic Sustainability Index. While this initiative can be considered to be an important milestone in this respect, the consideration for broader SEE issues is still lacking among Islamic financial institutions and investment products which incorporate such concerns are a rarity in the Muslim world.

In the face of the criticisms levelled against the practice of Islamic finance, the move towards incorporating broader principles of Islamic ethics in the investment process seems to be a promising solution (El-Gamal, 2006), and perhaps opening the way towards breaking the so called 'formalist deadlock' of Islamic finance (Bazl, 2008). Although Islamic investment may be concerned with a very different set of ethical criteria from the Western ethical or socially responsible investment, the issues of social responsibility are of mutual interest, and there is much that Islamic investment institutions can learn from the SRI experiences (Wilson, 1997a; Sairally, 2007). At present, the potential role of Islamic investment in affecting changes and reforms towards a better practice of social responsibility among businesses has not been adequately explored. Considering the realities of Islamic finance industry as explained so far, this study is motivated with the aim of locating the nature and ethical behavioural norms of Islamic investors.

1.4 RESEARCH AIM AND OBJECTIVES

The primary aim of this research is to conduct an exploratory study on the social responsibility dimension of Islamic investments through conceptual framework and empirical examination. The conceptual discussion is aimed to provide a comprehensive analysis of the literature on social responsibility issues and commitment in investment, both from the Western and Islamic perspectives. This provides a basis for a theoretical model, where social responsibility issues and commitment are linked in an integrated framework of individual behaviour. Subsequently, the emergent theoretical framework is used as a basis for the review of present practices of Islamic investment, as well as for the empirical analysis, where the perceptions, attitudes and behaviours of Malaysian investors of Islamic funds on various social responsibility issues and commitment are explored and examined.

In the light of the above, the primary objectives of the research are divided into two components:

Firstly, by learning from the experience of SRI, the research seeks to discuss the Islamic perspective of social responsibility, its implications on the Islamic investment practices, and the potential approaches and strategies that can be adopted in incorporating social responsibility dimension in Islamic investment.

Secondly, the study intends to explore the perceptions and attitudes of investors on the importance of social responsibility dimension and its various issues in Islamic investment, their level of commitment to incorporate such issues in their actual investment, as well as the determinants that influence these decisions.

The findings from both the conceptual and empirical components of the study will provide a holistic perspective on the research area, and offer important insights into various groups and stakeholders, such as academics, investors, fund managers, regulators as well as other interested parties, on different aspects of social responsibility issues and commitment in the field of Islamic investment in particular, as well as the overall discipline of Islamic finance and economics.

1.5 RESEARCH QUESTIONS

In the light of the above objectives, Research questions of the study are specified as follows:

(i) What are the issues, approaches and theoretical underpinnings of SRI as being practiced in the west?

(ii) What is the Islamic perspective of social responsibility and its implications on Islamic investment practices?

(iii) How can Islamic investment incorporate social responsibility criteria in the light of the experience of the SRI funds?

(iv) What are the investors' underlying motivations when investing in Islamic funds?

(v) How do the investors perceive the importance of social responsibility dimension and its various issues in Islamic investment?

(vi) Are the investors of Islamic funds willing to incorporate social responsibility criteria in their investment, and what are the factors that influence this commitment?

As specified earlier, the first three research questions deal with the conceptual aspect of the study where social responsibility dimension in Islamic investment is discussed in the light of the SRI experience. The next three research questions, on the other hand, relate to the empirical analysis on the social responsibility issues and commitment among the investors of Islamic funds, particularly on their motivations for investment, their perceptions and attitudes towards social responsibility dimension and its various issues, as well as their commitment to incorporate these issues in their investment decision.

1.6 SIGNIFICANCE OF THE STUDY

The divergence between the literature on Islamic economics and finance and the actual practice of the industry players on the issue of social responsibility signifies the importance of this study. While there exist numerous works in the literature which provide invaluable discussions on the Islamic ethics and social responsibility in the realm of business and economics, these discussions are mainly from the point of view of firms and corporations (Gambling and Karim, 1991; Beekun, 1997; Abeng, 1997; Rice, 1999; Beekun and Badawi, 2005; Azid *et al*., 2007; Parvez, 2007; Dusuki and Abdullah, 2007a; Dusuki, 2008a). Conceptual discussions in the area of incorporating social responsibility dimension into Islamic finance have also largely focused on Islamic banks (Haniffa and Hudaib, 2007; Farook, 2007; 2008; Hassan, 2010). On the other hand, despite some reviews done on the present practice of Islamic investment, they are mostly centred on the legal aspect of the *Shari'ah* compliant (Khatkhatay and Nisar, 2007; Derigs and Marzban, 2008; Obaidullah, 2009). Therefore, this study seeks to add to the literature by providing a detailed analysis of Islamic position on SRI issues and practices from an Islamic perspective, within the context of an integrated behavioural framework of social responsibility issues and commitment. This framework is synthesised from the literature on the objectives of the *Shari'ah (maqasid al-Shari'ah)*, the axioms of justice ('*adl*) and beneficence (*ihsan*), and the notion of ultimate happiness (*falah*) whereby reference is made to the philosophical constructs of Islamic moral economy, as initiated by the founding fathers of the discipline.

At the empirical level, many studies related to Islamic banking and finance, including in Islamic investment, revolve around the issue of efficiency and performance (Hussein, 2004; 2007; Hakim and Rashidian, 2004; Elfakhani *et al*., 2005; Abdullah *et al*., 2007; Kok, 2009). Undoubtedly, such examination is seen necessary to tackle the common perception that Islamicly screened investments may sacrifice performance due to various investment criteria, which limit the universe of investable securities. Notwithstanding the importance of such evaluation and assessment to the industry's viability and acceptance, excessive focus given to economic aspects of the sector has perhaps overlooked the concern for socio-economic equity and welfare consideration which basically formed the conceptual and theoretical foundation of the discipline. Therefore, this research contributes to the body of knowledge on this issue, by exploring the perceptions, attitudes and behaviours of investors on various aspects of social responsibility dimension in Islamic investment.

Given its leading position in the Islamic finance and investment industry, as well as the favourable environment in the practice of corporate social responsibility initiatives and disclosures, the prospect for the incorporation of social responsibility criteria in Islamic investment in Malaysia is a promising one. Hence, the empirical analysis has focussed on surveying the investors of Islamic funds in Malaysia. As the SRI industry is said to be a consumer driven phenomenon (Schueth, 2003), the support of investors on such issues and their level of commitment is believed to be the key to the viability of such investment approach. The knowledge of investors' profile, their perceptions on the importance of social responsibility issues, their level of commitment to incorporate such concerns in their investment, and the factors influencing these decisions can be of potential relevance to different stakeholder groups such as fund managers, regulators and *Shari'ah* advisors in formulating future policies and direction of the sector.

In a wider context, the prospect of Islamic investment to incorporate social, ethical and environmental concerns and to promote broader aspects of Islamic ethics in the financial realm creates a promising outlook for the discipline of Islamic economics. Such concerns will not only bring the sector closer to its idealised aspiration, but in a larger context, increase the awareness of investors and the public on various SEE issues including environmental protection, labour standards, responsible business practices, equal opportunities, as well as the broader notion of social welfare and justice, which are still very much lacking in the Muslim world (Rice, 1999; Brammer *et al*., 2007). In the light of the SRI experience, such a new approach of Islamic investment can play an instrumental role in creating market incentive and exerting market discipline on the social responsibility practices of businesses, and therefore provide a new institutional platform in which the behaviour of economic agents can be shaped to confirm to its normative assumptions in Islamic economics.

1.7 OVERVIEW OF THE RESEARCH

The present chapter introduces the main themes of the study and highlights its underlying motivations, objectives and significance. Following this brief Introduction, the thesis is organised as follows:

Chapter 2 - *Understanding Socially Responsible Investment: Theory and Practice* - delineates the practice of socially responsible investment, which has been developing rapidly, and increasingly becoming a mainstream approach to investment in the developed markets. Despite the influence of its faith heritage in the earlier phase of its development, the western SRI industry has evolved dramatically and been shaped by diverse movements and various geo-political events. As a result, modern SRI practices have addressed broader ethical and social responsibility issues beyond the traditional exclusion of the so-called 'sin' activities (e.g. gambling, weapon and pornography). This wide spectrum of social responsibility issues ranges from human rights, labour standards, business practices, community involvement as well as the environment. Similarly, the strategies adopted by SRI investors have also included positive screening, integration approach, as well as complex engagement and advocacy initiatives. Parallel with its increasing size, the industry comprises diverse groups with different underlying motivations, issues of concerns and strategies used in the investment process. Despite the heterogeneity of SRI investors, a general theoretical framework of SRI is synthesised from the available literature and is built on the principle of consistency between investors' convictions and actions.

Chapter 3 - *Islamic Perspective on Social Responsibility in Investment*- examines the Islamic views on social responsibility by locating its importance in the practices of Islamic investment from the *Shari'ah* and its underlying objectives (*maqasid al-Shari'ah*), the precepts of justice (*'adl*) and beneficence (*ihsan*), and the comprehensive notion of happiness (*falah*). The chapter argues that the aim of realising *socio-economic justice and overall human wellbeing* can only be achieved and sustained if both the negative and positive approaches towards *maslahah* and justice are observed. The presence of the latter will facilitate and sustain the overall human wellbeing and economic justice, while the absence of the former will result in downright prevalent of corruption and injustice in the society. Additionally, Islam always exhort its followers to pursue a higher level of social responsibility commitment as it is considered to be a part of the process of spiritual development and the key to eternal salvation in the life to come. Therefore, going beyond the level of justice in promoting the interest of the society, in line with the spirit of *ihsan*, will facilitate one's upliftment to the state of *falah*. In this context, the realisation of *falah* necessitates individuals to exercise more than just the obedient behaviour, but also altruistic behaviour towards others, and potentially in the process, involves in some degree of sacrificial behaviour. The chapter then integrates these concepts and provides a unified perspective of a normative behavioural framework in the face of social responsibility issues and commitment which has important implications on all spheres of economic decisions, including in the field of investment.

Chapter 4 – *Incorporating Social Responsibility Dimension in Islamic Investment* - evaluates the present practices of Islamic investment in the light of the normative framework of social responsibility (Chapter 3) and the practice of SRI (Chapter 2). While SRI and Islamic investment may share similar ethical concerns, Islamic investment practices are regulated by religious principles and injunctions, and these need to be fully observed in the investment process. The screening for permissibility must not only include the present sector and financial screens, but also other elements of harm to the society and environment, particularly on the policies or operations of the companies concerned. These may include irresponsible business practices (e.g. fraud and misrepresentation, price manipulation, hoarding and bribery), exploitative policies and violation of rights (e.g. unfair compensation, unsafe working environment, forced labour, and discriminatory practices), and excessive exploitation and destruction of resources and the natural environment (e.g. pollution, destruction of forestry, crops and animals.). This forms the second component to the qualitative filter for *Shari'ah*-compliant. Additionally, other forms of positive screening, such as the ones practiced by the SRI movement, can be adopted by the Islamic investment practices in addressing broader social responsibility concerns in line with the dual approach towards realising social justice and overall wellbeing of the society.

Chapter 5 – *Research Methodology*– outlines the methodology applied for the empirical component of the study, including the discussions on the research process and design, variable identification, instrument development, sampling procedure and the analytical techniques used in the analysis. This is then followed by Chapter 6, 7 and 8, which report the empirical findings.

Chapter 6 – *Profile Analysis of Investors of Islamic Funds*- provides a description of the investors participating in the study. In general, they reflect a wide representation of the various groups in terms of their socio-demographic variables such as gender, ethnicity, religion, age, marital status, income, educational level and occupation. The findings reveal that Muslim investors, in general, consider earning *halal* return from investment as the most important motivation when investing in Islamic funds. However, further investigation using cluster analysis categorises them into two groups, which is later labelled as 'committed' and 'pragmatic' investors. The committed investors reflect their commitment to *Shari'ah* principles by having all of their investment in *Shari'ah*-compliant funds. Since the commitment to *Shari'ah* principles limits their investment universe to only Islamic funds, it is important for them that these funds provide comparable returns with the conventional funds. On the other hand, in the case where complying with the *Shari'ah* principles in investment can result in lower returns, the 'committed' investors are willing to make this sacrifice. This is, however, not the case for 'pragmatic' investors, who hold different proportion of their investment in conventional funds and have relatively an indifferent attitude towards accepting financial sacrifice for *Shari'ah* compliance. In fact, some of the pragmatic investors acknowledge the importance of the diversification benefits between Islamic and conventional funds. On the other hand, investors from other faiths invest in Islamic funds to seek high returns and benefit from diversification; and most of them believe that Islamic funds are more resilient against market volatility.

Chapter 7 – *Investors' Perspective of Social Responsibility Issues in Islamic Investment* - provides the analysis on the perceived importance of social responsibility dimension and its various issues among the investors. The overall result reveals that the investors in general place a hierarchy in the elements they considered important, with the observance of *fiqh* injunctions is ranked as the most important consideration, followed by the economic and social responsibility dimensions. Nevertheless, the findings suggest that social responsibility criteria are perceived as important by a majority of the investors, and substantial proportion of the respondents consider social responsibility dimension to be either more or equally important as the economic dimension. It has been shown that ethnicity, religion, income, age, complying to *Shari'ah* principles in investment, and the level of SRI awareness are among the important factors influencing the level of perceived importance of social responsibility dimension, with the Malay-Muslim, committed, young, and lower income investors as well as those having higher level of SRI awareness show greater scores for both the social responsibility scale and SR-Econ scales as compared to other sub-groups. Additionally, greater participation in individual pro-social behaviour and working in the public sector or government linked corporations (GLCs) are also found to have positive impact on such attitude (based on the social responsibility scale), as well as for female and single respondents (based on SR-Econ scale). Given the multi faceted nature of social responsibility, the analysis further explores investors' perceptions on specific issues of social responsibility of businesses. In brief, the level of importance investors attach to different social responsibility issues is influenced by the distinction between the idea of the prevention of harm and the promotion of good, and between internal business operation and external stakeholders. Subsequently, the factors that shaped this attitude can be identified as 'basic social responsibility practice' and 'supplementary and external social responsibility' factors, with the former is shown to be highly ranked by the investors as compared to the latter.

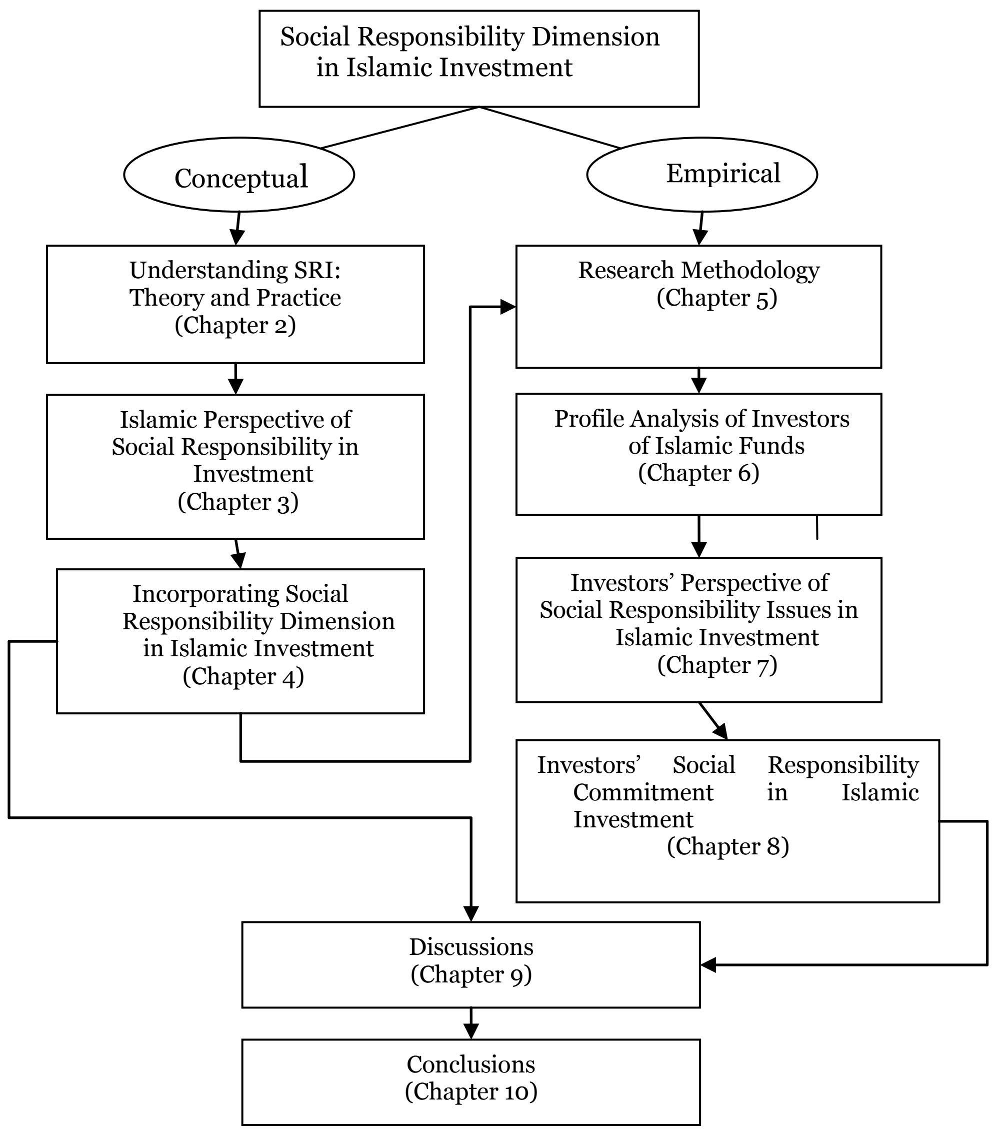
Chapter 8 – *Investors' Social Responsibility Commitment in Islamic Investment* - explores various aspects related to the investor's' willingness to incorporate social responsibility dimension in Islamic investment. The findings reveal encouraging results on the commitment of the respondents to incorporate social responsibility criteria in their current and potential future investment, and large proportion of the respondents show high commitment to sacrifice financial return for this investment approach. In addition to the financial motive and normative consideration, the analysis on the determinants of investors' willingness to incorporate social responsibility criteria in Islamic investment has also included habitual element, investment related characteristics and the traditional socio-demographic variables. As revealed by the results of ordinal regressions, all the five components of explanatory variables contributed different degrees of influence on the investors' commitment for social responsibility in investment. While individual's investment decision is shown to be highly influenced by normative consideration (represented by commitment to Shari'ah principles in investment, constructs of awareness of consequence and ascribed responsibility), favourable financial expectation remains a strong driving factor in the investment decisions. Habitual component, particularly on the participation in pro-social behaviour at the individual level, and the level of awareness of investing using social, ethical and environmental concerns have also been found to be important predictors in the model. Despite being traditionally an important set of variable in explaining and profiling socially responsible behaviours, socio-demographic variables which are found to be significant predictors in the analysis are limited to level of education, occupation and to a certain extent, income.

Chapter 9 - An Interpretive Discussion and Contextualisation - integrates all the results of the analysis, both from the conceptual and empirical aspects, and contextualises the important findings within the present literature of Islamic economics and finance. In view of the prominent influence of financial motive in the decisions of individuals, the chapter explores the potential of a strategic framework of social responsibility as a complement to the normative foundations in creating additional incentive and enabling environment towards goal realisation in an Islamic economy.

Chapter 10 – Conclusion - concludes the thesis, highlights its key implications, discusses its limitations and presents relevant future research in the area.

Figure 1.1 below summarises the overall structure and organisation of the thesis.

Figure 1.1: Thesis Framework



CHAPTER 2

UNDERSTANDING SOCIALLY RESPONSIBLE INVESTMENT: THEORY AND PRACTICE

2.1 INTRODUCTION

The growing movement of socially responsible investment (SRI) in the Western world has posed a challenge to the reigning traditional investment philosophy and brought about new considerations into the investment decision making process beyond the mere notion of ‘maximising returns’. By the 1980s, as the world witnessed the devastation of the Vietnam War, human rights violation in South Africa, the environmental disaster of Valdez and Chernobyl, and the increasing threats of global warming, more and more are convinced of the important role of firms and financial institutions on social, ethical and environmental issues in making world a better place to live. In the light of these issues, this chapter attempts to examine the concept of socially responsible investment (SRI), its link with Corporate Social Responsibility (CSR), its evolution and growth, its diverse approach and issues, and the theories underpinning its movement as practiced in the developed markets.

2.2 CSR AND SRI

The doctrine of CSR as frequently mentioned in the literature of business ethics, requires businesses to consider the broader social, ethical and environmental impact alongside financial concerns. According to The World Business Council for Sustainable Development, CSR is “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (WBCSD, 1998: 3). This view of corporate social responsibility is consistent with the stakeholders' approach to management that posits firms have the responsibilities not only to its shareholders, but also to other stakeholders who contribute directly or indirectly to the survival of the business (Freeman, 1984). Given the frequent association between the two, this section seeks to discuss some important issues related to CSR and its relevance to the practice of SRI.

2.2.1 Debates over CSR

The idea of businesses having to serve the interest of multiple stakeholders other than shareholders and to consider various social and ethical goals was strongly opposed by Friedman (1962, 1970). Friedman identifies corporate social responsibility as a 'fundamentally subversive doctrine' in a society with free enterprise and private property system, and having said that in such a society, "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1962: 112). While emphasising that only individuals have responsibilities, not businesses, Friedman stresses that the cost associated to exercising social responsibility which can be in the form of lower returns to investors, higher prices to consumers, or lower wages to workers, are in effect illegitimate imposition of taxes, and by spending them in a different way than they would have spent them, corporate executives fail to serve as agents to the shareholders, as well as to the consumers and employees of the firm (Friedman, 1970).

Friedman's (1970) influential, yet controversial essay invites huge amount of interest, critics and comments. Mulligan (1986), for instance, attacks Friedman's premises, primarily on the assumption that corporate executives must necessarily undertake social responsibility initiatives on their own and act in some ways that are not in the interest of the shareholders. "If socially responsible action is on the corporate executive's agenda, then it is there because the company's mission, objectives, and goals - developed collaboratively by the major stakeholders - gave him license to put it there and provided parameters for his program" (Mulligan, 1986: 266). Based on this exertion, he then concludes that the corporate executive does not impose unauthorised costs or taxes on anyone or violate trusts given to them. On the issue of moral responsibility of businesses, Moore (1999) provides a detail account on the arguments for and against the concept of 'corporate moral agency' and arrive at a conclusion that the legal position in the United Kingdom and the United States is supportive of the concept. He goes on to argue; "Then, we have a situation in which corporations can, under normal circumstances, be regarded as moral agents (but not persons) with conventional (but not moral) rights. This in no way, however, relieves those individuals employed by the corporation, of their moral responsibilities as natural persons either in the course of an event, or in modifying their behaviour subsequent to it" (Moore, 1999: 335).

In a very ironic way, Donaldson and Preston (1995) provide justification for the stakeholder model by using the theory of property rights, which has long been the traditional thrust of the agency theory in legitimising the supremacy of the shareholder's interest in the business policy. Using the theoretical definition of property as a 'bundle' of many rights, some of which may be limited, they argue that the fact that property rights are "embedded in human rights and that restrictions against harmful uses are intrinsic to the property rights concept clearly brings the interests of others (*i.e*. of non-owner stake- holders) into the picture" (Donaldson and Preston, 1995: 83). Using similar line of argument, Quinn and Jones (1995) propose an 'agent morality' approach to corporate managers (which is distinct from the concept of 'corporate moral agency') by examining the moral implications of agency theory based on four principles: honouring agreements, avoiding lying, respecting the autonomy of others, and avoiding harm to others.[1] While the first two principles are considered to be necessary conditions for the principal-agent model of the corporation to hold, Quinn and Jones (1995) argue that the

[1] "Agent morality" model focuses on corporate managers (as agents), not the business, who have minimum moral obligations to fulfil before serving the interests of the shareholders (as principals). On the other hand, "corporate moral agency" views corporation as an entity that have features which can be assigned to it moral responsibilities in a way appropriate to corporations (Moore, 1999).

last two principles are fundamental to the condition of liberty, which Friedman (1962) strongly defends as a thrust for an efficient functioning of the market. "If you recognise that individuals have a right to liberty, you necessarily must recognise the principles that give rise to liberty. Avoiding harm to others, which would otherwise infringe on their liberty, and respecting the autonomy of others, which is a central tenet of liberty, are therefore morally binding obligations" (Quinn and Jones, 1995:34). Hence, despite being agent to the shareholders, an 'agent morality' view prescribes managers to meet certain minimum moral responsibilities which will not be overridden by shareholders' desire for profitability or any other motives.

It has become apparent that the debate on corporate social responsibility has centred on the contention of two conflicting views of a business: a 'shareholders' approach based on a narrowly defined agency theory on one side, while 'multiple stakeholders' approach based on stakeholders theory on the other. Shankman (1995), however, tries to reconcile the two competing views by arguing that agency theory is theoretically limited, and by re-examining its assumptions, suggests that the agency theory can be subsumed within a broader stakeholder perspective of a business. Building on previous theoretical works, he argues that agency theory must include the recognition of stakeholders (based on Donaldson and Preston, 1995); requires a minimum moral responsibilities to be upheld which overrides shareholders interests (based on Quinn and Jones, 1995); consists of contradictory assumptions about human nature which give rise to the equally valid assumptions of trust, honesty and loyalty to be infused into the agency relationship (based on Bowie and Freeman, 1992). In the light of this, stakeholder model is argued to be the logical conclusion of the agency theory.

Apart from using the philosophical and normative grounds, attempts to justify CSR have also used the instrumental approach. Although it is claimed that the former is superior to the latter from a theoretical perspective (Quinn and Jones, 1995), the instrumental justification of social responsibility would prove to be more appealing from a practical point of view, as CSR policies are seen as strategic tools to advance economic objectives of the business. In other words, the case for CSR can be justified by the benefits that it can bring to the business, which may come from better human resource and customer loyalty, reduced reputational and legal risks, as well as enhanced public image (Davis, 1973).

While agreeing to Friedman's view on the first two levels of social responsibilities which a business needs to subscribe; the first being to engage in the market process with self-interested motive (governed by competition), and the second, to operate within the rule of the game (largely legal), Wagner-Tsukomoto (2007), departs from Friedman's (1970) contention that ethical initiatives of business beyond what is required by law is not compatible with the business and shareholders' interests. Building on an earlier work (Wagner-Tsukomoto, 2005), Wagner-Tsukomoto (2007) tries to extent the narrow agency model adopted by Friedman (1970) and argues for an instrumental stakeholders model of a business where 'ethical capital', created through an active moral agency approach towards CSR, would be the third level of social responsibility of business which allows ethical conduct to enter the market process. In a market where ethical concerns and awareness have become increasingly popular and a norm among investors, consumers and employees, it would be mandatory for businesses to engage in social responsibility initiative that goes beyond mere legal compliances. "In such markets, competition focuses on the creation of ethically appealing products and services". In this sense, "ethical capital needs to be created and 'sold' to investors, consumers or employees in order to stay competitive" (Wagner-Tsukomoto, 2007: 214).

2.2.2 CSR in Practice

Despite the contentious views on CSR, the doctrine has become widely accepted and practiced by corporations where social concerns such as labour and human rights, environmental protection, and community development are integrated into business policies. In facilitating these agenda, various global standards and frameworks have been introduced, not only by international multilateral organisations such as the United Nations or Organisation for Economic Cooperation and development (OECD), but also from the initiatives and collaborations of various groups including NGOs, campaigners, religious groups and other stakeholder groups. Most importantly, these guidelines and standards are then endorsed and supported by responsible and committed businesses who become their signatories and in many cases, may even directly involved in their development. Table 2.1 briefly depicts some of the major CSR guidelines subscribed by businesses.

Despite the voluntary nature of these guidelines, they nevertheless provide a standard in which companies can subscribe to and use as a tool for benchmarking, reporting and assessing social performance. It will become clear in subsequent sections that the knowledge of the doctrine of corporate social responsibility will be instrumental in examining socially responsible investment.

Table 2.1: Major CSR Guidelines and Standards

Standards/Principles	Organisation	Description
The Global Sullivan Principles of Social Responsibility	Leon H. Sullivan Foundation	A principle which address issues In the area of human rights, equal employment opportunities, employees freedom of association, workers welfare, workplace health and safety, fair competition, community development, environment and sustainable development.[2]
OECD Guidelines for Multinational Enterprises	Organisation for Economic Cooperation and Development	Principles and standards of responsible business conduct addressed to multinationals operating in or from adhering countries in various areas including employment and industrial relations, human rights, environment, information disclosure, competition, taxation, and science and technology.[3]
CERES Principle	Coalition for Environmentally Responsible Economies	A code of environmental conduct for companies in the area of pollution, sustainable use of natural resources, energy conservation, waste management, operational risk, product safety, and so on, with a mandate to publicly disclose environmental policies and procedures related to the principles.[4]
UN Global Compact	United Nations	A framework in which businesses around the world can express their commitments to the ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption in their operations and strategies.[5]
Sustainability Reporting Guideline	Global Reporting Initiative	A framework of standardised guidelines for reporting on economic, environmental, and social performance of corporations which make such assessment to be more transparent, clear and comparable.[6]

[2] This is based on an earlier principle known as The Sullivan Principle, founded by Rev. Leon Sullivan, which is well known for its role in dismantling apartheid in South Africa. See www.thesullivanfoundation.org/gsp/ for details.
[3] The guideline is adhered by the 30 OECD member countries and 10 non-member countries including Argentina, Brazil, Chile, Egypt, Estonia, Israel, Latvia, Lithuania, Romania and Slovenia. See www.oecd.org for details.
[4] Also known as the Valdez Principles, a commitment among signatory companies on environmental issue in the aftermath of the Exxon Valdez tanker oil-spill disaster in Alaska in 1989. See www.ceres.org for details.
[5] See www.unglobalcompact.org for details.
[6] See www.globalreporting.org for details.

2.2.3 CSR and SRI: Establishing the Link

Numerous studies on SRI have, in one way or another, attempted to link it with CSR. When addressing the CSR framework, the European Commission (2001) considered SRI as one of the CSR's essential components. Kinder (2005), on the contrary, views SRI to be the one side of a coin with CSR on its reverse. In fact, at least from a value-based investor point of view, "they are so very different that they could be unrelated. CSR is about a corporation and the aspirations of its people" (Kinder, 2005: 16). In contrast, SRI describes an assertion of personal or institutional responsibility by an investor for what s/he owns. The investor knows his/her social objectives and tries to align the available investments with them" (Kinder, 2005: 16-17).

Notwithstanding the varying views surrounding CSR and SRI, it can be argued that there exists a symbiotic relationship between them, as SRI has been leveraging on the public awareness on CSR issues and benefitted from the infrastructure in the field of CSR. For instance, CSR standards, guidelines and best practices are used in selecting the portfolio among the SRI investors. Though relatively limited, the principles and practices of SRI have also employed established theories and models in the area of CSR. Perhaps more significantly, SRI research services and advisors are also have relied heavily on research initiatives of social and environmental activists, NGOs, watchdogs, and regulators on CSR concerns, all of which have helped SRI investors to identify the key social, ethical and environmental performance of companies. This, in turn, shapes SRI methodologies, which use the information to identify risks to companies, opportunities for investing in solutions to social or environmental problems, and to highlight the key issues of concern for both individual and institutional investors (Federal Trust, 2002).[7] It has also been observed that CSR and SRI have been increasingly moving in the same direction especially in these three areas: "First, the corporate community is focusing on vision, mission, values and disclosure. Second, institutional investors are concerned with voting rights, governance and social risk. Third, the financial community more generally is

[7] The Federal Trust is the UK member of the Trans-European Policy Studies Association (TEPSA), a grouping of fifteen think-tanks from Member States of the European Union.

slowly raising its eyes from the immediate to the longer-term horizon through a growing awareness of all the above issues" (Federal Trust, 2002:17).

The growth of SRI has also centred on the belief that it has huge potentials in advancing CSR. Despite the popular exertion on the ability of SRI to promote socially and environmentally desirable activities and discourage detrimental ones, some have challenged the idea and argued that such a claim is 'unfounded'. By examining the position of SRI in the financial markets, Haigh and Hazilton (2004) highlight the limited ability of SRI to alter the cost of capital of its investments, and therefore, the little influence it has on corporate behaviour. Among others, market share of SRI has been found to be negligible to have direct effect on companies; even with high market share, the liquid nature of the capital market would make any effects on security prices to be short-lived. Therefore, there are no guarantees that financial markets will look to SRI funds to signal undisclosed future revenue growth or costs, and accordingly follow the investment actions of SRI funds (Haigh and Hazelton, 2004). Sharing the same view, Scholtens (2006) highlights the importance of venture capital and bank lending to businesses in most countries over equity market and argues that such channels are more effective in promoting sustainability compared to SRI. There may be some truth in these critics, however, recent developments of the industry have changed the nature of SRI and significantly improved its position to promote CSR. For instance, Sparks and Cowton (2004) suggest two important developments which have led to a growing link between SRI and CSR: the increasingly complex and mature approach to SRI beyond traditional screening, and the adoption of SRI principles by a growing proportion of large institutional investors which has brought SRI from 'margin to mainstream'.

The recognition of the importance of mainstreaming SRI in the financial markets as to have any real impacts on CSR practices among corporations is evident through the introduction of the Principles of Responsible Investment (UNPRI) in April 2006, initiated by Kofi Annan, the former Secretary General of the United Nation.[8] In his speech, he

[8] Upon his invitation, a group of the world's largest institutional investors, supported by a 70-person multi-stakeholder group of experts from the investment industry, intergovernmental and governmental

emphasised the importance of integrating closely the investment industry through the UNPRI framework and CSR programs in order to bring about meaningful results (UNPRI, 2006: 2):

> Indeed, I was concerned that the tenets of sustainable development, despite increasingly strong political backing and grassroots support, would continue to have a hard time gaining traction unless they were better integrated into investment analysis and assessment. … In recent years, even as more and more companies have embraced corporate responsibility – including through the UN Global Compact initiative – their efforts, with only rare exceptions, have not been recognised or rewarded by the financial community.

2.3 THE BASICS OF SRI

The SRI movement aspires to bring social, ethical and environmental issues in investment decisions alongside financial returns. However, its virtuousness does not render itself immune from criticisms. In addition to the lack of consensus about its definitions (Cooper and Schlegelmilch, 1993), it is also claimed that "the language used to describe SRI funds, including the term 'SRI' itself is vague and indiscriminate, causing misperception and distortion of investors' goals" (Hawken, 2004: 22). It is true that numerous terms have been used to describe this investment philosophy, for instance 'social investment' (Bryan 1987), 'mission-based investing' (Lydenberg and Kinder, 1998), 'green investment' (Heinkel and Craus, 2001) and perhaps many more, but the two most used terms are 'ethical investment' and 'socially responsible investment' or SRI, where the latter has become more popular and accurate to represent the mature and developed approach of the field.

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organizations, civil society and academia, joined in a process of developing the principles. In doing so, the investors agreed to accept the ownership of the principles and have the freedom to develop them as they saw fit, based on their own investment strategies and within the framework of sustainable development.

2.3.1 SRI Terminology

Ethical investment was the common term used by earlier writers in the field such as Simon *et al.* (1972) and Domini (1984) in the U.S.; and Sparks (1995) in the U.K. This reflects the fact that Churches and charities were the forerunners of the field, and therefore, the criteria involved in investment decision were predominantly surrounding ethical concerns.

The first ethical unit trust in the U.K., for instance, came into place with considerable effort spent by churches such as the Methodists and Society of Friends (Quakers), where for investment, portfolio were screened through moral grounds such as the exclusion of arms manufacture, the production of alcohol or tobacco, gambling and oppressive political regimes (Spark, 2002). They were also responsible in establishing other important infrastructure, such as research services and forums, which contributed significantly to the development of the industry.[9] Perhaps, against this backdrop, it would be understandable that the term ethical investment and its focus on exclusionary screening of unethical activities have become widely established in the U.K., at least until recently.

While SRI has been the standard term used in the U.S for quite some time, the term only became more commonly used in the U.K in the late 1990s, particularly with the introduction of SRI disclosure regulations among pensions funds.[10] This is largely due to the discomfort of various parties on the use of the term 'ethics' in investment. For instance, by labelling the practice as 'ethical investment', it seems to imply that mainstream approaches to investment are 'unethical' (Anderson, 1996). Similarly, the use of 'ethical' to describe such investment approach will necessitate the use of high moral

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[9] For instance, along with the Methodist Church, Quaker charities such as the Rowntree Trust played a large part in setting up EIRIS (Ethical Investment Research and Information Service) in 1983 (Spark, 2002).

[10] When announcing the new SRI pension regulations in parliament, the Pension Minister, Steven Tims publicly expressed his preference to the use of this term; "It has traditionally been referred to as Ethical Investment, but what I prefer to call Socially Responsible Investment. I believe that when a name becomes so loaded a term that the very mention of it stifles intelligent debate rather than encourages it, then it's time for a change" (cited from Sparks, 2002: 22).

standard in its conduct. However, Schwartz (2003) argues that the movement are short of strong ethical foundation and points to instances where the practice is lacking of ethical merits, especially on the issues related to transparency, accountability and marketing of the ethical funds. It is not clear, however, how the use of 'socially responsible' investment as opposed to 'ethical' investment can solve the discomfort of some towards the idea. Perhaps, a change in the term may bring new perception and expectation, or at least, it would not be as vulnerable to the type of criticisms similar to those of Anderson (1996) and Schwartz (2003).

Despite the fact that the terms SRI and ethical investment are often used interchangeably, it has now become widely perceived that ethical investment constitutes a reactive measure with a narrow focus that typically entails negative screening. SRI, on the other hand, includes a proactive measure that searches for companies who uphold good practices, and seeks to change corporate behaviour through positive engagement with management (Scanlan, 2005). In other words, SRI is seen as a broader umbrella term that includes ethical investment, and other socially and environmentally oriented investing such as green and mission-based investment, where various approaches are used from simple exclusionary screens to complex corporate engagement.

2.3.2 SRI Definition

The goals of social investors are the key in understanding SRI, and many authors have approached the practice from the perspective of social investors. For instance, SRI literature has identified two important aspects to the motivations for investing responsibly; the desire to align or integrate personal or institutional ideals with economic interest, and to advocate social change among corporations as to promote positive impact on communities, employees, customers, shareholders, and the environment (Domini, 1992; Domini and Kinder, 1984; Domini, 2001). Due to their importance in shaping the practice of SRI, some have also defined SRI from the investors' viewpoint. For instance, Kinder (2005: 4) defines SRI as "the incorporation of the investor's social or ethical criteria in the investment decision-making process", and the European Social Investment Forum (EuroSIF, 2006: 1) states that "SRI combines investors' financial objectives with their concerns about social, environmental and ethical (SEE) issues".

In a more extensive attempt to define SRI, Bruyn (1987: 13-15) provides four different levels of interpretation to 'social investment': descriptive, normative, analytical and theoretical. The descriptive level argues that all economically driven investment activities are always conducted in the context of society, and therefore, cannot be isolated from the social factors. Similarly, from the analytical angle, the allocation of capital has a social framework, as the social behaviour of the businesses invested is critical to the assessment of any economic investment. Theoretically, apart from the financial returns aspired through investment, the act of capital allocation itself may affect the power and values of people in a society in various ways, and since its impact may even determine the whole course of a society, investment, therefore, is argued to be a social activity. However, the appropriate interpretation of social investment in this context exists at the normative level, and defined as "the allocation of capital to advance the social and economic wellbeing of people" (Bruyn, 1987: 13).

Although Sparks (1995: 4) describes SRI as "an investment philosophy that combines ethical or environmental goals with financial ones", in a recent publication he believes that Cowton's (1994) definition is more appropriate and accurate in describing the practice of SRI; "the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares (stocks)" (cited by Sparks, 2002: 22). While conceptually SRI is applicable to any type of financial instruments and products such as stocks, bonds, and public debts, it is mainly equity-based as its major aim is to positively influence corporate behaviour through share ownership (Sparks, 2001). Sparks further considers the financing of community investment initiatives, which predominantly use an ethical banking model as a 'Socially Directed Investment (SDI)' that differs from SRI. Apart from being fundamentally a debt-based activity, "the essence of SDI is that SDI savers deliberately accept below market returns in order to help others; this is certainly not the intention in SRI" (Sparks, 2001: 200).[11]

In view of the importance of the financial returns to SRI investors, Sparks (2001) stresses that while SRI is about advancing social and environmental goals, it is of equal importance that it is combined with achieving financial returns comparable to that of the market. This conception of SRI funds, especially for institutional investors, is pivotal as they carry legal fiduciary responsibility in providing reasonable and comparable returns to their principals. In this context, Sparks (2001) identifies the need to differentiate between shareholder activism under SRI, and advocacy campaigning by NGOs. The NGOs' Advocacy campaigning is basically the effort to bring public attention to certain corporate misconduct concerning issues such as human rights, labour standards and environment through various channels with the objective of causing change and reforms.[12] Though some believe that such an approach can be very effective in bringing change in the behaviour of corporations (Kaler, 2000), and SRI investors and campaigner groups have collaborated in pursuing certain goals, there are striking differences between the two. While shareholder activism of SRI frequently consists of broad environmental, social, or governance concerns, NGOs Advocacy campaigning is normally based upon a narrowly defined agenda that is perceived to be of overwhelming importance to their members. In fact, "it seems quite legitimate for them to want to cause financial harm to a company, perhaps by encouraging consumer boycotts, if that is seen as the most effective way to get their message across" (Sparks, 2001: 201).[13]

[11] Perhaps, this view is shared among other U.K. and European SRI advocates as SRI industry reports either produced by EUROSIF, UKSIF or other member countries exclude the reporting of community investing, which is contrary to the practice of their counterparts in the U.S. or Australia.

[12] However, it should also be emphasised that the role of NGOs are not necessarily restricted to advocacy campaigning. For instance, Terrence (2004) presents the increasing significance of the role of NGOs in the field of SRI, ranging from providing advice, consultation and input to SRI funds to the filing of shareholder activism using proxies and other strategies, and in some cases, may sponsor and manage SRI funds in promoting their causes.

[13] It is therefore understandable why advocacy campaigning groups would normally consider publicity and confrontation as a more desirable approach to exert greatest impact, whereas quiet engagement and dialogue with company management in addressing SEE issues is more in line with the preservation of SRI investment. See Sparks (2001) for details.

In a more recent development, the World Economic Forum report dedicated to mainstreaming SRI has shortened the phrase to 'Responsible Investment', which defines the term as "investing in a manner that takes into account the impact of investments on wider society and the natural environment, both today and in the future" (WEF, 2005: 7). The omission of the word 'social' from the phrase 'responsible investment', according to Kinder (2005: 4), indicates an emergence of a new perspective which "marks the entry into SRI of a group of institutional investors who do not have a mission-related commitment to social or environmental causes, and who are uncomfortable with the responsibility for moral judgments which decisions on non-financial criteria imply". Secondly, notwithstanding the consistency between the social, ethical and environmental factors with sustainable development, perhaps, this is the first time that the notion of sustainable development is made explicit in the definition of SRI. Consequently, some social investment forums, despite using the traditional SRI acronym, have used 'sustainable' instead of 'social' in the term to describe SRI.

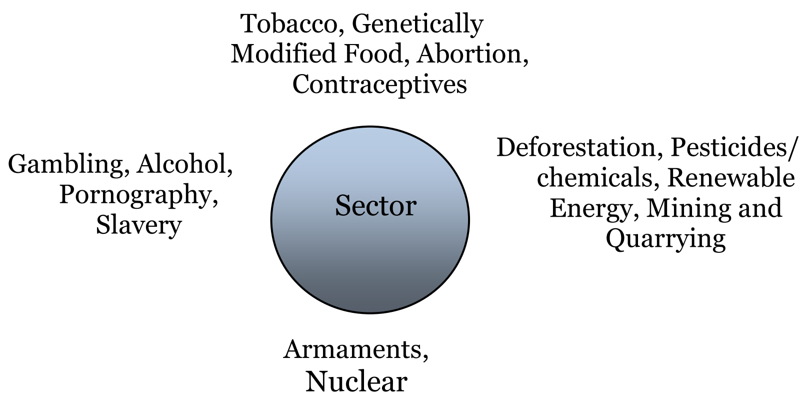
2.3.3 SRI Issues and Its Evolution

SRI has evolved from an investment activity focusing on limited moral injunction into an investment industry addressing broad and diverse issues pertaining to social and environmental concerns. The roots of SRI in the western world can be traced back to its faith heritage. For instance, in early biblical times, Jewish law has outlined numerous directives on ethical investment. The founder of the Methodist Church, John Wesley (1703-1791), in his sermon, 'The Use of Money', presented some important ethical principles which include the call to avoid profiting from gambling, unfair lending and business practices, exploitation of labour, pollution, and corruption (Domini, 2001: 29). In the mid of the 18th century, the Society of Friends (Quakers) urged its members not to profit from any activity which enslaved fellow human beings (Domini, 2001: 30). The first mutual fund to use an avoidance of 'sin' activities in its investment portfolio was established in 1928 in the U.S., and such a screening approach has remained as one of the important SRI's strategies today.

The modern form of SRI industry, however, emerged in the midst of the turbulent social and political climate in the 1960s in the U.S. as a result of the civil-rights, feminist, consumer, and environmentalist movements, coupled with the escalating protests against the Vietnam War, which had raised public sensitivity towards social, ethical and environmental issues. Such movements were further strengthened in the 1970s, and came to include management and labour issues and anti-nuclear sentiment. This new broad perspective of SRI was manifested by the launching of the Pax World Fund in 1971, and the Dreyfus Third Century Fund, in the following year, to be the first social funds to avoid ‘sin stocks’, nuclear power and military defence contractors and to consider labour and employment issues (SIF, 2006).

Perhaps, the most galvanising moment in SRI history is the anti-Apartheid movement in the 1980s, and continued to the 1990s as individual and institutional investors including charities, churches, universities, states and pension funds focused SRI strategies onto the corporations having interests in South Africa in the effort to dismantle the Apartheid regime. Subsequently, the disasters of Bhopal, Chernobyl, and Valdez, and the increasing threats of global warming have placed the environmental and sustainability concerns to the forefront of SRI issues. Most recently, issues involving diversity records, ‘sweatshop’ practices (supply chain), and oppressive regimes have also emerged as important criteria used in the screening, engagement and proxy resolutions among SRI advocates (SIF, 2006). Apart from responding to concerns over the social, ethical and environmental (SEE) issues, the increasing number of institutional investors committing to SRI has brought ‘corporate governance’ as one of the key components of SRI issues. This is consistent with the fiduciary role of the institutional investors in protecting and enhancing the returns on investment to the fund owners. Subsequently, the traditional acronym of SEE to describe SRI concerns has increasingly been replaced with ESG, referring to environmental, social and corporate governance.

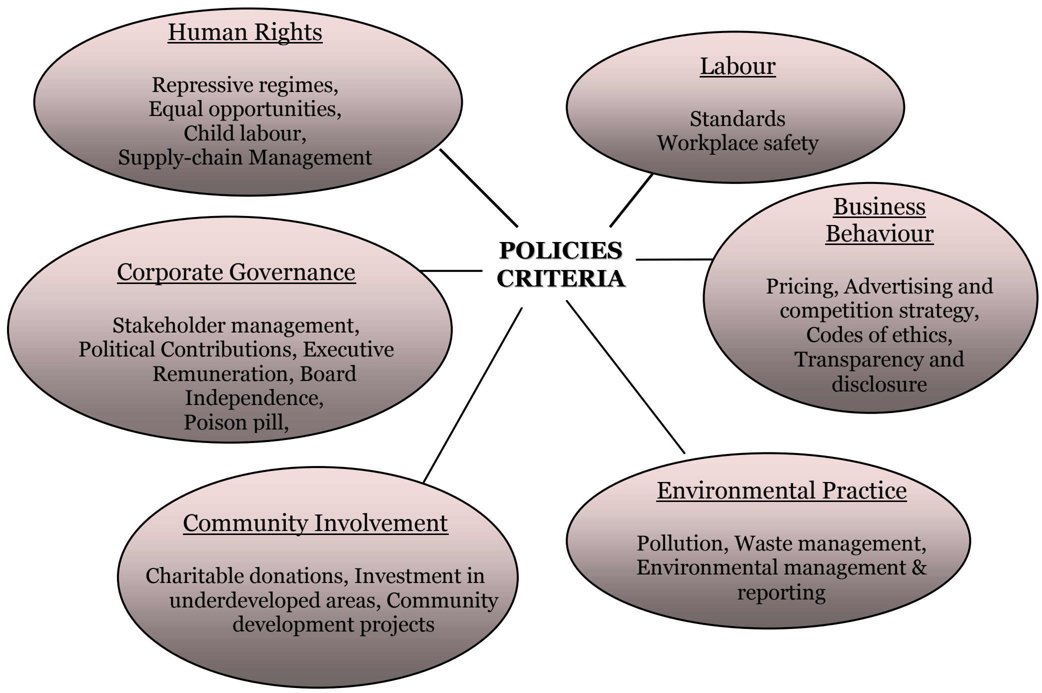
Figure 2.1 SRI Dimensions: Sector-Based Criteria



Despite the broad issues addressed by the diverse groups of SRI investors, the criteria of concerns can be summarised into two main aspects of the business: the nature of its activities or sector (products/services) and its policies. As alluded earlier, some popular criteria related to the main business activity of companies include the avoidance of the 'sin' sector (e.g. gambling, alcohol, pornography, tobacco and weapons), environmentally damaging sector (e.g. deforestation, pesticides/chemicals and mining), and sustainability sector (e.g. renewable energy). While the identification of SRI criteria based on the sector screen is quite a straight forward process, the SRI criteria related to the policies of the companies are more subjective in nature and cover a wide area of concerns such as business practices, labour standards, human rights, environmental policies, community involvement and corporate governance.

Figure 2.1 and 2.2 list some of the important issues of SRI based on this categorisation. Although the list may not be exhaustive, it provides a clear picture on the diverse aspects of SEE or ESG issues, which are of particular concern to SRI investors.

Figure 2.2 SRI Dimensions: Policy-Based Criteria



2.4 THE MATURING AND MAINSTREAMING OF SRI

Recent decades have witnessed the tremendous growth of SRI, not only manifested by its growing size, but also the increasing complexity in its strategies that evolve over the years, accommodating to the new market environments and challenges. This development has certainly brought SRI into the mainstream investment industry and fundamentally altered its ability to exert influence in fostering higher social, ethical and environmental standards among businesses.

2.4.1 The Growth of SRI and Its Drivers

The inception of SRI mutual funds in the U.S. in the early 1970s has become the forerunner in the development of the SRI industry today. When the first industry review was conducted in 1995, socially screened mutual funds in the U.S. stood at 55 funds with

USD12 billion worth of assets, and in 2005 there were well over 200 funds with a total asset valued at USD179 billion (SIF, 2006). Despite similar efforts to establish SRI funds in the U.K. as early as in 1973, the first fund using SEE criteria, the Friends Stewardship Fund, only commenced its operation in 1984. In the context of the European market, SRI funds showed strong growth over the years from just around 4 funds operating in 1984 to a total of 159 funds in 1999, and currently stand at 375 funds as of June 2005, valued at approximately 24 billion Euros (Avanzy, 2005).

While the growth in SRI mutual and unit trust funds may well represent the most visible sign of public interest in SRI, the bulk of funds adopting SRI strategy come from institutional players. It is estimated that around USD2.29 trillion worth of funds adopt varying forms of SRI strategies, representing nearly 1 out of 10 dollars invested under professionally managed funds in the U.S. (SIF, 2006). In Australia, SRI assets experienced a strong increase from around AUD325 million in 2000 to AUD11.98 billion in 2006 (EIA, 2006), while the SRI assets in Canada exploded during 2003 and 2004 to a staggering CAD503.61 billion at the end of June 2006, from just CAD65.46 billion 2 years earlier (SIO, 2007).

In his attempt to examine the practice of ethical investment, Schwartz (2003) identifies several factors that have contributed to the tremendous growth of the industry since 1980s. Apart from the growing investor concerns of social responsibility records of corporations, the increased evidence that ethical funds produce attractive returns (or at least generate similar returns) have pushed SRI into the mainstream investment practice. Schwartz adds that this growth is enhanced by the growth in advertising and media exposure, the introduction of sustainability indices and the infrastructural support provided by an increasing number of national social investment organisations.

In addition, the Ethical Investment Research and Information Service (EIRIS, 2003) credits the increase in money invested in ethical funds to the rising awareness among the public on ethical investment, and the recognition among fund managers that a complete range of financial product offerings must include an ethical fund. One important milestone in the history of SRI in the U.K., which has huge global implications on SRI, was the introduction of a new regulation in July 2000 which require pensions funds to report the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments (Sparks, 2002). This has brought the attention of institutional investors on social responsibility issues, and contributed to the further growth of SRI.

2.4.2 SRI Strategies and Practices

The dynamic nature of SRI industry has stimulated the development of several new strategies to accommodate the changing environment and needs of investors. From its origin of a mere avoidance of ethically unacceptable sectors, the current SRI movement has adopted various other strategies such as positive screening, engagement, and community investment (Domini, 2001). In addition, EUROSIF (2006) identifies 'integration' as a new strategy used by SRI investors. Though each strategy can be implemented independently, investors often use more than one strategy in pursuing SRI.

Screening involves the traditional exclusionary strategy which uses negative criteria to filter out unethical businesses. Based on the practice in Europe, the EuroSIF (2006) identifies two other variations of negative screening strategies: simple screen and norms-based screen. Unlike the commonly practiced strategy where a large number of criteria are used in the filtering process, simple screen only focuses on the exclusion of single sector or issue of concern for its investment such as excluding arms industry, pornography or tobacco, or banning investment in Sudan or Myanmar for human rights reasons. Norms-based screening, on the other hand, based its negative screening process by examining the companies' compliance with international standards and norms such as those issued by the OECD, ILO, and the UN. While tobacco remains the most used screening criteria in the U.S. (SIF, 2006), it only came third in the case of Europe, after weapons and human rights (norm-based) issues (EUROSIF, 2006). Other popular screening criteria used by SRI funds include alcohol, gambling, community relations, environment, labour relations, equal employment opportunity, pornography and animal testing (SIF, 2006).

If a negative screening tries to avoid ethically undesirable business practices, a positive screening, in contrast, adopts a more proactive approach and seeks to invest in businesses with good CSR or with products or services that have positive impacts on both the community and environment. An example of such an approach is pioneer screening, where investment is focused on 'industries of the future', such as the transition to a sustainable development and a low carbon economy. Some SRI investors perceive exclusionary screening approach as restrictive, and limit the sectors in which the portfolio of investment can be built[14]. This has led to the emergence of the 'best-in-class' approach, where SRI investors invest in companies identified as leaders in the SEE front within each sector or industry. Using this approach, companies which are otherwise excluded based on the exclusionary screening of unacceptable sectors can still be included in the portfolio, provided that these companies demonstrate good social responsibility records and stand out from others in the industry. This approach does not only provides portfolio diversification across all sectors of the economy, but also allow SRI investors to address their SEE issues of concerns, including to those companies operating in 'unacceptable' industries.

Engagement or shareholder activism is another approach in which SRI investors can exercise their influence as shareholders to promote responsible business behaviour onto the companies or to protect and enhance returns from investment. SRI investors will engage in a dialogue with the management on their issues of interest related to social, ethical, environmental or corporate governance. In cases where agreement cannot be achieved, SRI investors may use their power to sponsor resolutions and vote on them during the companies' Annual General Meeting. In the U.S., around 35 percent of SRI

[14] In Canada for instance, if natural resource sector (metals and minerals, oil and gas, and paper and forest products) is screened out from investment portfolio, the remaining pool of large cap companies will be very small, and therefore may significantly affect portfolio performance (Schwartz, 2003).

assets involve in varying degrees of engagement or shareholder advocacy strategy (SIF, 2006). While proxy resolution is not something that can be often seen in the European context, it was reported that a total of 288 resolutions involving the social or environmental concerns were filed with U.S. corporations in the first half of 2003, 80 resolutions were introduced concerning environmental issues (climate, GMOs, energy and resource use, and reporting), 47 involved global labour standards and 16 involved human rights issues. Other issues were banking, charitable contributions, militarism, health care, political contributions, and tobacco (SIF, 2003).

A recent development of the SRI industry sees integration as the new approach in which investors incorporate ESG issues into investment. This strategy entails an explicit inclusion of SEE and corporate governance risks into the traditional financial analysis. Another SRI strategy, which is not mentioned in the European SRI report, is community investment. Community investing is defined as the capital from investors and lenders that is directed to communities that are underserved by the traditional financial services. It provides access to credit, equity, capital, and basic banking products that these communities may otherwise lack. Despite its miniscule percentage from the overall SRI assets, the community investment movement is the fastest growing SRI sector in the U.S. (SIF, 2006).[15]

[15] The four primary community investing options or commonly known in the U.S. as community development financial institutions include Community Development Banks (CDBs), Community Development Credit Unions (CDCUs), Community Development Loan Funds (CDLFs) and Community Development Venture Capital Funds (CDVCs) (SIF, 2006).

Figure 2.3: Various Strategies of SRI

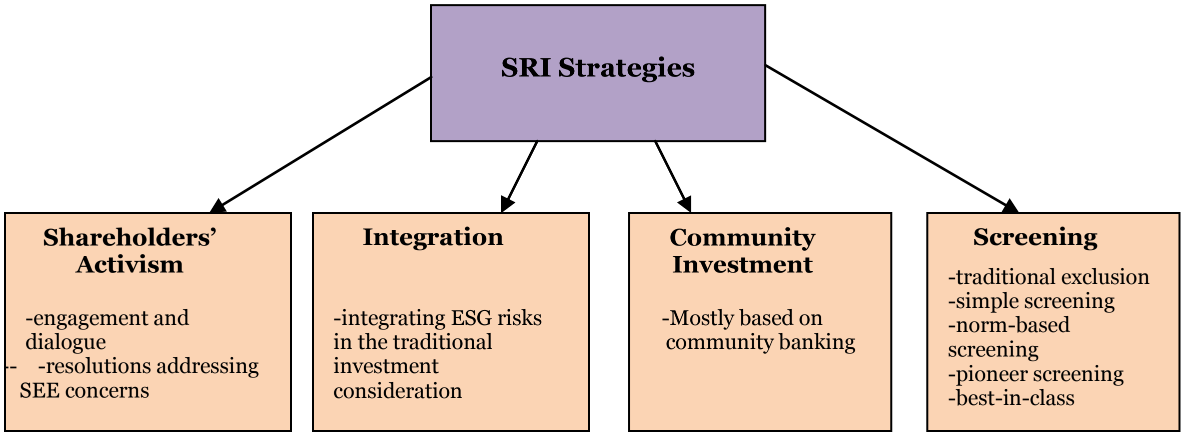


Figure 2.3 summarises the four identified SRI strategies. While each strategy can be implemented independently, the connecting line between them implies that the strategies can be combined depending on the circumstances and objectives of the SRI investors.

2.4.3 Mainstreaming of SRI

SRI has evolved into a vast industry and attracted diverse players from small retail investors to huge institutional investors and from groups of religious orders to environmental or human rights bodies. The entry of institutional investors in various form of SRI, not only has brought SRI from a niche to the mainstream, but also taken the lead on many of the sector's trends and issues.

The SRI market can be divided into retail and institutional investment. While retail market is characterised by the accessibility of such investment to individuals or the public, institutional market constitutes the investment by pension funds, businesses, charitable foundations, religious bodies, or even high-network individuals. Apart from the considerable differences in size, institutional SRI investment differs from its retail counterpart in many other areas; such as the nature of investment, strategies adopted, issues of concern, and the underlying investment objectives. In order to understand the different players in the growing SRI market, EuroSIF (2006: 3-4) has divided its industry report into two segments; core SRI and broad SRI; "as there are still debates amongst some SRI practitioners as to what actually qualifies as SRI, dividing Core and Broad SRI roughly follows the lines of this debate". Core SRI may generally be perceived as the 'more traditional' form of SRI, as many of its customers are its historical advocates such as individuals, churches and activists, while Broad SRI mostly constitutes large institutional investors. Core SRI segment includes investments utilising ethical exclusions and positive screening (including best-in-class and pioneer screening), while broad SRI entails Core SRI plus investments with Simple screening (including norms-based screening), engagement and integration (EuroSIF, 2006).

According to Sparks (2004), the involvement of institutional investors through SRI has been an important determining factor in the effort of mainstreaming it. For instance, while core SRI was estimated to be €105 billion, broad SRI reached €1.033 trillion at the end of 2005 (EUROSIF, 2006). The statistics clearly highlight the enormous amount of funds commanded by institutional investors, and significant role they have played in the growth of the SRI industry. To illustrate further, the Canadian SRI market, whose assets had been stagnating in the past four years, experienced a boost from a total value of CAD65.46 billion in 2004 to a staggering CAD503.61 billion at the end of June 2006. This was the result of the adoption of SRI guidelines by several major pension funds of the country (SIO, 2007).

It should be noted that evidence suggesting the mainstreaming of SRI is overwhelming. A survey by Mercer Investment Consulting has found that international investment managers worldwide believe that the adoption of SRI practices and strategies will become a norm in the market and set on a mainstream trajectory perhaps more strongly than many in the industry would have assumed. Among others, almost 80% predicted that active ownership will be a mainstream practice within 5 years (89% in 10 years); almost 40% estimated that positive or negative screening will be mainstream within 5 years (65% in 10 years); while 37% forecasted that the incorporation of social and/or environmental corporate performance indicators will become mainstream within 5 years

(73% in 10 years) (Ambachtsheer, 2005). Perhaps, what is more astounding is the fact that investors committing to the Principles of Responsible Investment (UNPRI) surpassed the USD10 trillion mark just over a year of its launching, and it had reached to approximately USD22 trillion at the end of July 2010 with a total of 784 signatories (UNPRI, 2010). These huge funds under a well defined standard of ESG framework can push responsible investments deeper into the mainstream financial market, and in a better position to influence good corporate behaviour.

2.5 THEORETICAL UNDERPINNING OF SRI

Despite the marked increase in the literature on SRI, serious discussions on the theoretical underpinnings of SRI are very scanty. Perhaps, this can be explained by the fact that proponents of SRI pre-dominantly practitioners, who focus more on practicalities than providing theoretical foundation (Sparks, 2002). Nevertheless, this section seeks to provide an overall understanding of the issue by synthesising the available literature on the theoretical underpinnings and framework of SRI.

2.5.1 Ethics in Investment

It has been the thinking from the neo-classical economics point of view that economic rationality is the only form of rationality, and other concerns such as care for the environment or community, can only be justified so long that it advances economic interest (Friedman, 1970). In the field of investment, this entails that the sole focus of a rational investor is to maximise the financial returns or net present value of any investment undertaken. Such an egoistic self-interested approach to economic analysis, for some, is regarded as beneficial, enabling economists to develop analytic techniques and make rational predictions of future human behaviour, whereas others view these ‘benefits’ as fatal flaws leading to the imperialism of economic analysis over ethics (Zaratiegui, 1999). However, recent decades have witnessed a renewed interest among economists and moral philosophers alike to bring back ethics into economics. Despite maintaining a utilitarian perspective, Sen (1987) highlights the importance to recognise individual motivation other than self-interest, and emphasises the fact that economic analysis can be more productive by paying greater and more explicit attention to the ethical considerations that shape human behaviour and judgement.

On the other hand, based on deontological ethics, Etzioni (1988) suggests an alternative to the neo-classical thinking by changing its core assumptions concerning the selection of goals and means, and the actors and factors involved in the decision making process. "Where the neoclassical assumption is that people seek to maximise one utility (whether it is pleasure, happiness, consumption, or merely a formal notion of a unitary goal), we assume that people pursue at least two irreducible 'utilities', and have two sources of valuation: pleasure and morality" (Etzioni, 1988: 4). Etzioni's 'socio-economic' theory also exerts that individuals typically select means, not just goals (of which are made to a significant extent on the basis of their values and emotions), and social collectivities (such as ethnic and racial groups, peer groups at work, and neighbourhood groups) are the prime decision-making units, and individual decision-making often reflects, to a significant extent, collective attributes and processes. This can be reflected in the practice of SRI, where the 'means' to achieve the goal of financial return are of significant consideration, such that the investment process must not violate their subscribed values and beliefs. This values and beliefs are often influenced by collectively oriented groups, such as religious orders, social and political affiliations, or human rights and environmentalists movements.

In this context, contrary to the self-interested egoistic perspective, Le Menestrel (2002) argues that ethically motivated decisions are equally rational, and proposes three forms of rationalities: optimal behaviour when both economic interest and ethical goals coincide; venal behaviour when ethical concerns is compromised to pursue economic interest; and sacrificial behaviour where economic interest is sacrificed for ethical concerns. While the available literature suggests that most SRI investors seem to have similar interest in the financial performance of their investment, studies have also shown that they are willing to accept financial sacrifice in the form of lower returns to make their investment in line with their values, beliefs or lifestyle (Lewis and Webley, 1994; Lewis and Mackenzie, 2000; Webley, 2001). This implies that SRI investors derive utility not only from the financial returns, but also from the so-called ‘psychic’ returns of their investment. In sum, the emergence of socially responsible investment can be seen as the manifestation of ethical dimension integrating into investment decision making which has long being dominated by the purely economic concern.

2.5.2 SRI Issues and Their Underlying Foundations

Despite an extensive attempt by Bruyn (1987) to develop a conceptual foundation for social investment, Owen (1990) contends that the market-oriented approach taken by Bruyn has overlooked the role of ‘inner directed values’ as an important factor in an economic analysis. This is parallel with Wilson (1997b) who believes that religious teachings have strong influence in shaping people’s conception of ethics, even in the context of increasingly secularised societies. “An understanding of religious teaching helps put ethical issues, including those involving economic relations, in a fuller perspective. Religion has a profound influence on personal and social values, which affects even those without beliefs” (Wilson, 1997b: 1). Such claims can be easily validated in the present SRI practice as a screening strategy of the traditional ‘sin’ activities such as gambling, alcohol, and weaponry remain as the leading criteria of SRI funds. In fact, Statman (2005: 14) suggests that “the origins of socially responsible investing lie in religion”. Therefore, religious norms constitute an important component to the ethical justifications of the SRI issues.

Rhodes and Soobaroyen (2010) add that by locating the source of ethics of SRI from the concern of one’s action towards others, prevention of harm towards others or the natural environment entails that investing in arms industry, businesses having links with oppressive regimes, or polluting companies to be inconsistent with this principle. Other related sources of ethics such as universal principles of equality, justice and sustainability have also been championed by the various SRI groups, including feminists, humanist activists and environmentalists, with issues such as equal opportunity, human rights and climate change being strongly advocated.

However, some have questioned the 'ethics' underlying the practice of ethical investment. For instance, the approach to crudely rejects certain industry such as liquor, gaming, tobacco or nuclear as totally objectionable is considered to be simplistic, unacceptable and short of careful ethical judgement required by such a movement claiming to be based on 'ethical' values (Johnson, 2003; Anderson, 1996). To go even further, Schwartz (2003) challenges the notion of 'ethical screens' and questions whether or not the screening criteria pre-dominantly used by ethical funds can be identified as 'ethical'. Based on a set of moral assessments largely influenced by the 'consequentialist ethics', he argues that apart from tobacco and possibly alcohol, other 'ethical screens' are lacking support of clear ethical principles which may render them to be 'unethical'. Such screens "are simply screens developed with the intention of reflecting intended investor's social, religious, or political attitudes or beliefs, and nothing more" (Schwartz, 2003: 211). This is consistent with an earlier report on the issue which concludes that the ethical investment criteria being used reflect investors demand, and instead should be accurately labelled as 'investments reflecting investors' opinions', 'investments reflecting fashionable causes', 'scrupulous investments', 'ethically simplistic investments', or any of those variance (Anderson, 1996). On the other hand, Hawken (2004) criticises the flexibility in which SEE criteria are used and suggests that the SRI practice is too broad and to certain extent, 'meaningless'. Subsequently, he proposes a process of standardisation of the SRI term and strategies as to bring them closer to a more puritist approach to ethics (Hawken, 2004).

While acknowledging such claim, SRI practitioners believe that the diversity of SRI criteria and issues are actually the strength of SRI, not its weakness. "Some have criticised SRI for its lack of uniform standards for what is 'socially responsible' in investments. They are right that there are no such standards; they are wrong in implying there should be" (Kinder, 2005: 19). The broad scope of SRI and its flexibility permits the industry to provide options for investors who may have diverse issues of concern, and more importantly, accommodate the evolution of SRI criteria as investors' understanding of the world about them changes (Baue, 2004). In other words, an important feature of SRI is that it is an ever-changing area as different issues take precedent over others, dependent on societal, cultural and financial factors (EuroSIF, 2006).

While there are certainly disagreement on the issues considered as ethical or socially responsible, this does not suggest that the industry is absence of any moral grounding. Rather, this reflects the state of development it has reached, where various groups within the broad SRI industry pursue their own issues of concerns consistent with their respective moral, social or political convictions. In other words, religious values, humanist norms, or consequentialist ethics provide the underlying principles in which the SRI criteria are based, and subsequently, influence the strategies they adopt. However, as will be shown in the following section, not all SRI investors are subjected to such ethical grounding, as some, despite using SRI criteria in their investment, may not necessarily be motivated by any ethical reasons.

2.5.3 SRI Investors and Their Underlying Motivations

In understanding the theoretical underpinnings of SRI, it is very important to recognise the diversity of actors involved who may have significant differences in terms of their nature, motives, approach and objectives. One way of identifying of such differences is by comparing between retail and institutional investors. Retail investment reflects individual's values and principles, and therefore, it is expected that investment should be made in a consistent manner or promote these values. However, such straight forward relationship may not be necessarily true in the case of institutional investors. EuroSIF (2003: 7) identifies three groups of institutional SRI investors: institutions like churches, foundations, and charities; companies investing with their own funds such as insurance companies, banks, and corporations; and investors investing money on behalf of others such as pension funds and other retirement financing systems. While the first two groups may be considered to represent 'individualised' vision of ethics, investment decision of the latter have to reflect the interests of multiple stakeholders they represent.

From another perspective, Kinder (2005: 11-12) provides a very insightful observation on the current players of the sector. Recognising the 'uncomfortable co-existence' between the 'old' and the 'new', he identifies three distinct categories of investors, beginning with 'value-based', and followed by 'value-seeking' and 'value-enhancing' investors, each with different perspective and approach to SRI. Value-based investors aspire to align their investment with their personal or institutional belief and priorities. As such, exclusionary strategy has been widely used to avoid various types of investments that are inconsistent with their values. For instance, religiously conscious investors may avoid sinful industries such as gambling and pornography, or humanity activists would ban investing in arms manufacture or nuclear related industry. Similarly, these values will also found the base in which other strategies such as engagement or shareholder activism are implemented.

With the rapid growth of SRI and the popular believe that investing based on SEE criteria may not necessarily result in lower returns, and in some cases, may even over-perform its conventional counterpart, another distinct type of SRI approach has emerged in the late 90s and is identified by Kinder (2005) as Value-Seeking SRI. Unlike value-based investors, value-seeking investors search for the social and environmental aspects of businesses which may affect financial performance and apply them as financial selection criteria to achieve higher returns. This observations is consistent with the description of Dubinski *et al.* (2003) where they identify four types in which ethical concerns can be expressed in SRI practices: value-based ethics resulting in the exclusion of so-called 'vicious' companies from the investment portfolio; fructification-oriented ethics with a view to long-term investment; consequence-based ethics aimed at initiating a behavioural change in the investment target; and ethics envisaged as a discriminating criterion in the search of the best financial performance. While the first three foundations of responsible investment are intrinsically reflective of value-based investors, the fourth can be seen as an attempt by investors to advance financial returns using ethical criteria without ascribing ethical values to the act of investing itself. This approach resembles the instrumental premise of CSR, where social responsibility initiatives and stakeholder management are considered strategic tools to advance economic interest.

As SRI move deeper into the mainstream investment industry and is embraced by more and more institutional players, there emerged the third generation of SRI investors known as value-enhancing investors, where the techniques of ‘shareholder activism’ and ‘engagement’ are pre-dominantly used to maintain or increase the financial value of their investments (Kinder 2005: 11). The characteristics of the three distinct types of SRI investors are shown in Table 2.2.

While the role of union and investor representatives is acknowledged as the catalyst in bringing institutional investors to the SRI front (EuroSIF, 2003), the concern towards the fiduciary responsibility is seen as one of the important impediments for many institutional investors, particularly pension funds to commit to broader social, ethical or environmental issues (Juravle and Lewis, 2008). This is consistent with the emphasis given by the value-enhancing investors to corporate governance characteristic of the companies they invest in, and less of its environmental or the social aspects, as the latter issues are less material to the financial aspect of the investment. This tendency was empirically observed on 101 U.S. and European institutional investors who are signatories of UNPRI, where corporate governance issues were found to be given the most attention in investment policy statement and company reports by almost all of the investors (Sandberg *et al*., 2009).

Table 2.2: Types of SRI Investors and Their Approaches

Approach	**Issues Of Concerns**	**Purpose**	**Criteria of success**	**Primary Type of Investors**	**Usual Vehicles / Means**
Value-Based	Broad SEE issues	-consistency with own values -social change	-return adjusted with risk tolerance -triple bottom Line	-individual Investors -faith-based and social-cause institutions	-mutual funds -separately managed accounts -indirect engagement
Value-Seeking	ESG issues material for superior performance	-spot investment prospects -corporate change	-Market return on investment	-foundations and endowments -fund managers -pensions	-separately managed accounts -pool vehicles -direct and indirect engagement
Value-Enhancing	Emphasis on corporate governance; shareholders activism and engagement	-identify underperform companies -corporate change	Market return on investment	Public pensions	Direct engagement

Source: Adapted from Kinder (2005: 23)

2.5.4 Theoretical Framework of SRI

It has become apparent that the SRI industry consists of diverse investors who can substantially differ on their issues of concerns and the underlying motivations. Nevertheless, as the focus of this study is to examine the social responsibility dimension in Islamic investment, where Islamic norms and ethics are indispensable elements in shaping the investment process, it is natural to focus the subsequent discussions on the theoretical framework of SRI from the perspective of the value-based investors. Despite being grounded in religious or ethical foundations, previous discussions have shown that such underlying values may themselves vary between different investors. Therefore, understanding the theoretical underpinnings of every possible group of value-based investors can be a complex undertaking, and perhaps may create more confusion. Therefore, the effort to synthesise the theoretical framework of SRI in this context will take a universal approach, where the discussions will be presented at a general level in order to provide a common framework for understanding SRI.

Many SRI studies have highlighted the importance of ‘consistency’ between conviction and action as the ethical grounding for ‘value-based’ SRI (Sparks 1995; 2002; Kinder 2005; Sandberg, 2007). Values have also been shown to have significant effect on investment decision (Pasewark and Riley, 2010). This principle can be clearly reflected from the following excerpts by the Bishop of Oxford in his foreword to the work of Sparks (1995: ix):

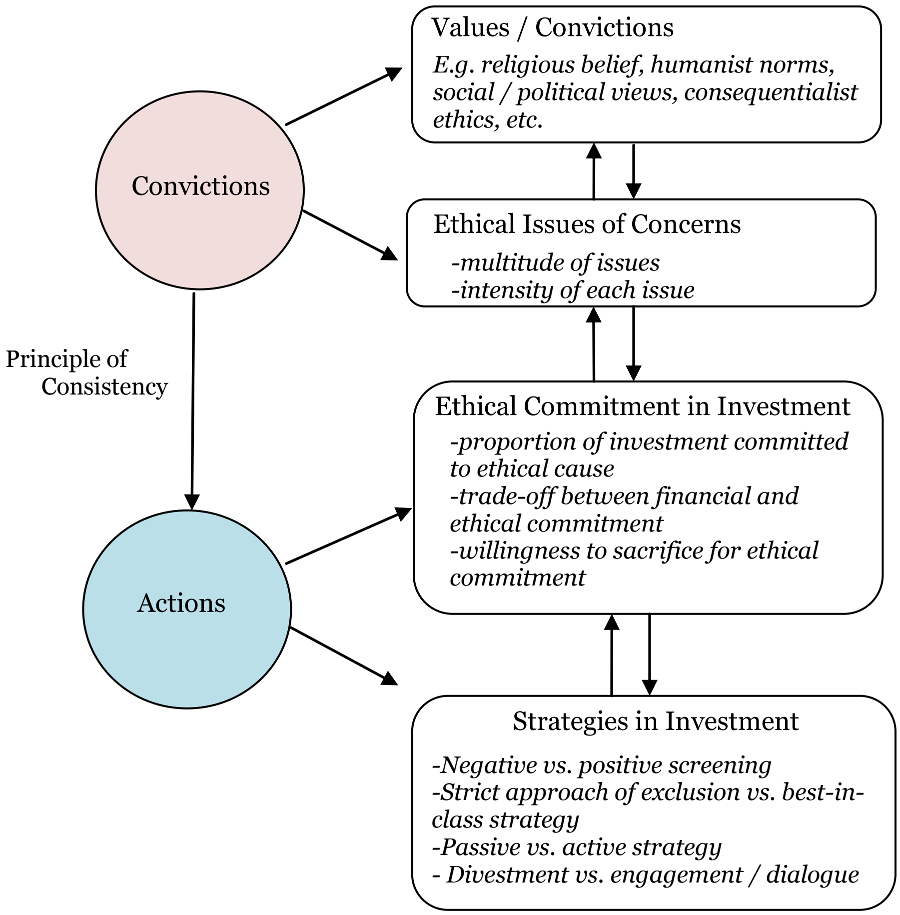
> As human beings we all have moral convictions of one kind or another. Now it is possible to apply those convictions in a consistent and systematic way. If you have watched your mother die painfully of cancer and are totally opposed to smoking, it is now possible to invest your money in a way which does not kill other people in the same way. If you have been appalled by the figures of thousands of children dying every year through some of the hundred million anti-personnel mines around the world, it is possible to invest your money in such a way as to have no part in the production of such weapons. If you believe passionately in the conservation of our environment and fair treatment for developing countries in their trade relations, again it is possible to ensure that your treasure is where your heart is.

In other words, the principle of consistency focuses on the ethical convictions subscribed by individuals, or even a group of investors or institutions, where such values will influence their SRI issues of concerns. This reflects the ‘expressive’ nature of the investment decision, where investors extend their ethical beliefs and social identity into their investment choices (Glac, 2009). While such a characterisation seems to be a straight forward relationship, its complexity lies on the possible multitude of issues supported by different investors and the intensity of conviction on such issues (Hummels and Timmer, 2004; Pasewark and Riley, 2010). In this respect, the set of ethical issues of concerns may differ between faith-based investors and environment or human rights-based investors, and in the case where the concerns are commonly shared, the ‘intensity’ of importance of different issues among different group of SRI investors may well varied. For instance, religiously motivated investors will put issues such as the avoidance of ‘sin’ activities as of paramount importance, while investors with strong human rights commitment may have issues such as gender and racial discrimination as their key priority. In fact, such diverse ethical commitment may even lead to conflicting ethical screens. Nevertheless, it is important to recognise that these complexities arise between different SRI investors, and do not reduce the utility of the consistency principle between conviction and action in understanding the theoretical framework of a specific SRI investor.

Another component to the theoretical framework of SRI is the commitment to carry forward the ethical convictions and the corresponding issues of concerns of the investors onto the actual investment choice. As noted by various SRI studies, the motivation of investors to invest ethically are driven by both financial and non-financial motive, such as psychic return, personal satisfaction, or social change (Beal *et al*., 2005; Lewis and Mackenzie, 2000). The presence of pecuniary and non-pecuniary components in the investment decision will raise the issue of the level of commitment to SRI concerns when the two motives are in conflict. While value-based investors may be willing to sacrifice some financial returns for the sake of SRI (which reflects their strong commitment) (Lewis and Webley, 1994; Mackenzie and Lewis, 1999; Webley *et al*., 2001; Pasewark and Riley, 2010), many studies have also repeatedly reported that SRI investors hold different proportion of SRI and non-SRI investments (Mackenzie and Lewis, 1999; Lewis and Mackenzie, 2000; Webley *et al*., 2001; Nielsson, 2008). Findings have also shown that financial motive has a significant influence on the level of such commitment; *e.g.* the percentage of total investment invested in SRI is influenced by its expected financial returns (Nielsson, 2008) and the willingness to sacrifice financial return among SRI investors depends on the level of returns they received from the regular (non-SRI) investment (Glac, 2009). Therefore, it can be said that the level of commitment among investors in pursuing SRI issues will be largely influenced by the level of ethical conviction subscribed to and the intensity of importance of such issues to the investors.

Subsequently, the three elements described above will influence the strategies adopted by the respective SRI investors: *e.g.* what specific area of SEE will be addressed; whether broad areas of social responsibility be pursued or only confined to certain issues; and to what extent such issues will be addressed, *i.e.* strict treatment (totally screen out) or a more tolerant approach (*e.g.* best-in-class approach).

Figure 2.4 Theoretical Framework of SRI



The relationship between the ethical values and convictions, the issues of concerns, the level of commitment in investment, and the investment strategies is summarised in Figure 2.4 above. As previously discussed, the ethical convictions subscribed by SRI investors will influence the SRI issues of concerns. The level of conviction and the intensity of importance of SRI issues will also determine the level of commitment in the investment process and the appropriate strategies in addressing these issues. The arrows indicate that the four components are interdependent and the interactions between them will shape the whole framework of SRI practiced by the investors. As the world changes and different issues take president over others, the subscribed values or convictions as well as SRI issues of concerns can change overtime, and therefore, potentially change the manner in which SRI issues and strategies are adopted. Similarly, changes in the attitude towards the trade-off between pecuniary and non-pecuniary returns may alter the level of commitment of SRI investors, and subsequently the SRI issues and the strategies adopted in addressing such concerns may also be reshaped.

2.6 SUMMARY AND CONCLUSION

This chapter has surveyed the SRI movement and discussed its definitions, issues, strategies, major players and the motivation underpinning the movement. Given its frequent association with SRI, some aspects of CSR have also been discussed, particularly on the theoretical foundation, the international standards and guidelines concerning CSR, as well as its symbiotic link with SRI. The various social responsibility issues incorporated in SRI reflects a new paradigm in which society and collective interest have become part of the considerations in the decision making process, where it has been traditionally dominated by purely economic concerns.

Despite the influence of its faith heritage in the earlier phase of its development, the western SRI industry has evolved dramatically and shaped by diverse movements and various geo-political events. As a result, modern SRI practices have espoused new areas of concerns, in line with the changing environment and circumstances. The issues of concerns are not only limited to sectoral lines (*e.g.* screening out businesses involving in tobacco, gambling, environmental pollution, *etc*, or investing in companies developing sustainable technology), but also on various aspects of the company's policies, including business practices, labour standards, human rights issues, community development initiatives, as well as the policies towards the environment. Similarly, the strategies adopted by the SRI investors have also evolved, ranging from the traditional exclusion to positive screening, integration approach, as well as complex engagement and advocacy initiatives. In spite of the encouraging progress, the practice of SRI has not escaped from criticisms. Among others, questions have been raised on the vagueness of its terminologies, the ethical grounding of SRI criteria, the arbitrary nature of the issues and strategies adopted, as well as its lack of standardisation. While such heterogeneity in the practice of SRI is widely acknowledged by SRI players, they do not consider it to be a major problem and some consider such flexibility to be accommodative to SRI investors and it is, therefore, advantageous.

The tremendous growth of the industry, especially the increasing involvement of institutional investors, has been the key factor in the mainstreaming of SRI practices in the global investment market. Nevertheless, this has also resulted in the entry of the so-called ‘new’ players to the SRI industries, which are quite different from the ‘old’ proponents of SRI, in terms of the underlying motivations, issues of concerns and strategies. While normative principle underpins the value-based investors, the value-seeking and value-enhancing investors are driven by the financial motive, with the former uses SEE criteria as ‘extra-financial’ indicators to seek superior performance, while the latter are pre-dominantly concern with corporate governance issues in securing and enhancing long-term returns.

Given the indispensable nature of values and belief in shaping the Islamic conception of ethics in investment, an attempt is made to synthesise available SRI literature in order to provide a theoretical framework of SRI from the perspective of the value-based investors. Despite the vast diversity of SRI investors and their underlying values, a general theoretical framework of SRI is built on the principle of consistency between convictions and actions. The ethical values or conviction subscribed by the investors influence the issues of concern and its level of intensity in the investment process. On the other hand, the actual SRI investment, including different types of strategies chosen, will then depend on the investors’ level of commitment. This general framework of SRI provides useful insights on the process and practices of SRI investors, and can be an important guideline in understanding the Islamic investors as well. Chapter Three, hence, proceeds with the discussions on the theoretical framework of social responsibility from the Islamic perspective.

CHAPTER 3

ISLAMIC PERSPECTIVE ON SOCIAL RESPONSIBILITY IN INVESTMENT

3.1 INTRODUCTION

Drawn from Chapter 2, which explored the notion of investing based on social responsibility concerns from the Western perspective, this chapter proceeds to examine the Islamic perspective of social responsibility and its implications on Islamic investment. Given the concerns on the lack of sound theoretical foundations that can provide clear conceptual framework on the social responsibility role of Islamic finance, this chapter seeks to delineate the normative foundation for a framework of a more socially, environmentally and sustainably oriented approach of Islamic investment that has resonance with SRI. In doing so, the integral nature of social and ethical values embedded in the Islamic worldview of life, the *Shari'ah* and its underlying philosophy known as the objectives of *Shari'ah* (*Maqasid al-Shari'ah*), and the imperative of justice (*'adl*) and beneficence (*ihsan*) are explored to provide the essential normative foundations. This is then synthesised with the notion of *falah* (ultimate happiness), which is frequently referred to be the overarching objective of the economic agents in Islamic economics, in providing a unified framework of social responsibility issues and commitment that forms the theoretical model of this study. As Islamic investment constitutes a sub-sector of the Islamic finance industry, and by definition is located within the realm of Islamic economics, the discussions will inevitably touch on these areas as well.

3.2 THE ISLAMIC WORLDVIEW AND SOCIAL RESPONSIBILITY

This section seeks to locate the ethical conviction and values on social responsibility from the Islamic perspective, and will start by discussing the Islamic worldview which is a crucial initial step in any model development in Islamic economics (Haneef, 2005).

Although Islam shares the same universal values with respect to SRI, including the commitment to the social interest, promotion of human welfare, care for the environment, concern for economic and social justice, and upholding the responsibility to shun harmful and unproductive activities, its construct is derived from a divine paradigm embodied in its Islamic worldview. This worldview provides a grand outlook of life and its meaning, and spell out the relationship between man and God, man with fellow man and other creations of God. The core of this paradigm is the notion of *tawhid* (unity of God), where all creations are subservient to Him alone. This holistic nature of Islam as a religion can be encapsulated in the concept of '*din*', which provides an all encompassing ethos for man (Haneef, 1997).[16] while individuals are given the freewill, which is an important drive for their development and wellbeing, they are also given sources of guidance that form the necessary 'moral filter' to ensure that such freedom is in harmony with the wellbeing of all God's creatures (Chapra, 1996). These sources of guidance include conscience (reflection of man's true nature - *fitrah*), intellect (*'aql*) and divine guidance through revelation (*risalah*) sent by God to all human beings and nations at different times in history through a chain of messengers (Chapra *et al*., 2008). While conscience and rational thinking provide man with the internal judgement on the notion of good and bad, this is guided and bounded by the divine system of norms and ethics embodied in the *Shari'ah* (Islamic legal and ethical system), enshrined in the revelation.

In Islam, "the worldly life must be related in a profound and inseparable way to the hereafter, where the latter has the ultimate and final significance" (Al-Attas, 2005: 11). The worldly life is also considered as a preparation for the eternal life to come, where individuals are tested and held accountable for all their worldly actions. However, this is not to suggest that man should neglect the worldly life. In fact, Islam promotes "life fulfilment" and rejects "life denial" (Ahmad, 2003a: 192). Human beings are given the status of God's vicegerent on earth (*khalifah*) - and with the discretion, will, knowledge

[16]As described by Watt (1979: 3–4), the term '*din'* refers more to a: "... whole way of life ... covers both the private and public/societal lives of man, it permeates the whole fabric of society, and includes theological dogma, forms of worship, political theory and a detailed code of conduct, including even matters which the European would classify as hygiene or etiquette" (cited by Haneef, 1997).

and limited authority given- has the responsibility in fulfilling God's Will on earth, enjoining what is good, forbidding what is wrong, establishing justice (*'adl*) and promoting beneficence (*ihsan*), in order to achieve high levels of good life, both for individual and the society (Ahmad, 2003a). This necessitates individuals to harmonise material wellbeing with moral-spiritual values, which is the key to attain the ultimate happiness (*falah*), in this world and in the Hereafter (Khan, 1984; Arif, 1985a).

To facilitate life and human wellbeing, man is bestowed with abundant of resources in this world. However, the absolute ownership of all things in the universe belongs to God, and these resources are held in trust to individuals as trustees (*Qur'an*, 24:33)[17].[18]Although everything belongs to God, an individual is called to seek the bounties of God in this world and uses the resources to achieve prosperity on earth, provided that they are in line with the will of God. Islam also acknowledges the sanctity of private property and it is seen as a right which is to be protected. However, in line with the notion of trusteeship, the community is allowed certain rights over the wealth of the individual; and balancing the interests, rights and obligations of the individual with the needs of the community is one of the most important elements of this paradigm (McAuliffe, 2002: 5-9). This principle of economic trusteeship in Islam dramatically opposed the conventional notion of self-interest and private property principles which are the cornerstones of the free-market economy (Metwally, 1997: 942).

This worldview of Islam in turn, shapes the economic outlook of the Muslims with regard to the allocation, distribution, production and consumption decision of resources and how the management of these resources should be done in promoting the will of God, and to ensure the establishment of social justice and the wellbeing of all, including the natural environment. This is reflected by the use of these precepts by scholars and researchers in the development of the discipline of Islamic economics. While the subject is complex and

[17] The reference to the Qur'anic verses in this research will use this style where the number of the chapter (*surah*) is then followed by the number of the verses. In this case, (*Qur'an,* 24:33) indicates that the *Qur'anic* verse being referred is from chapter 22 verse number 33.

[18] The wealth and resources entrusted to individuals are also a test to them; verses related to this are *Qur'an* (2:155,247; 17:6; 8:28).

extensive, the discussions in this chapter will focus on the *Shari'ah* and its objectives (*Maqasid al-Shari'ah*), the principles of justice *('adl*) and beneficence (*ihsan*), and the notion of ultimate happiness (*falah*) and their implications on the issue of social responsibility in economic affairs, particularly in Islamic investment.

3.3 *SHARI'AH*, ITS OBJECTIVES AND SOCIAL RESPONSIBILITY

As a discipline, Islamic economics consider itself as part of a scientific endeavour in understanding various economic phenomena and problems or achieving economic goals within the Islamic worldview and framework (Arif, 1985b; Zarqa, 2003). Such a scientific undertaking is governed by the *Shari'ah*, which is often referred to be the legal and ethical framework of Islam. Therefore, this section will discuss the role of *Shari'ah* and its underlying objectives, which shape the system of ethics in Islam and their implications to the issue of social responsibility.

3.3.1 The *Fiqhi* Route in the Development of Islamic Economics and Finance

The Islamic principles and operational framework of Islamic economics and finance are basically deduced from its primary sources of *Shari'ah*; the Qur'an and the Prophetic tradition. As the *fiqh* literature reflects the understanding on the meaning and implications of these sources, it is natural to suggest that the "roots of Islamic economics should, by definition, lie in *fiqh*" (Khan, 2002: 62).[19] In fact, it is argued that legal and procedural structure (primarily the prohibition of *riba'* or interest and *gharar* or excessive uncertainty) and its proper reinforcement (such as the institutional governance through *al-hisbah*), has been proven to be an efficient framework towards facilitating justice in the market in the historical context of the Muslim society (El-Sheikh, 2008).[20] The significant role attached to the *fiqh* dimension of the *Shari'ah* in the development of

[19] With few exemptions (e.g. Abu Yusuf (d.798), al-Kharaj; Ibn Taymiyyah (d.1328), Public duties; Ibn Khaldun (d.1406), Muqaddima), economic matters on the whole were considered a part of Islamic legal literature (*fiqh*) (McAuliffe, 2002: 5).

[20] In this context as well, the author criticizes the over emphasis of some Muslim economists (who he claimed to be influenced by Mawdudi, and hence that strand of Islamic economics he labels as Mawdudi-economics) on the assumption of *homo Islamicus* (socially oriented and altruistically motivated Muslim man) as an indispensable basis of the micro foundation of Islamic economics. See for instance Arif (1985b).

Islamic economics can best be exemplified by Hasanuzzaman (1984: 50), who defines Islamic economics as "the knowledge and application of injunctions and rules of the *Shari'ah* that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligation to Allah and the society."[21] This understanding necessarily reduces the relevant implications of the *Shari'ah* on economic matters within the limited scope of its *fiqh* dimension.

Such a *fiqhi* approach is also prevalent in the practice of Islamic finance. Some have labelled the industry as a prohibition driven industry (El-Gamal, 2006), and followed a minimalist approach in its compliance to the *Shari'ah* (Zaman and Asutay, 2009). The emphasis on the compliant nature of products and contracts based on its contractual forms, and the neglect of its substance and spirit, have made some to conclude that the practice of Islamic finance have arrived to a 'formalist deadlock' (Bazl, 2008). Not only that, some have even accused the industry of using legal stratagem in the so-called process of Islamic financial engineering in order to mimic the utility of the conventional products (El-Gamal, 2006).

Additionally, many scholars and commentators have observed that the prevalent practice of rule-based compliance nature of Islamic finance has failed to address the broader outlook of the society. While transactions can be entirely permissible at the micro level (which pre-dominantly deal with compliance of forms and contracts), their effects at the macro level may not be favourable towards the promotion of the normative goals of Islamic economics. For instance, the disproportionate use of debt-like instruments such as *murabahah* and *bai'-bithaman ajil* has frustrated the aspiration of equity-based financing which has been celebrated as the key distinguishing feature of Islamic banking in promoting equitable ownership of wealth and risk sharing in the society. In fact, in some cases, the economic effects of certain *Shari'ah*-compliant products can lead to an

[21]Hasanuzzaman (1984: 50) suggests that *Shari'ah* comprises of two aspects; *Shari'ah* injunctions which include the aspect of lawful and unlawful nature of actions and contracts; and *Shari'ah* rules which include the set of principles (legal maxims) derived by jurists from the *Shari'ah* injunctions.

undesirable long run implication to the society. As highlighted by Siddiqi (2007b), the practice of debt proliferation through *tawarruq*-based instruments has exemplified this point. Secondly, within a framework where the *fiqhi* (legal) approach is pre-dominant, issues of concerns from the social and ethical aspects will not be firmly embedded into the picture. For instance, while property development, including the highly lavish real estate projects are featured prominently, the practice of microfinancing which has been proven to be an effective tool in poverty eradication program is virtually absence in the industry (Rahman, 2007). Likewise, social responsibility issues such as community development and the protection of the environment have also not been adequately addressed by the industry players (Sairally, 2007; CSR-IFI, 2010).

The increasing concern on the divergence between the ideals of Islamic economics and the practice of Islamic finance has made many to question the relevance of the prevalent *fiqhi* approach to developing the discipline and the industry (Siddiqi, 2004; Haneef and Furqani, 2004; El-Gamal, 2006; Dusuki and Abozaid, 2007). As Haneef and Furqani (2004) highlight, limiting the 'heritage' to mere *fiqh* discussions and reasoning will not do justice to Islamic economics and finance. In this respect, a recourse to the *Maqasid al-Shari'ah* (objectives of the *Shari'ah*), should be invoked to complement the *fiqhi* or legal approach to *Shari'ah* compliant finance. This was emphasised by Siddiqi (2004: 15) in his keynote address to the 'Round table on Islamic Economics: Current State of Knowledge and Development of the Discipline':

> I also suspect that part of the reason for the alienation from Islamic economics comes from the way jurists function. Their dependence on fiqh details and the inhibition they feel in going directly to maqasid has led them into some kind of financial engineering. As in case of modern finance, financial engineering is bound to be very different from social engineering. Financial engineering is not inspired by social goals. It is propelled by financial goals - monetary gains.

Recent literature suggests a growing trend among scholars and researchers in the adoption of the *Maqasid al-Shari'ah* as the criteria in assessing the nature of *Shari'ah* compliant practices of Islamic finance. Such appraisal covers a wide range of issues concerning the practice of the industry, such as on the overall operation and objectives of

Islamic banks (Mohammed, 2006; Dusuki and Abdullah, 2007a), specific issues related to controversial contracts (Siddiqi, 2007b; Dusuki and Abozaid, 2007), the process of product development and compliance (Yusof *et al*., 2010), the structure of *sukuk (Shari'ah* compliant bonds) (Dusuki, 2010); as well as in the approach towards accounting of Islamic institutions (Yaya, 2004) and project evaluation (Jalil, 2006). Given the importance of the theory of *Maqasid al-Shari'ah* in this issue, the following section seeks to delineate its main theoretical foundation and its classifications.

3.3.2 The Theory of Maqasid al-Shari'ah

In view of the limitation of the legalistic nature of the *fiqhi* approach to Islamic economics and finance, many have emphasised the need to look to a much broader perspective of *Shari'ah* through the lenses of the objectives of the *Shari'ah*, or known as the *Maqasid al-Shari'ah,* in developing the discipline and the industry. In fact, the inspirational aspect of Islamic economics and finance reflected through its normative goals, which is generally conceived to be the promotion of social justice and human wellbeing, is inspired by this philosophy (Asutay, 2007b). The theory of *Maqasid al-Shari'ah* provides a holistic view of the *Shari'ah* which proves that the different and scattered rulings of the *fiqh* can be framed systematically into serving a set of an overarching objectives or *maqasid*.[22] As described by Kamali *et al.* (2008: 1), "*Shari'ah* is predicated on the benefits of the individual and that of the community, and its laws are designed so as to protect these benefits and facilitate improvement and perfection of the conditions of human life on earth."

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[22] The term '*maqasid' (*singular *maqsid)* refers to the objectives/ purposes/intents/ends/principles behind the Islamic rulings. For a number of Islamic legal theorists, it is an alternative expression to 'people's interests or benefits' (*maslahah*, plural *masalih*). For example, Abd al-Malik al-Juwayni (d.1185), one of the earliest contributors to *al-maqasid* theory used *al-maqasid* and public interests (*al-masalih al-'ammah*) interchangeably. Abu Hamid al-Ghazali (d.1111) elaborated on a classification of maqasid, which he placed entirely under what he called 'unrestricted interests' (*al-masalih al-mursalah*). Fakhr al-Din al-Razi (d.1209) and al-Amidi (d.1234) followed al-Ghazali in his terminology. Najm al-Din al-Tufi (d.1316) defined *maslahah* as "what fulfils the purpose of the Legislator". Al-Qarafi (d.1868) linked *maslahah* and *maqasid* by a fundamental (*usuli*) 'rule' that stated: "A purpose (*maqsid*) is not valid unless it leads to the fulfilment of some good (*maslahah*) or the avoidance of some mischief (*mafsadah*)". See *Auda (2008) and Auda et al. (2008)* for the details on the historical development of the theory of *maqasid*.

Traditional theory of *maqasid* classified the benefits (*maslahah*) into three levels: the essentials (*dharuriyyat*), complementaries (*hajiyat*), and desirables (*tahsiniyyat*). The core of this theory is the preservation of the five elements of the essentials, which include one's faith, soul, mind, offspring, and wealth. Based on one of the most quoted phrases in Islamic economics concerning the *maqasid*, Al-Ghazali (d.1111) states that:

> The very objective of the Shari'ah is to promote the wellbeing of the people, which lies in safeguarding their faith (din), their self (nafs), their intellect ('aql), their posterity (nasl) and their wealth (mal). Whatever ensures the safeguard of these five serves public interest and is desirable, and whatever hurts them is against public interest and its removal is desirable (cited by Chapra *et al.*, 2008: 5).

The five elements of the essentials are considered indispensable aspects of human life. Hence, it is the ultimate purpose of the *Shari'ah* that these essentials are safeguarded at all times. The protection of individual's faith is the foremost priority as it holds the key to the human wellbeing and eternal salvation. In addition, the protection of human lives is central to the wellbeing of individuals, and it is served by the strong stand of Islam against the taking of human life, whether that life be one's own or that of someone else. Furthermore, the *Shari'ah* prohibits all forms of harm to another human being, animals, or even plants (Auda *et al*., 2008: 5). Human life and its wellbeing are also in jeopardy if the wellbeing of people's reason and rational faculty is not safeguarded. The high status given to the preservation of progeny also explains the many Islamic rulings that regulate marriage and family life, as well as preserve one's honour and chastity. Furthermore, the preservation of wealth is essential for one's wellbeing, and punishment and prohibition against stealing, robbery, and other forms of unlawful acquisition of wealth through *riba'* (interest), gambling, monopoly, and all shapes and forms of corruption and fraud are some of the important features in the *Shari'ah* guideline on economic affairs (Auda, 2008; Auda *et al*., 2008).

The next level of *maslahah*, which is second in the hierarchy, deals with the complementary elements to the essentials. These include various aspects of life, which are necessary in fulfilling important requirements of people's lives, the absence of which will lead to difficulty and hardship. However, the lack of any of these complementaries is not a matter of life and death, especially on an individual basis. These include issues pertaining to commerce, marriage, and other forms of transactions. Human life as a whole is not in danger if some individuals choose not to marry or trade. Nevertheless, consistent with the dynamic nature of the *Shari'ah*, the status of these complementaries may change in different circumstances. If the lack of any of these complementaries becomes widespread, then they move from the level of complementaries to the level of essentials (Auda *et al*., 2008).[23] Subsequently, purposes at the level of desirables relate to the things that beautify life and make if fuller and richer. They include concerns such as dressing neatly, the use of perfumes, beautiful homes, voluntary charities, and all other good habits and behaviour. In sum, the classification of the different levels of *maslahah* provides the framework for a systematic consideration of different aspects of life and its wellbeing in their respective priority and importance from the *Shari'ah* perspective.

It is important to highlight as well that the three levels in the hierarchy of *maslahah* are overlapping and interrelated, such that the higher level serves to secure the realisation of the lower levels of benefits. For example, both marriage and trade (from the level of complementaries) serve, and are highly related with the essentials of the preservation of offspring and wealth. Consequently, the widespread shortage of some complementary aspects of life may threaten the aspects of the essentials. This will necessarily move such complementaries to the levels of essentials, and hence given additional intensity of priority from the perspective of the *Shari'ah*. For instance, the shortages of food and other supplies during the time of economic crises moves trade from a complementary into a life essential. The fact that the presence of higher level of benefits provides the protection to the lower level of benefits made some jurists to prefer to perceive *maslahah* in terms of overlapping circles, rather than a strict hierarchy (Auda *et al*., 2008).

[23] This is consistent with the fundamental rule in the Islamic law pertaining to this issue. A complementary (*hajiyat*) that is widespread should be treated as an essential (*dharuriyyat*)'. See Auda *et al*. (2008).

3.3.3 The Theory of *Maqasid* and Its Contemporary Discourse

While the notion of *Maqasid al-Shari'ah* has been used as the underlying *Shari'ah* imperative for the normative goals of Islamic economics, it is important to note that such understanding is not free from debate. Contemporary theorists of *maqasid* have criticised the traditional classification of the theory on several grounds. Firstly, traditional *maqasid* is said to be deduced from studying '*fiqhi* literature', instead of the original sources of the *Shari'ah* (The Qur'an and the Prophetic tradition)[24]. In this context, there is a clear need to differentiate between the two terms imperative to this discussion. While the notion of *Shari'ah* is often reduced to denote Islamic law, the term refers to the revelation that Prophet Muhammad (*pbuh*) had received and made practicing it the message and mission of his life, *i.e*., the Qur'an and the Prophetic tradition. On the other hand, *fiqh* refers to "the huge collection of juridical opinions that were given by various jurists from various schools of thought, in regards to the application of the *Shari'ah* (above) to their various real life situations throughout the past fourteen centuries" (Auda, 2008: xxiii). Secondly, given that the theory of *maqasid* is derived from the *fiqhi* literature, which is primarily concerned with inter-personal dealings and transactions,[25] the scope of the traditional *maqasid* has also been said to be limited to the wellbeing of individuals, rather than families, societies, and humans, in general, and its classification does not include the most "universal and basic values, such as justice and freedom" (Auda, 2008: 3). As emphasised by Siddiqi (2004: 4), "The classical treatment, largely by Al-Ghazali (d.1111) and Al-Shatibi (d.1388) put the *maqasid* into the strait jacket of the so called five necessities (*daruriyat khamsa*): life, religion, progeny, reason and property"

Another important criticism of the classical theory of *maqasid* is the fact that the discussions on *maqasid* are confined within the domain of protection or preservation (*hifz)*. This entails that the essence of the *maqasid*, from this point of view, is primarily following a negative approach to wellbeing, where all elements that can lead to the

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[24] In traditional accounts of *maqasid*, reference is always made to the rulings of the Islamic law as decided by various Islamic schools of law, rather than referring to the original Islamic scripts (e.g. verses of the Qur'an) for the bases of the *maqasid*. See Auda (2008) and Auda et al. (2008).

[25] The Pre-dominantly individually oriented nature of *fiqh* has been emphasized by a number of scholars. For example, see Saleem (2010), Auda (2008), Auda et al. (2008) and Siddiqi (2004).

destruction or harm to the five constituents of the essentials from the perspective of the Islamic law be avoided. In view of this, as reported by Siddiqi (2004: 5), Ibn Taymiyyah commented:

> Some confine *masalih mursalah* to protection of life, property, honour, reason and religion. But that is not correct. *Masalih mursalah* require us to acquire benefits and keep harm away. The protection of the things listed by these people relates to only one of the two kinds of *masalih mursalah.* The other kind involves realisation of positive benefits, in worldly matters as well as in religion.[26]

Despite maintaining the constituents and the order of Al-Ghazali's five essential elements of *maqasid*, Al-Shatibi in his treaties on *maqasid* reaffirms the position of Ibn Taymiyyah by acknowledging that the benefits (*masalih*) are to be understood in their broadest sense, which is inclusive of all benefits pertaining to this world and the hereafter, those of the individual and the community, material, moral and spiritual, and those which pertain to the present as well as the interests of the future generations (Kamali *et al*., 2008). This necessitates that the broad meaning of benefits is not only limited to the prevention and elimination of harm, but also the promotion of such benefits.

Hallaq (2004) identifies two means in which the essentials are maintained; on the one hand, they are enhanced and strengthened, while on the other, all potential harms that may arise to affect them are averted. For example, the protection of life and intellect are examples of important elements of essentials which can be enhanced by ensuring the provision of proper food, shelter, clothing, and education. On the other hand, any potential harm that may threaten these essentials can be averted by means of penal law or prohibition such as the ban on alcohol and the dumping of toxic waste that may cause harm to intellect and life respectively.

Following the same line of argument, Chapra *et al.* (2008: 5) argue that the notion of 'preservation' is not consistent with the dynamic nature of Islam and the real world.

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[26] In fact, Ibn Taymiyyah (d.1328) was probably the first scholar to depart from the strict interpretation and identification of the elements of *maqasid* (the five essentials) and included in the list, among others, fulfilment of contracts, preservation of the ties of kinship, honouring the rights of one's neighbour, as part of the worldly *maqasid*, and the love of God, sincerity, trustworthiness, and moral purity, with regard to the hereafter. See Kamali *et al*. (2008: 8-9).

Without a continuous progress or positive movement towards the realisation of the *maslahah*, the present level of wellbeing of the society is unlikely to be sustained in the long run, resulting in stagnation and an eventual decline. Therefore, while the preservation of the five elements of *maqasid* (as specified by al-Ghazali and concurred by al-Shatibi) should be considered as primaries, other elements of *maqasid* subsequently highlighted by other scholars can be considered 'corollaries', which are necessarily important in the long run sustainability of the society's wellbeing (Chapra *et al.*, 2008). For this, apart from the general notion of *maslahah*, two other objectives of the *Shari'ah* which have been widely acknowledged by jurists are 'establishing justice' and 'educating individuals' (Kamali *et al*., 2008).[27] Other contemporary scope of *maqasid* include elements like reform and women rights proposed by Rashid Rida and human dignity and rights by Yusuf al-Qaradawi (Auda *et al*., 2008), protection of the environment (Gallant, 2006), and economic development and strengthening of R & D in technology and science (Kamali *et al*., 2008). It would appear from this analysis that the *Maqasid al-Shari'ah* remains open to further enhancement which will depend, to some extent, on the priorities of every age (Kamali *et al*., 2008).

3.3.4 The Application of the Theory of *Maqasid* in the Issue of Social Responsibility

As noted earlier, the recent discourse on Islamic economics and finance have highlighted the imperative of the theory of *maqasid* in arguing for a broader outlook of social responsibility dimension beyond the minimum level of *fiqhi* compliance, in line with the aspirations of Islamic economics. One of the important contributions in this respect is the recent work by Chapra *et al*. (2008). Despite maintaining al-Ghazali's five elements of essentials in the discussions on the vision of development in the light of the *maqasid*, the

[27] The imperative of these well recognised objectives of the *Shari'ah* is reflected in the following passage by Kamali et al. (2008: 1-2); "Educating the individual (*tahdhib al-fard*) is another important objective of the *Shari'ah* so much so that it comes, in order of priority, even before justice and *maslahah*. For these are both socially-oriented values which acquire much of their meaning in the context of social relations, whereas *tahdhib al-fard* seeks to make every individual a trustworthy agent and carrier of the values of the *Shari'ah*, and it is through educating the individual that the *Shari'ah* seeks to realise most of its social objectives."

authors extend the notion of 'preservation' expounded by al-Ghazali into the notion of 'enrichment', and identify various corollaries of *maqasid* based on the primary essentials. Some of the corollaries of the essentials are summarised in Table 3.1.

Table 3.1: The 'Enrichment' Approach Towards *Maqasid*- the Essentials and Their Corollaries

Essentials	Corollaries
Faith	Providing framework of values and proper motivation within the Islamic worldview Education (moral and material), Justice, freedom, security of life, property and honour; Honesty; Fulfilment of all economic and political obligations; Patience; Thriftiness; Prudence; Tolerance; Mutual care; Trust Removal of poverty; Need fulfilment of all and availability of employment and self employment opportunities; Equitable distribution (human brotherhood) Enabling environment for righteousness; Family integrity; Social solidarity and political stability; Role of the state.
Self	Invigoration of Human Self Dignity; Self-respect, human brotherhood and social equality, Justice; Spiritual and moral uplift; Security of life, Property and honour; Freedom; Need fulfilment; Employment and self-employment; Equitable distribution of income and wealth; Marriage and proper upbringing of children; family and social solidarity; Minimisation of crime; Mental peace and happiness; Education
Intellect	Socio-economic and political development High quality of religious and science education at affordable prices; Emphasis on the maqasid in the interpretation of text; Libraries and research facilities; Freedom of thought and expression; Reward for creative work; Expansion of knowledge and technological base.
Offspring	Sustainable human development Proper upbringing; Moral and intellectual development; Marriage and family integrity; Need fulfilment; Clean and healthy environment; Freedom from fear, conflict and insecurity.
Wealth	Development and expansion of wealth which is a trust from God Education; Research and improvement in technology and management; Security of life, property and honour; Good governance; Freedom of enterprise; Employment and self employment opportunities; Removal of poverty, need fulfilment and equitable distribution; Social solidarity and mutual trust; Saving and investment; Optimum rate of development.

Source: Summarised from Chapra *et al.* (2008)

As can be seen in Table 3.1, the extension of the scope of the theory of *maqasid* from the primary focus of 'preservation' to 'enrichment' provides a dynamic articulation of the notion of *maslahah*, and therefore allow the inclusion of broader constituents of the essentials in the spirit of sustainable human development .

Inspired by the dynamic and proactive notion of *maqasid*, the recent survey on the social responsibility practices of Islamic financial institutions has also incorporated broader aspects of Islamic ethics into the assessment. These include components such as the screening of prohibited earnings and expenditures, customer services, treatment of workers, community contributions and investments, prioritising small and medium enterprises, and the care towards the environment (CSR-IFI, 2010).[28] In addition, Dusuki and Abdullah (2007a) apply the three classifications of *maslahah* to provide a framework in which social responsibility concerns can be practiced by Islamic firms in various circumstances of the business. In doing so, they identify different social responsibility concerns of the business at each level of *maslahah* based on their priority and significance. These are listed in Table 3.2.

Table 3.2: Social Responsibility Practices of Islamic Firms Based on the Level of *Maslahah*

Levels of *Maslahah*	Social Responsibility Practices of Islamic Firms
Essentials	Preserve and protect stakeholders' essential needs (i.e. religion, life, intellect, posterity, and property) and the public good in general. * Protecting employees' welfare or basic needs, e.g. providing adequate prayer rooms, ensure the employees' safety and health in the workplace. *Avoiding any activities that may cause disruption and chaos in people's lives, e.g. environmental degradation and manufacturing illicit drugs for public consumption. *Preventing negative effects on people's and the society's health and behaviour, e.g. not trading, manufacturing, or selling tobacco, alcoholic, and pornographic products.
Complementaries	Removing difficulties by extending social responsibility beyond the level of 'preservation'. *Advancing workers' intellectual wellbeing (knowledge and skills), e.g. continuous training and enhanced human quality programs.
Desirables	Engaging in activities or programs that may lead to improving and attaining the perfections of public life. *Giving charity; donating to the poor and needy; offering scholarships to poor students; providing sufficient, correct, and clear information or advertisement regarding all products.

Source: Summarised from Dusuki and Abdullah (2007a)

[28] The survey assessment covers 13 areas of social responsibility issues which include; Screening client for *Shari'ah* compliant; responsible dealing with client; earnings and expenditures prohibited by *Shari'ah*; employees' welfare; *zakat*; *qard hasan* (benevolent loan); reduction of adverse impact on environment; social, development and environment based investment quotas; customer service; micro, small business and social savings and investments; charitable activities; *waqf* management; and other miscellaneous activities related to social responsibility.

While the items identified in the various levels of *maslahah* (as shown in Table 3.2) seem logical and reflect the varying intensity and priority from the *maqasid* point of view, it is important to acknowledge the dynamic nature of such issues. As also highlighted by Dusuki and Abdullah (2007a), depending on circumstances and the nature of the issue, some social responsibility practices, which are considered to be at the complementary level, can increase in their importance and subsequently alleviated onto the level of essentials. Other circumstances can also influence the view on the intensity and importance of social responsibility issues. In this case for instance, as the issues are perceived from the point of view of Islamic firms (*e.g*. Islamic financial institutions), it is quite apparent that the authors have placed greater priority on the internal and immediate stakeholders of the corporation, and put social responsibility commitment to the general public such as charities and financial assistance to the disadvantaged groups of the society at the level of desirables. Others, who may see them from a different point of view, may consider such issues to be at the level of complementaries or even essentials.

The forgoing discussion has highlighted several important points. While legal requirement and compliance in the form of injunctions and rules of the *Shari'ah* is an important pre-requisite in the development of Islamic economics and finance, it has been shown that it is not a sufficient approach. The consequences at the macro level, the concerns on broader ethical and social responsibility issues, and the general consistency with the *maqasid* or objectives of the *Shari'ah* are among the critical issues to be incorporated in the developmental process. Specifically, the need to secure the long run preservation of the essential elements of the *maqasid* necessitates a continuous enhancement of the present condition. Additionally, the acknowledgement on the need to address contemporary issues such as environment, human dignity and rights, economic justice and development, and the welfare of the community as a whole provide the *Shari'ah* imperative to justify the incorporation of broader scope of social responsibility dimension in Islamic finance, including in the field of investment.

3.4 JUSTICE AND BENEFICENCE AS ETHICAL IMPERATIVE FOR SOCIAL RESPONSIBILITY

Another route to a scientific development of the discipline of Islamic economics follows a moral or Islamic political economy approach (Asutay, 2007b). This is founded by an axiomatic approach based on the various Islamic precepts derived from the Holy *Qur'an* and the Tradition of the Prophet (Naqvi, 1981). These ethical axioms provide the pillar for the development of a cohesive approach to Islamic economics. As outlined by Asutay (2007b), some of these axioms include *Tawhid* (the unity and sovereignty of God), *'adl* (justice) and *ihsan* (beneficence), *ikhtiyar* (free-will), *fard* (Responsibility), *rububiyyah* (divine arrangements for nourishment, sustenance and directing things), *tazkiyah* (purification and growth), *khilafah* and human accountability before God (Individual's role as God's vicegerent), and the realisation of the objectives of the *Shari'ah* (*Maqasid al-Shari'ah*). Some of these concepts have been described earlier. For the purpose of this discussion, the focus is given on two inter-related precepts; justice ('*adl*) and beneficence (*ihsan*) and their imperative in the context of social responsibility issues and commitment.

3.4.1 Justice (*'Adl*)

Justice is a comprehensive term in Islam and covers all spheres of human life. In the language of the Qur'an, three terms have been used to denote justice and equity; '*adl* (justice), *qist* (equity), and *mizan* (balance) (Iqbal, 2007: 31).[29] Justice has been considered as the defining characteristic of Islamic life and society by all Muslim scholars throughout the history, and has shown to be an indispensable part of the legal, social, and economic process (Ahmad, 2003a).[30] In fact, "it is impossible to conceive of

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[29] Some of the meanings of these words are: to straighten, set in order, and fix in the right place; to balance, counterbalance, or establish equilibrium; to be equal or equivalent or to match; fairness, impartiality, absence of discrimination and, honesty, straightforwardness, uprightness, righteousness, and correctness (Iqbal, 2007: 31). The Qur'anic verses which command justice to be upheld in all aspects of life, including in economic matters, and the various terms to reflect this notion can be found, among others, in these verses; Qur'an, 4:58; 6:152; 11:84-7; 16:76; 42:15. For details, see Iqbal (2007).

[30] For instance, in the economic context, Abu Yusuf (d.798) advising Caliph Harun Al-Rashid (d.809) proclaimed that rendering justice to those wronged and eradicating injustice accelerates development. Al-Mawardi (d.1058) argued that comprehensive and multi-dimensional justice promotes solidarity, law and order, development of the country, expansion of wealth, growth of the population, and the security of the

an ideal Muslim society where justice has not been established" (Chapra, 1992: 209). The *Encyclopaedia of Qur'an* on the entry of 'economics' highlights justice and communal responsibility as the most prominent feature of economic behaviour mentioned in the Qur'an (McAuliffe, 2002). Other important areas, such as the acquisition of wealth and its disposal, the protection of the disadvantaged and the regulation of transactions through contracts, are also profoundly underpinned by this principle. The significant position of this principle to Islamic economics can also be exemplified by the frequent reference to social and economic justice as its principal goals.

One of the most important elements of economic justice in Islam is to ensure that all transactions and exchange are just and equitable among the transacting parties. In the spirit of justice, Islam exhorts those who pursue economic affairs to act fairly, truthfully, honestly and in a spirit of cooperation; and all exchange must be done with mutual consent and benefits. Individuals are also commanded to uphold their promises and trusts as well as fulfil their contracts.[31]

Similarly, Islam places great emphasis on the removal of all elements that can lead to any form of injustice to all individuals. The antonym of adl (justice) is *dzulm*, which is used in the Qur'an to mean indulgence in wrong, evil, iniquity, injustice, oppression, unfairness; that leads to corruption (*fasad*) (Qur'an, 11:85) and may eventuate in the destruction of the community as a whole (Qur'an, 21:11) (Iqbal, 2007: 31). Therefore, elements and activities deemed to be exploitative and unjust are highly condemned and prohibited. For instance, the elements of *riba'* (interest), *gharar* (excessive uncertainty) and *maysir* (gambling) are among the major sources of inequity, and shunning these elements in the activities and transactions have been the bedrock of Islamic finance and economics (Adebayo, 2010; Cattelan, 2009). Many of the prohibited acts in commerce and finance are also described as unjust, such as dishonesty, fraud, misrepresentation, and

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country, and that "there is nothing that destroys the world and the consciousness of people faster than injustice". See Ahmad (2003a).

[31] Some of the Qur'anic verses related to the exhortation of justice, including in economic affairs are (Q 4:58; 6:152; 7:85; 11:84-7; 12:59,88; 16:76; 42:15). See McAuliffe (2002: 5-9).

bribery. Similarly, business activities which transgress the boundaries set out by Islam and lead to corruption which includes the involvement in wine and intoxicants, gambling, prostitutions, and other unacceptable forms of entertainments are also prohibited (McAuliffe, 2002).

While the imperative of equitable exchange as explained above is crucial in ensuring equity and equilibrium of all parties in the economic dealings, the notion of economic justice also requires that equity is prevalent in all spheres of economic activities, including in the area of production, distribution and consumption. The recognition of the status of human beings as vicegerents of God in this world necessitates that their dignity and self-respect should be protected at all times, including the right to earn their living without being hindered by any forms of discrimination, exploitation or oppression. A system which perpetuates the existence of such that the rich becomes richer and the poor could not escape the vicious circle of poverty is totally rejected by Islam. Hence, any form of economic justice must address the issues at the level of economic participation (Chapra, 1992). This is because involvement in the production side of the economy through the factor market, such as the contribution of land, capital or labour, will critically determine the share of income among the people in the economy. This will in turn influence the economic wellbeing of the people through the consumption activity enabled by their productive contribution. This is why Islam rejects any notion of monopolies, privileges or any form of discriminatory practices which impede the equal opportunity of people in accessing resources or acquiring other forms of productive capacity, which in turn can create certain barriers to economic participation. While Islam duly recognises the natural inequality in the distribution of wealth and resources among people, it also prohibits the accumulation of wealth in the hands of a few as this may cause "societal imbalance, leading in turn to corruption, misuse of economic power and injustice towards the weak or marginalised" (McAuliffe, 2002: 7). In this context, economic returns of capital through *riba'* contracts are considered unjust as it favours wealthy capital owners in the form of fixed returns regardless of the outcomes of the investment or production. On the other hand, equity-based arrangements are believed to be the ideal form of economic participation and therefore, favoured by many scholars of Islamic economics as the appropriate way towards economic justice. Accessibility of important factor of production, such as the access to financial capital and land, enables individuals to involve in productive economic activities and earn their livelihood. Similarly, equal opportunity in accessing other sources of productive capacity building such as education and health care are crucial in providing a level playing field for all individuals in realising the optimum level of their human capital. Discriminatory practices against any groups in the society whether in the work place, education and in the market in general will impede the realisation of economic justice.

Islam's commitment to justice and equity also entails a fair and equitable distribution of income and wealth in the society. The first aspect to this principle is the imperative of a just system of factor compensation. This ensures that all parties who have contributed to the economy are equitably rewarded proportionate to their level of contribution, *i.e*. just wages for labours, just profits for producers, and just returns for capital owners. Despite all efforts to ensure a just and conducive environment for all to earn their livelihood, natural differential in intellectual endowments and abilities of different individuals inevitably causes some to be more fortunate than others.

The Islamic jurists have unanimously held the view that it is the collective duty of the Muslim society to take care of the basic needs of the poor and the disadvantaged. In fact, according to Shatibi, "this is the raison d'être of society itself" (Chapra, 1992: 210). The mandatory act of *zakat* and the consistent exhortation on various forms of voluntary charities reflect the significance of this aspect. Various Qur'anic verses and Prophetic traditions have also highlighted the need to eliminate economic exploitation and protect the interest of all classes in the society, including women, orphans, people with physical disability and mentally challenged, as well as workers and consumers. It is imperative that the wellbeing of the disadvantaged groups of the society is ensured by the state as well as the community, and this can be done through various public spending programs (Siddiqi, 1996), or other channels of charitable activities either from individuals, institutions or even social responsibility programs of businesses. In other words, the intense commitment of Islam towards justice demands all segments of the society to take care of the basic needs of the poor and the less fortunate groups in the community.

The notion of justice and equity is not only limited to the manner in which wealth is acquired and being shared in the society, but it extends to the way that such wealth is utilised. In line with the Islamic worldview that the wealth and resources bestowed are considered a trust, it is imperative of justice that the resources must be used consistent with the will of God for the general wellbeing of all individuals and other creations of God. Therefore, Islam highly encourages moderation (Qur'an, 17:29), while inappropriate use of wealth and resources, such as extravagance in spending (*israf*) and destruction of the environment are condemned and linked to corruption (*fasad*) (Qur'an, 2:60; 7:74; 11:85; 2:205; 7:56). Likewise, other forms of improper use of wealth such as hoarding and squandering of property are also prohibited (McAuliffe, 2002). In this context, an efficient use of resources is considered a part of the Islamic normative assumptions as it ensures the maximum possible benefits for the society (Zarqa, 2003). The conservation of resources for the sake of the future generation is also an important feature and part of the dynamic nature of inter-generational economic justice (Naqvi, 2003).

The preceding discussions have highlighted the imperative of justice as an integral component to the notion of social responsibility in Islamic economics and finance. In the case where unjust, exploitative and discriminatory practices prevail, the community, whether individually and collectively, is required to see that acceptable standards of practice are restored. Likewise, efforts to promote the realisation of justice, which is frequently argued to be the most crucial element in ensuring overall human wellbeing, must always be accommodated in all spheres of life.[32] This responsibility functions

[32] The fundamental position of justice in the context of a political economy approach to Islamic economics is emphasized by Ibn Khaldun, a 15th century scholar in his following words;
"The strength of the sovereign (*al-mulk*) does not become consumed except by implementation of the *Shari'ah*; the *Shari'ah* cannot be implemented except by a sovereign (*al-mulk*); the sovereign cannot gain strength except through the people (*al-rijal*); the people cannot be sustained except by wealth (*al-mal*);

through the institution of "enjoining what is right and forbidding what is wrong" and is regarded by the Qur'an as essential to social cohesion (Qur'an, 7:157; 9:71) (McAuliffe, 2002: 6). Within this understanding, Islam insists that justice be secured through both the negative and positive approach; implying that not only all elements of injustice must be shunned, elements important to the promotion of justice must also be upheld.

In reflecting upon the discussion so far, Figure 3.1 provides a summary on the establishment of the various constituents of economic justice based on the dual approach.

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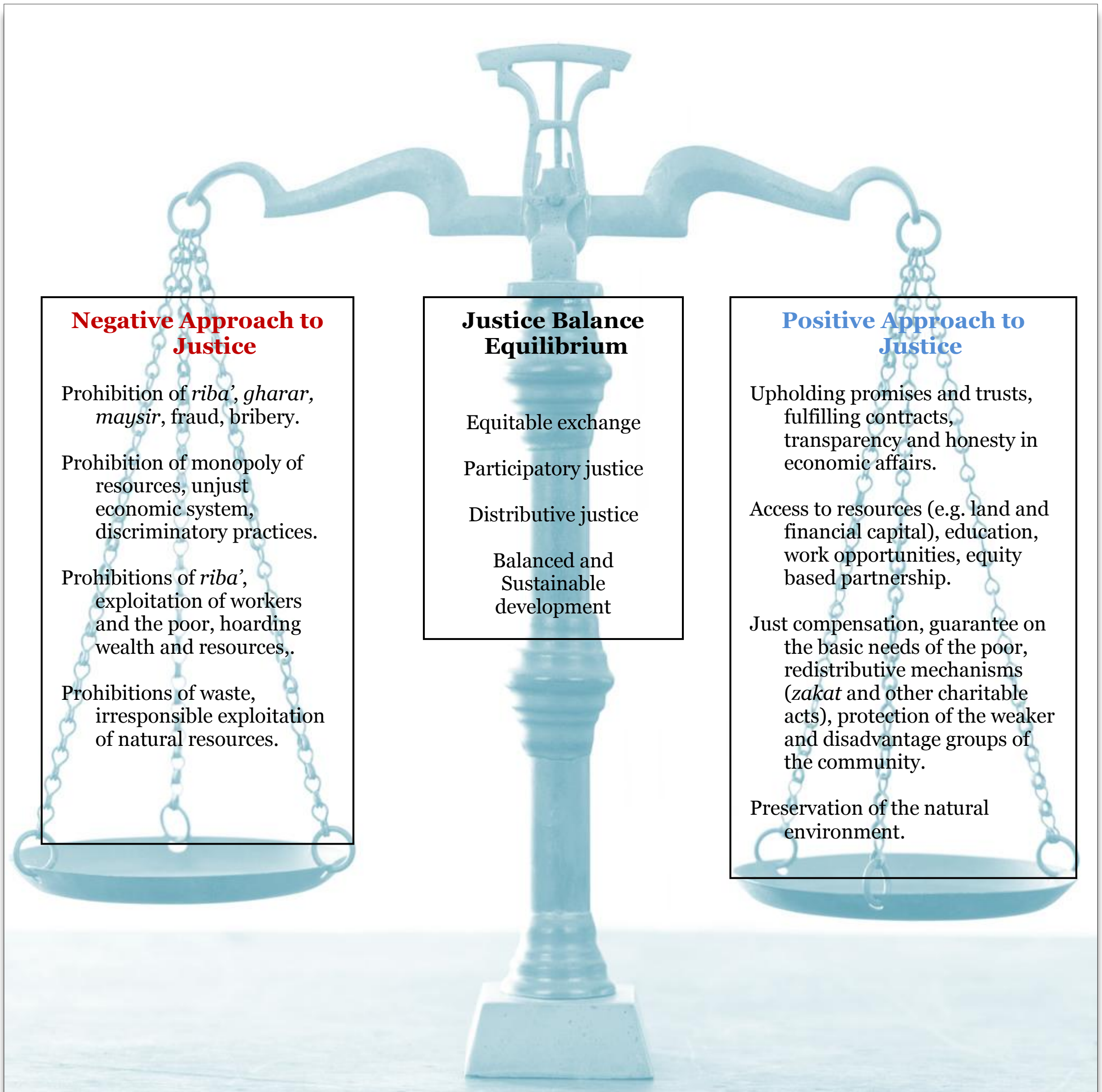
wealth cannot be acquired except through development (*al-'imarah*); development cannot be attained except through justice (*al-'adl*); justice is the criterion (*al-mizan*) by which God will evaluate mankind; and the sovereign is charged with the responsibility of actualising justice" (cited by Chapra, 2000; 147-8).

Figure 3.1: A Dual Approach towards Economic Justice



As shown in Figure 3.1, the notion of economic justice in Islam constitutes various aspects which include, among others, equitable exchange, equal opportunity to participate in economic activities, equitable distribution of wealth, an overall balanced and sustainable development, all of which take into consideration the various segments of the society and the future generations. In realising this, the effort towards economic justice must not be limited to the negative approach of preventing the elements of injustice.

Equally important is the positive efforts such as promoting a fair and equitable allocation and distribution of resources and wealth in the economy. The presence of the latter will facilitate and sustain the establishment of economic justice, while the absence of the former will result in downright prevalent of injustice in the society. In other words, the notion of economic justice and the overall wellbeing of people can only be completed and sustained if both approaches towards economic justice are observed at all times.[33] In order to ensure such an outcome, Islamic moral economy essentialises the concept of *ihsan* as complementary to *'adl*, and highlights the imperative of practising ihsan in realising one's *falah*, which is the ultimate objective of individuals in life.

3.4.2 Beneficence *(Ihsan)*

As a complementary to justice, Islam also strongly preaches the sense of beneficence (*ihsan)*.[34] Despite the fact that the words *'adl* and *ihsan* are concurrently used in the Qur'an (16:90), they have different notions; "*'adl* is a legal concept while *ihsan* is a moral one" (Hasanuzzaman, 1999: 12). In this respect, Islam persuades its followers to go a step further beyond the framework of justice, in the pursuit of excellence and perfection in all deeds and actions. One such manifestation of excellence and perfection in the notion of *ihsan* can be found in the *Hadith* of Gabriel in which Prophet Muhammad (*pbuh*) states; "(*Ihsan* is) to worship God as though you see Him, and if you cannot achieve this state of devotion then you must consider that He is looking at you" (Al-Bukhari, 1980: Vol. 1; Book 2; Hadith No. 47).

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[33] The limited scope in the understanding of justice in providing the ethical foundation of the discipline can again be seen in the definition of Islamic economics provided by Hasanuzzaman (1984: 50) as stated above. While the observance of the injunctions and the rules of the *Shari'ah* is a necessary requirement for an Islamic system, such a pre-dominantly negative approach to justice (with the emphasis on the prevention of injustice) would likely to frustrate his earlier exertion on the importance of normative values and social responsibility issues in Islamic economics, as described in his earlier paragraphs of the same article. As highlighted by Al-Habshi (1987), rules and injunctions should not only be seen as a measure to prevent any kind of injustice, but must also be considered to provide a conducive environment for the promotion of justice.

[34] The Holy Qur'an (16:90; 3:134; 9:100, 120; 55:60; 5:93; 7:56; 2:195) stresses that *'adl* (justice) be complemented with *ihsan* (beneficence).

In the realm of human interpersonal conduct, *ihsan* denotes "good behaviour, generous dealing, sympathetic attitude, tolerance, humane and kind approach, mutual consideration, and regard for one another's interest, rendering to others even something more than their due right, contenting oneself with even something less than one's own due right" (Siddiqi, 1979 cited by Abbas, 1990: 76). This necessarily entails a pure altruistic instinct where one would prepare to give priority towards others and sacrifice one's own rights. In this context, it is interesting to look at the distinction between the notion of justice and beneficence elaborated by *Tahir-ul-Qadri* (1995), as summarised by Iqbal (2007: 34-5) in the following table.[35]

Table 3.3: Distinction between Justice ('*Adl*) and Beneficence (*Ihsan)*

Justice	Beneficence
Justice is to give as much as is due and to take as much as is due.	Beneficence is to give more than is due and to take less than is due.
Justice is that one should enjoy oneself and let others enjoy themselves as well.	Beneficence is that one should sacrifice one's sense of personal enjoyment for the enjoyment of others.
It is Justice that one should live for oneself as well as for others.	It is beneficence that one should live only for others (*e.g.* the Prophets of God mentioned in the Qur'an).
Justice is equality and the condition of faith.	Beneficence is unconditional sacrifice and the perfection of faith.

Source: Adapted from Iqbal (2007: 35)

Despite being a supererogatory virtue, the Qur'anic verses suggest that the attitude of *ihsan* enjoys a significant position in the Islamic framework (Hasanuzzaman, 1999). Individuals are prescribed to be magnanimous in their behaviour not only among their close relations and circles such as towards one's parents and kinsmen, or near neighbours and friends, but also to the wider community, particularly to the disadvantaged groups in the society (Qur'an, 4:36). In the realm of economics, the precept of *ihsan* persuades its followers to behave magnanimously in doing their transactions, claiming their rights and

[35] *Tahir-ul-Qadri* (1995: 86) views the concept of *'adl* in human conduct in light of the condition of faith mentioned in the Prophet's saying: "I swear by the Lord Who controls my life that a person is not a true believer unless he likes for his brother what he likes for himself" (*Sahih of al-Bukhari*). Thus justice consists of those principles which one would like to apply to one's own self if in a similar situation. This conception of *'adl* is then compared to the notion of *ihsan*, and is summarized by Iqbal (2007: 35) and reproduced here in Table 3.3.

meeting their obligations.[36] For instance, the call for such a behaviour can be found on the relationship between a debtor and the creditor, where both sides are exhorted to be generous in their dealings.[37]

An important feature of *ihsan i*s the voluntary nature of its actions (Qur'an, 51:15-19), where good deeds are done "without any earnest request, compulsion or, social coercion" (Abbas, 1990: 77). In fact, the reference on the importance of beneficence, even during the period of one's hardship signifies its significant position in the social setting (Qur'an, 3:134). Therefore, the spirit of *ihsan* represents the reflection of individual's inner faith and moral conviction towards higher level of social responsibility commitment.

Given its complementary status to justice, beneficence has also been contrasted with corruption (*fasad*) (Qur'an, 2:195; 28:77). In this context, wealth and resources entrusted to individuals are to be used in advancing the wellbeing of the surrounding community, and when they fail to be responsibly utilised, this may lead to mischief in the world. In sum, the concept of justice (*'adl)* and beneficence (*ihsan)* provide a comprehensive framework for the normative foundation underlying the notion of social responsibility in Islamic economics and finance. While the imperative of justice serves as the core to the social responsibility commitment among individuals in the society, the spirit of beneficence strengthens this commitment by providing another layer of commitment towards this end. In the context where the strict adherence to procedural justice may not yield desirable outcome, "the spirit of *ihsan* will provide the necessary ingredient towards fairness" (Sadeq, 2007: 477).

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[36] Jabir b. 'Abdullah (Allah be pleased with him) reported that Allah's Messenger (pbuh) said: "May God have mercy on the person who shows magnanimity while selling, buying and meeting his obligations." See Khan (1989: 254-*hadith* no. 12;30)

[37] The call for the creditor to be munificent towards the plight of the debtor can be found in (Qur'an, 2:280); and the same exhortation towards the debtor is exemplified by the following *hadith*; Abu Rafi' said: Allah's Messenger (*pbuh*) borrowed a young camel (from someone). Subsequently a camel of *sadaqah* came to him. Thereupon he ordered me to repay to the man his young camel. I said: I do not find but a young, beautiful *Bubaliya* (*i.e.* a four year old camel). Thereupon the Prophet (*pbuh*) said: Give him the same, as the best of the people are those who are best in repayment (of borrowed things). See Khan (1989: 254).

Despite its voluntary nature, the above discussions have highlighted the important position that Islam places on this principle, not only on its significance in the promotion of the overall wellbeing of people, but also in the realisation of moral excellence, spiritual upliftment, and social cohesion in the society. It should also be noted that being complementary to *ihsan*, through the positive aspects of justice, *'adl* also moves from being a legal concept to a socially oriented concept as assumed by developmentalist studies and moral economists. Therefore, the precepts of justice and beneficence offer a comprehensive framework where legal, ethical and moral dimensions are integrated in relation to the commitment for social responsibility in Islam.

3.5 THE NOTION OF *FALAH* AND SOCIAL RESPONSIBILITY

Collectively as a system, Islamic economics aspires to achieve economic justice and overall human wellbeing. However, this worldly wellbeing is not the end of itself; rather it is a condition for the realisation of individual's ultimate happiness, or *falah*, which has been referred to as the eventual aim of economic agents in an Islamic economy.[38] This is consistent with the earlier understanding of the Islamic worldview where worldly affairs in this life are inseparable to the life in the hereafter. This section discusses the notion of *falah* as used in Islamic economics and its related behavioural expectations in the context of individual's social responsibility commitment.

3.5.1 The Notion of *Falah* in Islamic Economics

Falah denotes a comprehensive understanding of success and happiness in life, encompassing both the material wellbeing and spiritual development.[39] While the former deals with worldly human welfare in all spectrum of life including in economic affairs, the latter aspect that have the final significance in the eternal life of the hereafter. In Islam, "spiritual uplift is an essential ingredient of human wellbeing and any effort to

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[38] This can be reflected by some of the definitions proposed for the discipline; Islamic economics: "aims at the study of human *falah* achieved by organising the resources of earth on the basis of cooperation and participation" (Khan, 1984: 55); and "Islamic economics is the study of Muslim's behaviour who organises the resources which are a trust, to achieve *falah*" (Arif, 1985a: 97).

[39] The literal meaning of *falah* is to thrive, to prosper, to become happy, to have luck or success. It covers both worlds and its dimension constitutes various aspects including spiritual, economic, cultural as well as political (Khan, 2003: 60).

realise it otherwise is bound to fail" (Chapra, 1992: 12). This comprehensive conception of human wellbeing places *falah* at a unique position from the Islamic worldview in characterising the overarching objective of Islamic economics, where the interest of this worldly life will not be in conflict with the Hereafter.

In the context of realising *falah*, there are two essential points to the discussion. The first relates to the integration of material and spiritual development, and the second concerns with the various implications to the worldly economic undertakings. The concept of *falah* is significantly different from the notion of utility in the mainstream economics in various ways. *Falah* recognise the sources of happiness not only from the satisfaction of self-interest motives, but more importantly, the realisation of social interest and the pleasure of Allah.

In addition, *falah* is distinct from the notion of multiple utility conception advocated by some moral philosophers and economists, such as the likes of Etzioni (1988) and Sen (1987), as *falah* encompasses not only the worldly plain, but also extends to life of the after world. This provides an inter-temporal perspective to the concept of happiness, where the ultimate happiness goes beyond the achievement of material wellbeing in this world that is the eternal salvation in the hereafter. Therefore, an economic agent with this worldview will try to balance self-interested motives and material pursuit on the one hand, and social interest and spiritual development on the other.

Another important distinction is between growth and development in the light of human wellbeing. While productive enterprises and commercial undertakings are highly encouraged in Islamic tradition, this should always be balanced with the concerns over the society's wellbeing. This necessitate the presence of a functioning 'moral filter' in the economy that can facilitate such harmony by "changing individual preferences in accordance with social priorities and eliminating or minimising the use of resources for purposes that do not contribute to the realisation of normative goals" (Chapra, 1996: 27). Therefore, the imperative of *falah* provides the essential element in realising the harmony between economic and social wellbeing, where the two aspects provide the necessary building blocks for a balanced process of development. Additionally, while the pursuit of wealth and material growth is not in conflict with the spirit of Islamic teachings, *falah* broadens the meaning of happiness and therefore downplays the dominant role of material wealth. In other words, welfare of the individual and the society does not necessarily lie only in economic prosperity as other aspects to life such as moral, cultural and socio-political advancement are equally important (Chapra, 1992).

3.5.2 Realising *Falah*: A Behavioural Framework

As the overarching objective of the Islamic economics, the concept of *falah* has been featured strongly in the literature and incorporated in the definition of Islamic economics. As discussed earlier, the realisation of *falah* provides a completely new outlook of behavioural expectations and motivations for economic agents. In this context, individuals with this goal in mind is described as a socially concerned God-conscious individuals "who in seeking their interests is concerned with the social good, conducting economic activity in a rational way in accordance with the Islamic constraints, and in trying to maximise his/her utility seeks to maximise social welfare as well" (Asutay, 2007a; 168).

A careful examination of the above characterisation of the economic agents in an Islamic economy provides a foundation for the development of a systematic understanding of the behavioural assumptions. Firstly, while sources of utility can be derived from both self and social interest, self-interest pursuit is constrained by the teachings of Islam where certain activities are considered unacceptable and therefore, prohibited. These boundaries constitute various injunctions, rules and commandments of *Shari'ah* where obedient is mandatory. This provides the threshold for a minimum level of social responsibility in Islam. Secondly, while the maximisation of self-interest motives in the realm of permissible activities are completely acceptable, they must be balanced with the promotion of the social interest as well. Such an altruistic behaviour beyond the minimum level required by the obedient behaviour will prove to be a crucial element in the process of spiritual development and facilitate the realisation of one's *falah*. Such conceptualisation can be substantiated by the reading of the verses of the Qur'an, which describe the characteristics of the *muflihun* (those who obtained *falah*).

(i) Obedient Behaviour

One important characteristic of the *muflihun* is the strict avoidance of all things which are considered detrimental to the society's wellbeing such as the prohibitions against transacting in *riba'*, gambling and other activities that can lead to injustice and corruption. Individuals are obliged to obey such injunctions at all times, even if they involve economic losses:

> O ye who believe! Devour not Usury, doubled and multiplied; but fear Allah; that ye may (really) prosper. (Qur'an, 3:130)

> O ye who believe! Intoxicants and gambling, (dedication of) stones, and (divination by) arrows, are an abomination-of Satan's handiwork; eschew such (abomination), that ye may prosper (Qur'an, 5:90)

Such obedience is not only limited to avoiding elements leading to injustice and corruption in the society, but also involves complying with specific commandments which reflect the positive aspect to *maslahah* and justice. For instance, such commandments include obligatory charity in the form of *zakat*:

> So give what is due to kindred, the needy and the wayfarer, that is best for those who seek the countenance of Allah, and it is they who will prosper (Qur'an, 30:38).

(ii) Altruistic Behaviour

The characteristics associated with the realisation of *falah* are also linked to charitable and altruistic behaviour. While such behaviour undoubtedly promotes the wellbeing of the society and necessarily contributes to social cohesion, it is also linked to spiritual development which is crucial in understanding the dual nature of *falah*:

> And fear Allah as much as you can, listen and obey; and spend in charity for the benefit of your own souls. And those saved from the covetousness of their own souls; they are the ones who achieve prosperity (Qur'an, 64:16) .

> Those who establish regular Prayer, and give regular Charity, and have (in their hearts) the assurance of the Hereafter. These are on (true) guidance from their Lord; and these are the ones who will prosper (Qur'an, 31:4-5).

The presence of numerous verses in the Qur'an, which highlights the significance of charity, proves that it assumes a key position in Islamic teachings. This can also be exemplified by the following Prophetic tradition:

> Every Muslim must pay *sadaqah* (charity). The companion asked, "What about someone who has nothing to give?" The Prophet replied, "Then let him do something with his two hands and benefit himself. That will be charity." The companion asked, "But what if he cannot do that?" The Prophet replied, "Then he can help someone who is needy." Again they asked, "But what if he cannot do that?" The Prophet replied, "Then he should enjoin the doing of good." Still again they asked, "But what if he cannot do that?" The Prophet replied, "Then he should give respite from evil, for that is a form of charity" (Al-Bukhari, 1997: *Hadith* no. 225).

In other words, the concept of charity in Islam is very broad in nature. It is not only confined to giving donations, but also any efforts to promote good and wellbeing, even in the case of working to earn one's livelihood.[40] As such, the concept of charity in Islam has its ultimate aim of promoting the wellbeing of the society in its broadest meaning. Financial assistance in the form of donations may be the obvious manifestation of charity, but conceptually, any elements that can contribute to the wellbeing of the society is considered a charity, even the restraint from doing something harmful.

(ii) Sacrificial Behaviour

Integrated to both the obedient and altruistic behaviour is the element of sacrificial behaviour. Such a behaviour reflects the readiness of the individual to sacrifice economic interest in achieving *falah*. For instance, abstinence from involving oneself in activities prohibited by the *Shari'ah* may involve some economic sacrifice. In this context, individuals may be tempted with the abundance of the things Allah had prohibited. Therefore, realising *falah* necessitates the individuals to sacrifice certain things and be contented with the permissibles. However, in the side of Allah it is clear that the little

[40] The fact that this is considered second to the act of charity is an interesting proposition as this in itself can directly improve the well being of the person. Additionally, those who can support themselves will not be needing charity, and available charity can be properly channelled to those who cannot earn their own livelihood.

permissible is better than the abundant evil. This highlights the fact that the pursuit of economic wellbeing must never violate the ‘moral filters’ prescribed in Islam. The sacrificial element here introduces another aspect to the obedient behaviour as described earlier:

> Say: Not equal are things that are bad and things that are good, even though the abundance of the bad may dazzle thee; so fear Allah, O ye that understand; that (so) ye may prosper (Qur’an, 5:100).

Similarly, sacrificial behaviour can also be present within the act of altruistic behaviour. In this context, the act to promote the wellbeing of others may result in an economic loss to the individuals, and such behaviour necessarily represents a higher level of hierarchy from the morality point of view. It becomes more prevalent when the cost to the individual increases, and such a cost primarily depends on their present economic circumstances. The larger the cost involves in proportion to the present economic standing of the individuals, the greater its level of sacrifice:

> But those who before them, had homes (in Madinah) and had adopted the Faith-show their affection to such as came to them for refuge, and entertain no desire in their hearts for things given to the (latter), but give them preference over themselves, even though poverty was their (own lot). And those saved from the covetousness of their own souls-they are the ones that achieve prosperity (Qur’an, 59:9).

As described earlier, *falah* brings about a new perspective of happiness beyond the neo-classical notion of utility. Economic wellbeing is not the only source of happiness; the wellbeing of others and spiritual salvation are some of the important considerations in the decision making process of economic agents. Therefore, restraining oneself from harming others, or acting in the interest of others, or even sacrificing for the sake of others, are in line with the notion of *falah*. Additionally, it is important to emphasise that altruistic behaviour has been consistently linked to spiritual development. This is very central to *falah* where human wellbeing is not only dependent on material achievement, but more importantly requires spiritual upliftment. Therefore, altruistic behaviour and the promotion of social responsibility towards others is the crucial ingredient in the process of realising *falah*.

The behavioural assumptions of the economic agents described above are considered to be completely rational within the worldview of Islam. In fact, on the contrary, it would be highly irrational for a person to sacrifice his long-term eternal wellbeing for the sake of a relatively short-term worldly benefit. This is because acting according to the ethics of Islam will not only provide worldly sustenance and livelihood, but are promised with manifold increase of rewards, while those who desire only the affluence of the world will lose out completely in the hereafter (Qur'an, 42:20). Therefore, individuals' sense of prudence, with the long term perspective of wellbeing in the face of the reward and punishment as well as the accountability before God in the hereafter, forms the motivating factor for individuals to faithfully fulfil their obligations and social responsibility even when this tends to compromise their short-term self-interest (Chapra *et al*., 2008; Chapra, 1996). From this understanding, the incentive of the spiritual rewards provides strong motivation for *homo Islamicus* to go beyond the sole concern of self-interested motive and become more accommodative towards the promotion of social interest.

3.5.3 Realising *Falah*: A Dynamic Perspective

The discussion on the behavioural framework of *homo Islamicus* in the light of the realisation of *falah* is not complete without the dynamic aspect. As noted by Zaman and Asutay (2009), the realisation of *falah* is a 'becoming' process. The word *falah* itself reflects the process of striving towards success and the state of ultimate happiness. This path towards the ultimate happiness provide a dynamic perspective in the process of realising *falah* as the adornment of material gain is taken over progressively by the assurance of the salvation in the hereafter. This concept of dynamic process of spiritual development is consistent with the notion of *tazkiyyah*, which entails self purification and growth. As *homo Islamicus* commits to a higher level of social responsibility, and the concern for self-interested motives progressively diminishes, the process of self purification and spiritual development will take place, with the eventual attainment of complete happiness and eternal salvation:

> But those most devoted to Allah shall be removed far from it. Those who spend their wealth for increase in self-purification, and have in their minds no favour from anyone

> for which a reward is expected in return, but only the desire to seek for the countenance of their Lord Most High; and soon will they attain (complete) satisfaction (Qur'an, 92:17-21).

This process of spiritual upliftment in the path towards ultimate happiness is eloquently described by Al-Attas (2005: 40):

> The Islamic concept of happiness transcends the general secular hedonistic view that the aims of human life are to enjoy the pleasure and delight of this temporal world. In Islam, happiness in this worldly life is not an end in itself; instead the end of happiness is love of God. The former comprises two levels of happiness; the first level is a psychological, temporal and terminal state which may be described as feelings or emotions attained when needs and wants are achieved by means of the right conduct in accord with the virtues. The second level is the spiritual, permanent, consciously experienced state, the substratum of worldly life which is affirmed to be probationary, the testing of conduct and virtuous activity by good fortune or ill. This second level, when attained, occurs concurrently with the first, except that wants are diminished and needs are satisfied. This second level of happiness is a preparation for a third level in the Hereafter which is the highest state in the Vision of God.

As noted earlier, embedded in this path to spiritual upliftment is the level of commitment to social responsibility. This can be exemplified by the following verse of the Qur'an:

> Let there arise out of you a band of people inviting to all that is good, enjoining what is right and forbidding what is wrong; they are the ones to attain felicity (falah) (Qur'an, 3:104).

The three components highlighted in the verse represent the levels of social responsibility commitment in the path of realising *falah*. As previously discussed, the institution of 'enjoining what is right and forbidding what is wrong' constitutes the core to the behavioural expectations of individuals, and consistent with the discussions on the nature of dual approach towards *maslahah* and justice. Beyond this aspect, individuals are also exhorted to fulfil a higher level of responsibility, through the call to promote goodness (*khayr*) in the society. This additional level of social responsibility, according to Izutsu (2002), is comparable to the notion of *ihsan* as previously discussed.

It is quite apparent by now that individual behaviour, the level of commitment towards social responsibility issues, and the realisation of *falah* are intimately integrated. It is also interesting to reflect on the nature of the above, in relation to discussions on the theory of *maqasid* and the precepts of justice and beneficence. Despite looking from a different perspective, whether through the lense of *maslahah*, the precepts of justice and beneficence, and in this case, in the notion of *falah*, notable consistencies can be observed, rendering a plausible synthesis of these foundations in providing an integrated normative framework of social responsibility issues and commitment for economic agents in the decision making process.

3.6 A NORMATIVE FRAMEWORK OF SOCIAL RESPONSIBILITY

In the earlier sections of this chapter, various normative aspects underlying the ethical foundations of Islamic economics and finance have been discussed within the understanding of the Islamic worldview. These include the objectives of the *Shari'ah*, the precepts of justice and beneficence, and the notion of *falah*. These foundations provide the necessary justifications for social responsibility concerned in the forms of *Shari'ah* imperative, principles of a moral economy, and the normative behavioural framework. This section integrates these concepts and provides a synthesis of a normative framework in the face of social responsibility issues and commitment, and subsequently link it to the practice of Islamic investment.

3.6.1 Synthesising the Foundations of Social Responsibility

The previous discussions on *Shari'ah* and its objectives as well as the notion of justice and beneficence provide various references on the importance of social responsibility in Islam. The contemporary literature on *maqasid* has also provided further emphasis on the role of promotion of good and social wellbeing as part of an important element to the spirit of Islamic law, along with the traditional emphasis of preservation and protection from harm. This is consistent with the discussions on the axiom of justice ('*adl*). The precept of '*adl* ensures that any element of *dzulm* (injustice) that may result in *fasad* (destruction or corruption) must be mandatorily shunned. This can be reflected in the various injunctions and rules derived from the revealed sources of the *Shari'ah* which provide the safeguard against any form of violation to the notion of justice. However, the notion of justice is not limited to the prevention of harm to the society alone. Positive aspects of justice in the realm of economics provide another important layer in providing the necessary environment in which justice can be realised in all spheres of the economic affairs, in line with the aim to achieve social justice and overall human wellbeing.

However, the effort towards the promotion of social responsibility does not end there. Islam also puts great emphasis on another layer of the normative principles known as the concept of *ihsan*, without which the realisation of *falah* would not be complete, if at all achieved. This additional layer which goes beyond the legal scope of justice is an important component in the system of ethics in Islam. As can be seen within the context of the hierarchy of *maslahah*, where the promotion of the higher level provide the assurance that the concerns of the lower level of *maslahah* are not being compromised, similarly in this case, the notion of justice is complemented with the notion of *ihsan*, which bring another layer of assurance that justice and fairness are promoted in all circumstances.

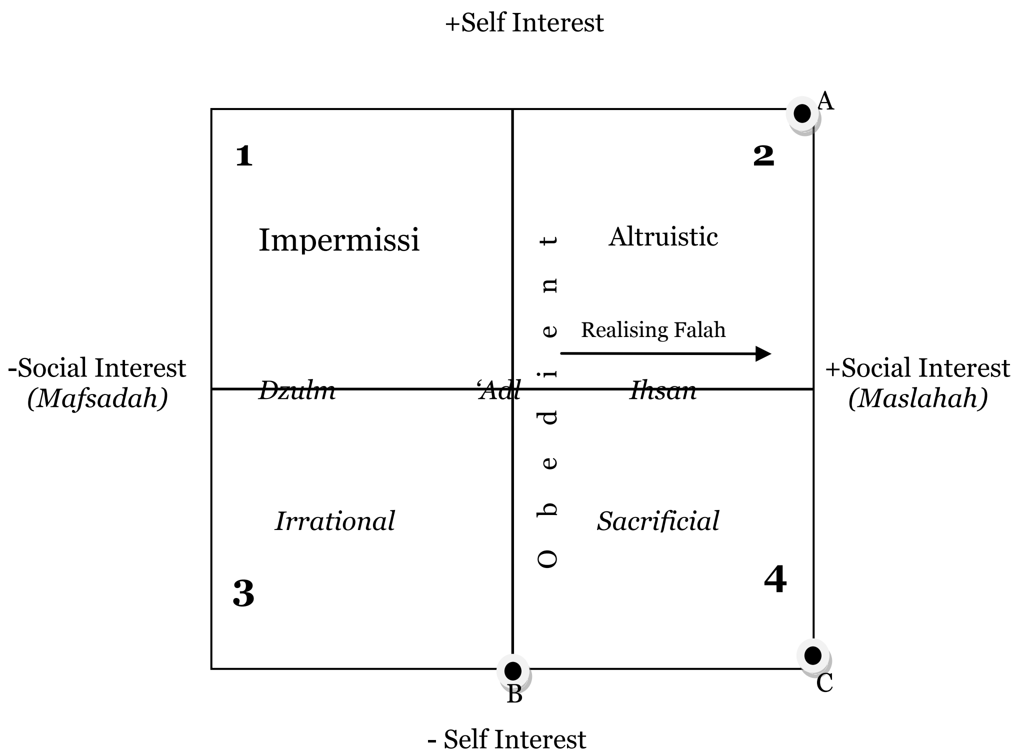
The importance of the broad objective of the *Shari'ah* which involves the prevention of harm and the promotion of good on one hand, and the notion of *'adl* and *ihsan* on the issue of social responsibility on the other, is further emphasised within the concept of *falah*. In realising *falah*, individuals have to balance between the pursuits of self-interest with social interest. In the context of the behavioural expectations, obedient behaviour entails the economic agents to avoid all activities considered harmful and unacceptable in Islam. Furthermore, they are required to observe certain aspects important to the establishment of *maslahah* and justice in the society. These two aspects imbued in the obedient behaviour are consistent with the demand of the dual approach towards *maslahah* and justice. It is crucial that both the negative and positive features are established in the society as well as the market as the transgression of the former will cause downright harm to the society, while the absence of the latter will undermine the strive for justice and overall human wellbeing. On the other hand, altruistic behaviour represents the voluntary aspects of the Islamic ethics and is closely linked with the notion of *ihsan*. This entails the act to serve others more than is required by justice. Such an additional layer of social responsibility provides supplementary mechanism in the endeavour to maintain the state of justice at all times. More importantly, despite being voluntary in nature, altruistic behaviour is a crucial element in the process of spiritual upliftment, where in its absence will hamper the process of realising *falah*. Given the integrated nature of these precepts with the behavioural expectations of economic agents, the following section will present a unified behavioural framework of social responsibility.

3.6.2 A Unified Behavioural Framework of Social Responsibility Issues and Commitment

As alluded earlier, the realisation of *falah* as the goal in life and economic affairs, and the corresponding behavioural expectations associated with it, can be integrated with *Shari'ah* and its fundamental objectives, the notion of *'adl* and *ihsan*, and the overall Islamic worldview, in providing a framework in which the normative foundations of social responsibility and the corresponding behavioural assumptions of economic agents can be conceptualised in a coherent and systematic manner. Such a unified framework of individual behaviour of social responsibility in Islamic economics is illustrated in Figure 3.2.

Figure 3.2 shows an economic agent faced with two dimensional utility functions; self-interested motive and social interest. Confronted with such situation, the diagram reflects the possible types of behaviour individuals are likely to choose. Given the two dimensions of objective function, rationality suggests that individuals should maximise the total utility derived from the two sources. This may involve preferring economic interest over social interest, favouring social interest at the expense of economic interest, or possibly optimising both. This necessarily means that choosing a behaviour that has both negative economic and social implications as irrational. Therefore, Section 3 of the possible behavioural pattern represents an irrational behaviour. It is also important to note that all activities detrimental to the society be completely shunned. Even if such activities may contribute positively to the pursuit of self-interest motive, and therefore, economically rational, it is, however not permissible from the Islamic perspective. Therefore, the first quarter which represents the pursuit of self-interested motive at any cost to the society is also unacceptable.

Figure 3.2 A Unified Behavioural Framework of Social Responsibility Issues and Commitment



While this can happen in reality, from a theoretical point of view, such behaviour is outside the permissible behavioural framework of the economic agents in an Islamic economy. Such behaviour constitutes an act of transgression (*dzulm*) beyond the boundaries set out by Islam, and contributes to corruption and mischief in the world and brings harm to the society (*fasad*).

On the other hand, the sections to the right of the diagram constitute the permissible types of behaviour. Individuals are allowed to pursue economic interest as long as it does not have adverse impact on social interest. While it is possible to maximise both the economic interest of oneself and the society, as indicated by the hypothetical point A, sometimes the two objectives may be in conflict. The situation in which individuals have to choose a behaviour where the economic interest and ethical concerns clashes is known in the literature as 'ethical dilemma' (Le Menestrel, 2002). From an Islamic perspective, a real scenario of an ethical dilemma can only exist when dealing with the voluntary aspects of Islamic ethics. As previously highlighted, Islam prohibits all types of *dzulm* (injustice) that can lead to *fasad* (destruction and corruption) in the society. Consequently, any pursuit of self-interest which is in conflict with such mandatory normative principles must be completely abandoned, even if it involves economic losses (negative self-interest). This represents the sacrifice expected within the obedient behaviour (*e.g*. hypothetical point B). On the other hand, an ethical dilemma in this model will only involve the conflict between economic interest and altruistic motive which go beyond the mandatory normative aspects required by the obedient behaviour. The choice to favour social interest over self-interest in this situation will result in a sacrificial behaviour (for altruistic motive). Section 4 in the diagram represents the act of advancing social interest with a negative impact to individual self-interest (*e.g.* hypothetical point C). While this is possible at the individual level, many would argue that this is not feasible for businesses, or even in the context of any commercially oriented undertakings, including in investment decision. This is understandable because without any incentive for economic interest, any investment will not take place in the very beginning.

It is also important to note that sacrificial behaviour for social responsibility does not necessarily involve a total abandonment of economic interest as represented in section 4. In fact, many decisions concerning ethical dilemmas in businesses involve trade-offs between having more or less profits, and to be feasible at any point in section 2. Therefore, the initiative to promote the social interest, even if it requires some economic sacrifice, can still be financially feasible for commercially oriented ventures. In fact, consistent with the paradigm of *falah*, such responsibility and spirit of sacrifice will be instrumental in the removal of self-centredness and covetousness within one self, and promotes compassion, caring, co-operation and harmony in the society. Therefore, the concern for the wellbeing of others, as well as oneself, become an integral element of social responsibility in Islamic economics, and it should be taken up by all members of the community, including institutions and businesses.

Turning to the other aspects of the model, the vertical line which divides the continuum of the social interest reflects the importance of establishing *maslahah* and justice in the society. This necessitates that all activities that are detrimental to the society (or even to oneself) must be rejected. While Islam acknowledges the role of self-interest motives in economic affairs, and in many ways encourages it, it is bounded together with the overall concept of goodness and justice. Transgression beyond this will result in the injustice (*dzulm*) that will lead to corruption and destruction (*fasad*) in the society. Similarly, positive measures to ensure justice in the society must also be upheld in a similar manner. Justice demands that individuals balance between their rights and their duties and responsibilities towards others. Hence, both the negative and positive approach to justice will provide a complete meaning to the notion of economic justice and the realisation of all of its constituents. On the other hand, going beyond the level of justice in promoting the interest of the society, in line with the spirit of *ihsan*, will facilitate one's upliftment to the state of *falah*. In this context, the realisation of *falah* necessitates individuals to exercise more than just the obedient behaviour, but also altruistic behaviour towards others, and potentially in the process, involve in some degree of sacrificial behaviour.

In sum, in the context of this behavioural model, an economic agent is no longer driven by the principle of profit maximisation alone, but by the pursuit of the ultimate happiness in this life and the Hereafter, whereby he or she acknowledged his/her social and moral responsibility for the wellbeing of the society and the natural environment, including the wellbeing of the future generations. In other words, in the process of realising one's *falah*, one' must ensure that the wellbeing of others are also promoted. Within this understanding, the social cohesion and social capital within the society will be maximised, resulting in the widespread spirit of cooperation, which in turn reinforce further the process of promoting collective wellbeing. Ultimately, the unity of purpose will avoid conflicting interests among members of the society, since everyone has a common aim in his life, within the comprehensive understanding of the notion of *falah* (Ahmad, 2003b).

3.7 IMPLICATIONS OF THE NORMATIVE FRAMEWORK OF SOCIAL RESPONSIBILITY ON ISLAMIC INVESTMENT

The above normative framework provides a comprehensive outlook of the social responsibility issues and commitment expected of the economic agents in an Islamic economy. It specifies the different aspects of the rights and duties of all individuals in conducting their economic affairs, in line with various ethical precepts within the Islamic worldview. This section proceeds to examine some of the implications of this framework in the practice of Islamic investment.

Despite strong justification on the social responsibility concerns in Islamic economics and finance, there still exist some debates on whether such responsibility should be taken up within commercially oriented ventures or entities, including the Islamic financial institutions. On one hand, as organisations operating within the ambit of the *Shari'ah*, it is argued that Islamic financial institutions must not operate solely on profit motive, but are also expected to assist in the promotion of social justice and overall human wellbeing in line with the normative goals of Islamic economics.[41] On the other hand, others argue that Islamic financial institutions, which a constituent of the 'commercial' sector, should operate as a commercially viable provider of *Shari'ah*-compliant financial services without being burdened by various social and welfare responsibilities.[42] Such

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[41] This view on the role of Islamic financial institutions is known as the Chapra model (Lewis and Algaoud, 2001: 95), and is believed to be harmonious with the objectives of the *Shari'ah* and overall Islamic worldview. Thus, the operation and policies of Islamic financial institutions must be oriented towards the promotion of social justice and human wellbeing, such as promoting the equity-based participation in financing, providing financial capital to small and medium enterprise based on its viability, facilitating long-term development through the financing facility, reducing regional imbalances through investment in underdeveloped areas, as well as contributing towards the needy and the poor without undermining its commercial viability.

[42] The proponents of this argument classify the economy into three distinct sectors; government, market or commercial, and the philanthropic, welfare or the third sector. Consequently, as argued by Ismail (2002),

responsibilities, however, should be taken up by other segments of the society within the 'philanthropic' or the 'third' sector, such as social and non-governmental organisations (NGOs). Some have also argued that morally motivated spending should be done at the 'disposal stage' (within the third sector) once the right on that wealth has been established at the 'acquisitive stage' (within the commercial sector) (Tag el-Din, 2004).

However, within the Islamic worldview, all human actions are accountable to God, including all aspects of economic undertakings. Hence, the social responsibility commitment should not be limited to the manner in which wealth is used and disposed of, but perhaps more importantly, in the ways it is acquired. In the context of investment, investing in a business or other forms of commercial ventures necessarily entails some degree of ownership. Subsequently, as part owners, investors have to ensure that the activities of these businesses are consistent with the Islamic ethics, and they will be personally responsible on any violation of these ethical injunctions. Additionally, such ownership entails potential returns, and therefore it is imperative that such returns are not earned from prohibited sources or through activities which are harmful to others or the environment.[43] Therefore, social responsibility issues, especially the ones relate to the preservation of the essentials (*maslahah dharuriyyat*) and the prevention of injustice, are crucial considerations when making investment choices.

Islamic banks which belong to the commercial sector will have responsibilities to their shareholders and depositors and not to the larger society. The social responsibility of Islamic banks therefore, is to continue to be viable and efficient in providing *Shari'ah* compliant financial services to their clients.

[43] Based on a prophetic tradition reported by Abu Hurayrah: "Allah's Apostle (pbuh) said, "Do you know who is poor?". They (the companions of the holy Prophet) said, "A poor man amongst us is one who has neither Dirham with him nor wealth." He (the holy Prophet) said, "The poor of my *Ummah* would be he who would come on the Day of Resurrection with prayers and fasts and *zakat* but he would find himself bankrupt on that day as he would have exhausted his funds of virtue since he hurled abuses upon others, brought calumny against others and unlawfully consumed the wealth of others and shed the blood of others and beat others, and his virtues would be credited to the account of one who suffered at his hands. And if his good deeds fall short to clear the account, then his sins would be entered in his account and he would be thrown in the Hell-Fire" (*Hadith - Sahih Muslim*, No.6251).

As elaborately discussed in this chapter, some of these *Shari'ah* repugnant issues that are in contradict with the principle of *maslahah* and justice and must be shunned are summarised as follows;

(i) All types of activities considered immoral, harmful to one selves and others, and transgress the permissible boundary set out by the *Shari'ah*; examples include the prohibition against intoxicants, gaming, tobacco, pornography, unacceptable entertainment, and non-*halal food.*

(ii) All forms of contractual inequities in transactions that lead to injustice; examples include elements of *riba'*, *gharar* and *maysir*.

(iii) All types of unfair business practices; examples include fraud and misrepresentation, price manipulation, hoarding, and bribery.

(iv) All types of exploitative policies and violation of rights; examples include unfair compensation, unsafe working environment, forced labour and discriminatory practices.

(v) All forms of excessive exploitation and destruction of resources and the natural environment; examples include pollution, destruction of forestry, crops and animals.

Subsequently, in line with the dual approach towards *maslahah* and justice, investors are also exhorted to consider various positive aspects of the social responsibility issues. As discussed earlier, many ethical and social responsibility issues prominently featured in Islam are also commonly shared by the western SRI movement. As depicted in Figure 2.3 (Chapter 2), prevalent issues within the community development, labour standards, human rights, business practices and environmental concerns within the SRI industry are consistent with the Islamic perspective. In addition, the Global Compact framework, which is the forerunner to the United Nations' Principle of Responsible Investment (UNPRI), has been shown to be compatible with Islamic principles (Zinkin, 2007; Williams and Zinkin, 2009). Likewise, some of the social responsibility standards for Islamic financial institutions described earlier also bear similar social responsibility themes with SRI (CSR-IFI, 2010).

Another important feature of the normative behavioural framework is the emphasis given to the higher level of social responsibility commitment. In this context, the willingness for individuals to consider and accommodate the wellbeing of others in their economic undertakings is a crucial element towards their moral and spiritual development. In the case of investment, it may not be sufficient for the investors to only limit their concern on the legal requirements of the *Shari'ah*, without any concern of the broader social responsibility issues. Such formalism is criticised by the Qur'an:

> It is not righteousness that you turn your faces towards East or West; but it is righteousness - to believe in Allah and the Last Day and the Angels, and the Book, and the Messengers; to spend of your substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask; and for the freeing of captives; to be steadfast in prayer, and practice regular charity; to fulfil the contracts which you made; and to be firm and patient in pain (or suffering) and adversity and throughout all periods of panic. Such are the people of truth, the God-conscious" (Qur'an, 2:177).

It is clear from the above that Islam puts great emphasis on the love of God and fellow human beings as the basis for social responsibility commitment. While the former aspect represents the relationship between man and his Creator, it is also linked to the latter aspect where the love of God leads towards kindness to others. In fact, those who deny their social responsibility towards others are despised and warned (Qur'an, 107:1-7). In other words, true and complete submissions to God go beyond the ritual and legal obligations and essentially, require the realisation of the love of God and His creations, and this devotion is reflected through the commitment towards various acts of social responsibility.

3.8 SUMMARY AND CONCLUSION

This chapter has discussed various normative foundations underlying social responsibility issues and commitments which include the objectives of the *Shari'ah*, the precepts of justice and beneficence, and the notion of *falah*. These foundations provide the necessary justifications for the social responsibility concerns in the forms of *Shari'ah* imperative, principles of a moral economy, and the normative behavioural framework. It has also been observed that the three areas discussed share common features. While the preservation of the essentials (*maslahah dharuriyyat*) and the prevention of injustice have been shown to be the necessary elements in providing the core and minimum level of commitment to social responsibility, the promotion of *maslahah* and the establishment of justice are incomplete without the presence of the positive aspects. Additionally, the dual approach towards *maslahah* and justice is supplemented with additional moral elements towards a higher level of commitment. The different layer of commitment to social responsibility is further discussed in the light of realising *falah* and the behavioural expectation related to it, particularly in the form of obedient, altruistic and sacrificial behaviour. The chapter then integrates these concepts and provides a unified perspective of a normative behavioural framework in the face of social responsibility issues and commitment. Consequently, some implications of the social responsibility dimension of Islamic investment in relation to the behavioural framework are discussed. This framework provides the theoretical underpinning for the analysis of the Islamic investment practices, which is the subject of the following chapter. Subsequently, it is also the basis for the empirical examination on investors' perceptions, attitudes and behaviours on various aspects of social responsibility issues and commitment, which constitute the second component of this research.

CHAPTER 4

INCORPORATING SOCIAL RESPONSIBILITY DIMENSION IN ISLAMIC INVESTMENT

4.1 INTRODUCTION

This chapter seeks to examine the prospective character of Islamic investment sector in addressing social responsibility dimension in a more explicit and constructive manner, in line with the ideals of Islamic economics and the overall spirit of Islam. It starts with a review on the present practice and screening norms of Islamic investment in the light of the normative framework discussed in Chapter Three. It then examines the strategies practiced in SRI for Islamic investment, particularly with respect to its compatibility with the rules and injunctions of the *Shari'ah*. Next, the chapter discusses the prospects of incorporating social responsibility dimension in Islamic investment and explores its potentials in promoting socially responsible behaviours among individuals and businesses in the economy. Finally, the chapter surveys the literature on the behavioural tendencies and motivations of economic agents in the context of the experience of Islamic banking and finance, with the aim of providing preliminary understanding on the multiple aspects to the support for social responsibility dimension in Islamic investment.

4.2 ISLAMIC INVESTMENT PRACTICES AND SOCIAL RESPONSIBILITY

As highlighted in Chapter 3, the social responsibility dimension in Islamic economics and finance, including in investment practices are subjected to the worldview of Islam, with its rules and normative principles enshrined in its *Shari'ah* and its objectives, the precepts of justice *('adl*), beneficence (*ihsan*) and the notion of ultimate happiness (*falah*). The discussions here review some of the main characteristics of the Islamic investment industry and reflect its practices within the context of the normative framework of social responsibility as synthesised in Chapter 3.

4.2.1 A Review of the Islamic Investment Industry

The defining feature of Islamic finance including in the field of investment lies on the ethical principles embodied in the *Shari'ah* (Islamic legal and ethical system), where its underlying objectives are generally aimed at realising overall human wellbeing and social justice. Some of the salient *Shari'ah* injunctions strictly observed in Islamic investment practices include the prohibition in all activities and transactions involving the elements of *riba'* (interest), *gharar* (excessive uncertainty), *maysir* (gambling) and all other types of activities and transactions which are considered unethical or harmful as deemed by the *Shari'ah*. Such prohibitions necessarily remove sectors such as conventional banking and insurance, gaming, alcohol, non-*halal* meat production, tobacco, and entertainment from the *Shari'ah* approved investable universe. Similarly, conventionally structured financial products such as bonds, derivatives and excessively speculative transactions are also considered as *Shari'ah* repugnant (Naughton and Naughton, 2000; Wilson, 2004; Derigs and Marzban, 2008).

The above principles have been applied to evaluate the permissibility status of investment instruments, including the shares of companies listed in the stock market. Subsequently, the increasing acceptance of equity investments by *Shari'ah* scholars in the early 1990s has laid the necessary foundation for a feasible Islamic investment sector. Additionally, the launch of the credible equity benchmarks by Dow Jones Islamic Market Index (DJMI) and FTSE Global Islamic Index Series which are backed by leading *Shari'ah* experts has served as a catalyst towards the development of the industry. Not only it provides a standard methodology and process of determining *Shari'ah* compliant status of companies, but also offers investors the list of identifiable securities for *Shari'ah* compliant investments and the necessary benchmarks in gauging the performance of any Islamic investment products. This has led to the proliferation of Islamic funds globally, particularly the equity-based. The growth of the Islamic investment industry is then augmented with the development of other asset classes such as *sukuk* (Islamic bonds), real estate and properties, commodity *murabahah*, Islamic money market as well as Islamic derivative products. This development contributes to the breadth and size of the investible universe and the structure of various investment products. Nevertheless, equity remains the most dominant form of Islamic investment instrument, and therefore, it will be the focus of the discussion in this chapter.[44]

At present, the overall Islamic asset management industry is estimated to be USD 292 billion. The figure represents around 31% of the total assets of Islamic banking and finance industry globally. This shows that the bulk of funds remain in the form of banks deposits, and therefore, underlines the vast growth potential of Islamic investment sector. In fact, from the total amount of the asset under management, only around USD50 billion is managed under portfolio managers, while the rest is investment-based deposits with Islamic financial institutions (IFIR, 2010). Despite being one of the fastest growing sectors in the Islamic finance industry, the total size of the Islamic investment is still relatively small in comparison to the SRI industry. The recent financial and economic crisis caused by the sub-prime bubble has also affected the growth of the sector. Nevertheless, recent estimates forecast huge potentials of growth, especially on the retail side of the market, mainly from the savings of affluence masses of the Muslim countries (IFIR, 2010). Therefore, based on the low level of savings mobilisation through investment and the huge scope of expansion, Islamic investment will continue to be one of the most promising sectors for further development, innovation and growth within the Islamic finance industry.

4.2.2 Screening Norms for *Shari'ah* Compliant Equities

The desirability features of equity participation where risks and returns are shared among different parties in a productive venture naturally render common shares of companies in the capital market as readily legitimate form of investment instrument. While it is almost unanimous among the contemporary *Shari'ah* experts that the equities of companies where all of its transactions are in full conformity with *Shari'ah* (including that the company neither borrows money on interest nor keeps its surplus in an interest bearing

[44] This is consistent with the experience of SRI, particularly in the European context where the strategies for investment focus on equities and shares of companies.

account) can be purchased, held and sold without any hindrance, the contention among the *Shari'ah* scholars focuses on the status of companies with lawful core business activities, but mixed with some impure sources of income or financing (Usmani, 1998). In a comprehensive review of the major resolutions and scholarly opinions on the issue, Yaquby (2000) concludes that the opinion of those arguing for permissibility is "closer to the truth". His observation is based on the "strength of the sources they have cited from jurisprudence (*fiqh*) provisions and legal principles", as well as the wider acceptance of its permissibility among the *Shari'ah* scholars, including those who had previously argued against it (Yaquby, 2000). Other justifications being cited include serving the common interest of the public as well as the Islamic financial institutions to participate in such a vital economic activity, and_the benefit of propagating the message and ethical principles of Islam globally.

Such acceptance however, comes with a number of *Shari'ah* parameters, which need to be strictly observed in the investment process. These parameters address some issues of concern from the *Shari'ah* point of view, particularly on the sources of income from unacceptable business activities, including incidental interest income from cash or cash equivalent assets of the companies. Also included are the prohibition against the interest-based financing of the business activities, the prohibition of the sale of debt to a third party and the exchange of cash-like assets at values different from their par value. These criteria provide the threshold in which equities within the tolerable limit of the parameters are identified as *Shari'ah*-compliant securities. In order to ensure the returns from such investment are pure and legitimate, a process of 'cleansing' or 'purification' must be done to remove the elements of mixed sources of income, which are tolerated earlier. Therefore, despite some leniency on the permissibility status of companies with mixed business activities and income for investment, particularly in facilitating the common interest of the public and Islamic financial institutions to participate in such economic activity, the *Shari'ah* is very clear that Muslim investors must not benefit in any way from the activities or transactions repugnant to the *Shari'ah*. Thus, if there exists some income from unacceptable business activities or interest-bearing accounts, the proportion of such income must be ‘cleansed’ or ‘purified’, usually through the channelling of such portion from the dividend received from the shares holding of the company, to charitable organisations or purposes.

These *Shari’ah* parameters and processes have been widely adopted and practiced by various institutions and index providers, including the Dow Jones Islamic Market Index (DJIMI) and FTSE Global Islamic Index Series. This development provides the industry standard in the methodology and processes for *Shari’ah* screening of equities. In general, these screening norms are known as sector (qualitative) and financial (quantitative) filters. Table 4.1 summarises the salient features of such filters and the *Shari’ah* issues of concern addressed by the criteria.

As can be seen from Table 4.1, while there are some key differences in the specific financial screening criteria used by different institutions and index providers, there seems to be a general agreement on the sector screens used in determining the permissibility status of *Shari’ah* compliant securities. Nevertheless, the qualitative component of the screening process has yet to consider aspects related to broader social responsibility concerns, and the ensuing discussions will proceed to examine this aspect.

Table 4.1: Screening Norms of Islamic Investment

Filter	*Shari'ah* Issues of Concern	Industry Norms[45]
Sector: Main business activities	-Business activities and transactions involving *riba', gharar, maysir,* excessive speculation, and other activities or transactions repugnant to the *Shari'ah* are strictly prohibited.	-All securities with unlawful core business activities are excluded from the list of permissible securities; conventional financial services and products, insurance, gambling, liquor, production/distribution of non-*halal* meat, hotels, entertainment services unacceptable in *Shari'ah*, tobacco, and some include weapon and genetic bio-technology.
Sector: Mixed business activities	Lawful core business activities but mixed with some impermissible activities; -discussions have been contentious among the *Shari'ah* scholars on the issue -many have accepted its permissibility (with relevant parameters) based on legal juristic opinion and present circumstances of the market and the industry.	Tolerable threshold of mixed income from impermissible activities were adopted to limit the exposure to such elements; -e.g. total impure income must not exceed 5% from the total revenue.
Financial: Interest ratio	Receiving interest income is unlawful, even if such income is not generated from its main business activity.	Interest income must be very negligible; -Both the combined unlawful income from mixed activities and interest income must not exceed 5% of total revenue. - Alternatively, ratio of liquid assets (e.g. cash, receivables and short-term investment) that can generate interest income over total assets/market capitalisation is also used, e.g. must not exceed 33%.
Financial: Liquidity ratio	Concerns with the presence of substantial elements of liquid assets, e.g. account receivables, cash or cash equivalent, and short-term investment of the company; -The prohibition of the sale of debt to a third party. -Money can only be exchange at par value. -Real assets must constitute a substantial component of the total assets.	The accepted level of liquid assets to total assets/market capitalisation of a company varies between institutions and index providers; ranges from 33% to 80%.
Financial: Debt ratio	Payment of interest is also unlawful; financing business activities using interest based transactions is problematic; any involvement in such financing activities must be kept minimal.	-The sum of total debt of a company must not represent more than 33% of the total asset/market capitalisation.

Source: Summarised from Usmani (1998), Yaquby (2000), and Derigs and Marzban (2008)

[45] For details of the screening norms practiced by various institutions and index providers, see Siddiqui (2004), Derigs and Marzban (2008) and Rahman et al. (2010).

4.2.3 Social Responsibility Criteria in Islamic Investment

While *Shari'ah* encompasses a holistic outlook of the system of life in Islam, it is apparent that the screening norms practiced by the industry emphasise the 'normative validity' of Islamic law, distinct from the notion of ethics and morality (Cattelan, 2010). Apart from the criteria related to weapon and genetic bio-technology applied by some institutions, other sector screens focus on the traditional 'sin' activities considered as major prohibitions in Islam. All the three financial filters in one way or another, address the strict prohibition on the various forms of exposure to *riba'* in the investment process. Therefore, despite the frequent reference to Islamic ethics and its claim of moral superiority in the midst of a secular world of finance, the screening strategy practiced in the Islamic investment industry remains exclusionary in nature, and more importantly, is prohibition driven and concerned with the *fiqhi* dimension of the *Shari'ah*.

Notwithstanding the continuous revision to the list of screening criteria which includes new issues that are considered to be *Shari'ah* repugnant; e.g. human cloning, stem cells, and genetically modified food/organisms (Derigs and Marzban, 2008), the focus remains on the area of product or sector-oriented screening. There is a clear consensus among the jurists on the general objective of the *Shari'ah*, particularly on the imperative of harm prevention. As highlighted in Chapter 3, Islam strongly rejects any form of destruction, exploitation or manipulation that can cause harm to any members of the society or the environment, and is placed at the most essential category of *maslahah*. In other words, the approach to prevent harm, in all of its forms and sources, is obligatory in all spheres of life, including in economic and business activities.

Previously, it has been shown that *Shari'ah* injunctions which have implications on economic activities are not only confined to the nature of the products alone, but also applicable to various aspects on the operations and policies in conducting business activities. Some of these important injunctions include the prohibition of price manipulation; deception in business dealings; damaging the environment; and exploitation of labour. These issues are consistent with the practice of SRI in the areas of responsible business practices, respect for human rights, fair labour policies, protection of the environment, and the like. While there were some recommendations to prohibit investing in companies with such harmful policies (Yaquby, 2000; Norman, 2004), such concerns have yet to make their ways into the mainstream Islamic investment practices. Therefore, without the proper consideration of these issues, there will be no assurance to investors that the returns from the present *Shari'ah*-compliant businesses are free from any form of *Shari'ah* repugnant activities. For instance, in a case study of a *Shari'ah*-compliant company listed on FTSE, it was found that the company was involved in serious human rights violations and practices that have caused long-term damage to the environment (Ahmed, 2009).[46] It is apparent that such business conducts contradict the teaching of the *Shari'ah*, and the financial returns from such investment may be tainted with impure income as a result of the exploitative or detrimental business operations. Therefore, the inclusion of this aspect in the screening process is essential for the investment to be considered as permissible and *Shari'ah* compliant.

Another feature of the practice of Islamic investment in connection with the SRI experience is the absence of the positive aspect in the screening process. While it has been shown that the exclusionary approach is a necessary step in ensuring the permissibility status of the investment and that all possible elements of harm is avoided, many scholars and commentators of Islamic finance have argued that it is insufficient in achieving the objectives of the *Shari'ah* and the normative goals of Islamic economics (Siddiqi, 1999, 2004; El-Gamal, 2006; Lewis, 2010). In line with the dual approach to *maslahah* and justice, it is imperative that the Islamic investment practices move to a new phase of development, where positive aspects of social responsibility are incorporated into the investment process. With respect to positive screening, a company is selected for

[46] The company under study is Vedanta Resources which is a diversified metals and mining company listed on the London Stock Exchange and is a constituent of the FTSE100 index & FTSE *Shari'ah* index (UK). In May 2007, the Council on Ethics of the Government Pension Fund – Global of Norway published a report detailing the unethical practices of the company's operation in India and recommended its divestment. This includes the dumping of large quantities of hazardous waste at unsecured deposit sites which had caused long-term heavy metal contamination of soil and groundwater, as well as the expulsion of local farmers and tribes from their homes and land due to the company's operation (Ahmed, 2009).

investment or may be given greater weight in portfolio construction for good social responsibility performance, which include among others, good record for quality products, safety, staff management and customer relations; involvement in environment improvement, pollution control, sustainable woodland management and energy conservation; and the like (Obaidullah, 2009). One important example of such a positive screening in the context of Islamic investment is the launch of Dow Jones Islamic Market Sustainability Index. The criteria used for the index incorporate both the *Shari'ah* compliant principles and sustainability criteria, where the constituents of the index are required to pass both the screening process of the Dow Jones Islamic Market and the Dow Jones Sustainability Index respectively. As described by the index provider, this is mainly a response to the repeated inquiries from asset managers who wish to integrate Islamic investment principles with the social, ethical and environmental criteria (Dow Jones and SAM Group, 2006).

Nevertheless, the incorporation of social responsibility dimension in the screening process may pose few important challenges. While some unacceptable business policies have been identified as socially and environmentally harmful, and therefore, its avoidance is mandatory for *Shari'ah* compliance, the issue of social responsibility as a whole is a subjective one. The subjectivity of the issue is further amplified by the wide spectrum of social responsibility areas, ranging from internal operations such as responsible labour standards and business practices to broader external outlook including the impact on local community and the environment. While the present sector screening on *Shari'ah* repugnant activities is relatively straight forward, violations on social, ethical and environmental issues are more subjective in nature. More importantly, this necessitates careful and detailed information on the policies and operation of businesses, followed by continuous monitoring and assessment. Nevertheless, with the increasing standardisation of the present screening criteria, and the availability of computerised screening processes, fund management companies can move further forward in other areas of concerns, including in addressing social responsibility issues. Furthermore, several specialised institutions which offer screening solutions for fund management companies have emerged, providing a more flexible screening solution for investors who would prefer to have their investment screened based on their preferred level of tolerance, which often involves stricter criteria in comparison to the industry's screening norms.[47] Additionally, these companies have also shown their preparedness in feeding their screening solutions with social responsibility records and performance of businesses, in meeting investors' demand for such information.[48] Therefore, while there are important challenges in the incorporation of social responsibility dimension in Islamic investment, it is believed that present infrastructure in the industry can cope with the new advances and trends, and valuable lessons can be learnt from the experience of the SRI industry.

4.3 EXAMINING SRI STRATEGIES FOR ISLAMIC INVESTMENT

The above discussions on the practice of Islamic investment and its prevalent screening process have been shown to be mainly incorporating an exclusionary strategy in avoiding certain major prohibitions in Islam. While it is necessary to determine the permissibility status of the investments, and therefore the anticipated returns thereof, such practice remains at the minimum level of conformity with the spirit of *Shari'ah* and its fundamental aims. It is interesting to note that the western SRI industry originates from almost similar exclusionary screening of 'sin' activities and evolves towards integrating broader social and environmental issues as well as engaging new strategies in the face of changing environment. Therefore, the discussion continues with some examination on SRI strategies that can be adapted within the Islamic investment practices in the effort to promote a positive impact to the society and the environment.

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[47]This includes Amiri Capital (www.amiricapital.com), Ideal Ratings (www.idealratings.com) and *Shari'ah* Capital (www.shariahcap.com). These institutions have their own proprietary software solutions for screening equities and can accommodate different parameters and compliance level based on the requirement of the investors.

[48] This was acknowledged from their presentations during the 'Durham Islamic Finance Summer School 2010' (Ideal Ratings) and the workshop on 'Principles of *Shari'ah* Investing' (Amiri Capital) organised by EdBiz Consultant on 22 June 2010 and directed by Dr. Humayun Dar, which were both attended by the researcher.

4.3.1 Islamic Investment and SRI

Given the ethical orientation which shaped the practice of both sectors, it is common for Islamic investment to be categorised with the overall family of SRI. However, even within the SRI industry, the principles shaping the practice of various SRI players are diverse in nature. Despite having a generic label of SRI, the types of investors involved, the strategies they used and their issues of concern may greatly differ, so much so that they can pursue values that are mutually inconsistent (Dunfee, 2003). As described in Chapter 2, the distinction between the characteristics of the core and broad SRI in the European SRI market has exemplified such variations. In this respect, some commentators prefer to differentiate between faith-based investment with the general practice of SRI as the former often has specific values and rules to follow in the investment process, which can sometimes contradict the emphasis placed by the latter (Forte and Miglietta, 2007, 2011). This is due to the fact that the former is religiously regulated, while the latter is socially determined (Wilson, 2004). This distinction is also applicable to Islamic investment as the worldview and value system which influenced the investment practices are based on Islamic religious principles, and therefore, require different treatment and methodology in the investment process.

Apart from the basic consideration for religious principles, some conflicts can also emerge involving issues commonly used in the screening process for SRI with Islamic investment at the practical level. As argued by Forte and Miglietta (2007), SRI funds which focus on human rights issues would have reservations investing in countries or business linked with some of the ‘countries of concern’ that are on the watch list for human rights violations, which may include Muslim countries. While the issue of respecting human rights are part of the teaching of the *Shari’ah*, these countries are part of the Muslim *ummah*, and favouring them and not isolating them is the more sensible option in view for the development of the whole *ummah*. Similarly, SRI concern over environmentally damaging activities, such as within the oil and gas industry, may also be problematic for Islamic investment as such activities constitute major parts of Muslim economies (Forte and Miglietta, 2007).

Despite the apparent differences, many scholars have emphasised the parallel aims between the two sectors and the vast potential for convergence and collaboration. In both cases, the overall wellbeing of the society, the realisation of social justice and the sustainability of the environment are among the shared objectives in the investment process, alongside the traditional need for a satisfactory financial return. In the face of SRI as a growing movement championing socially responsible practices of businesses, it is crucial for Islamic investment to embrace social responsibility issues and adhere to internationally recognised social, ethical and environmental standards in order for Islamic investment to be well accepted globally, particularly in the developed markets. As highlighted by Hayat (2010) in the context of European retail market, focusing only on Muslims with a mainly religious proposition is unlikely to be the best approach. Putting the economic aspect aside, the consideration of various aspects of social responsibility concerns in the screening process will bring the Islamic investment practices closer to the aspiration of the normative goals of Islamic economics and the objectives of the *Shari'ah*.

4.3.2 Compatibility of SRI Strategies for Islamic Investment

One important characteristic of Islamic investment is the determination of what is permissible and what is prohibited is strictly based on the *Shari'ah* principles. While faith-based investors in SRI are said to have a lot of similarities in terms of the activities they screen out, especially in the so-called 'sin' sectors, a major distinction between the two is the prohibition of Islam on all forms of *riba'* (interest) and *gharar* (excessive uncertainty). As highlighted earlier, financial parameters like debt, interest income and liquidity ratios are used to ensure that the invested securities do not contravene the rules of Islamic transactions. Another implication of such prohibitions is the mandatory exclusion of all securities involving conventional banking and insurance, as well as other financial products and services which contain the elements of *riba'* (e.g. conventional bonds, preferred stocks and derivatives), and other highly speculative transactions. Therefore, the negative screen, in the form of *Shari'ah* injunctions is a necessary step in identifying the permissible investment universe. As the injunctions are clear and definitive, a strict observation of the rule is a must, and the *Shari'ah* advisors of such investments must ensure that all these principles are adhered to at all times. Such a comprehensive approach for exclusionary screening necessarily means that selective screening, such as the simple screening and norm-based screening cannot be implemented on their own by Islamic investment. Likewise, other forms of positive screening can only be made on the securities that have been established to be *Shari'ah*-compliant.

Another important distinction between Islamic and SRI lies on the interaction between the financial and non-financial considerations. As discussed in Chapter 2, achieving sound returns is as important as addressing the SEE concerns among SRI investors. In fact, it has been shown that some SRI investors have used selected SEE criteria not for their ethical worth, but for selecting financially sound investment. The emphasis put by SRI investors on both aspects can be seen by the introduction of strategies that are created to combine the two, particularly through the advent of the integration strategy and its increasing popularity among institutional SRI investors. In other words, it can be said that financial and ethical considerations hold equal position in the hierarchy of investment decision in SRI. However, this cannot be said in the case of Islamic investment as it is a critical step to establish the permissibility status of any investment before any other consideration can be made. "The attainment of a positive return is, of course, of fundamental importance, but is secondary to the religious screens" (Forte and Miglietta, 2007: 17). Therefore, any additional social responsibility screens, whether negative or positive in nature, can only be made after the minimum level of permissibility of the investment are met. Table 4.2 summarises the differences in the screening strategies adopted by SRI and Islamic investment.

While there can be many incompatibilities in the approach of the two sectors in the area of screening, the engagement and advocacy strategy as exercised in SRI is a promising approach for Islamic investment to emulate (DeLorenzo, 2004; Forte and Miglietta, 2007, 2011; Ahmed, 2009). Many scholars have expressed the need for shareholders, fund managers and *Shari'ah* advisors to express their concerns on issues regarding *Shari'ah* compliant nature of the companies they have invested, and to encourage best practices in the area of social responsibility in its operation. Such a strategy is considered to be part of a ‘moral purification’ process, where in the spirit of ‘enjoining what is right and forbidding what is wrong’, Islamic funds through their *Shari’ah* advisors should communicate to the management of the companies they invest in on important issues from the Islamic perspective (DeLorenzo, 2004).

Table 4.2: Comparing SRI Strategies with Islamic Investment

	Islamic Investment	Socially Responsible Investment
Sources of underlying ethical foundation	Based on the sources of the *Shari'ah*; the Holy Qur'an, the Prophetic tradition as well as contemporary *ijtihad*.	Depending on the types of SRI investors; faith-based, ethical convictions, consequentialist ethics and even instrumental motives.
Investment strategy	Pre-dominantly exclusionary screening	Various strategies adopted by divergent players in the industry
Exclusionary strategy	A necessary process to screen out all securities/activities deemed unlawful to the *Shari'ah*	While this is important for investors with religious or ethical convictions, this is not necessarily so for other SRI investors, who may use other types of investment strategies.
a. Traditional negative screening	Exclude involvement in the 'sin' industries (alcohol, gambling, pornography, etc.), interest-based transactions, activities involving excessive uncertainty and speculation, and other products/services deemed repugnant to the *Shari'ah*.	While most of the criteria are common with ethical investors in SRI, the most important difference is the Islamic ban on interest and excessive uncertainty in transactions.
b. Simple screening	No; all activities repugnant to *Shari'ah* need to be shunned, not just focussing on a single issue or sector.	Yes; popular simple screen includes tobacco, arms industry, countries with human rights violation, etc.
c. Norm-based screening	No	Yes; criteria involving labour standards and human rights as based on international standards.
d. Financial screening	Financial parameters like debt, interest income and liquidity ratios are used to determine whether the securities are within the tolerable permissible level.	Financial ratios are not part of the consideration for ethical or social responsibility per sae; but may be use for financial consideration for portfolio construction.
e. Asset Class screening	Exclude all asset classes with elements and structures repugnant to *Shari'ah* principles; conventional bonds, preferred stocks, etc.	No restriction on the asset classes.
Inclusionary strategy	Can only be applied to *Shari'ah* approved investment universe; excluding all non-compliant securities is a requisite.	Investing in businesses with positive contribution to the society and environment.
a. Pioneer screening	No	Focus on environmental and sustainability issues such as renewable energy and low carbon technology.
b. Best of class	No; sectors with activities repugnant to *Shari'ah* must all be excluded, even if the companies show good social responsibility records in other areas.	Yes; companies operating in traditionally screened sectors can be included if they demonstrate good social responsibility performance.
Engagement and Advocacy	Shareholders, fund managers and *Shari'ah* advisors are highly encourage to express their concerns on issues regarding *Shari'ah* compliant nature of the companies they have invested, as well as to encourage best practices in the area of social responsibility.	Dialogues and proxy resolutions are used to promote better social responsibility practices; they are also use largely by institutional investors as a tool to protect and enhance their investments.
Integration strategy	No; financial consideration is secondary to the religious screens.	Use largely by institutional investors; assessment of SEE risks are integrated with other financial considerations.

Source: Adapted and summarised from Forte and Miglietta (2011: 121) and EuroSIF (2006).

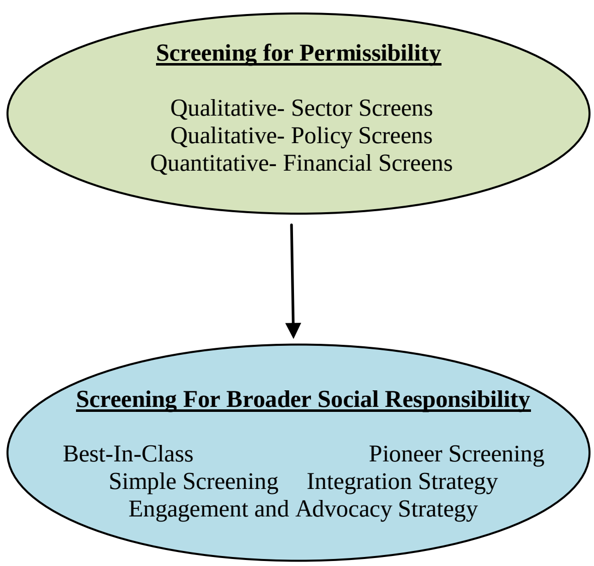
In this respect, the engagement and advocacy strategy can be a promising area of collaboration between the two ethically driven movements. Apparently, once the screening process has been done and investment has been made, the remaining issue of promoting the social responsibility performance of companies under investment through continuous dialogue and engagement is of mutual interest. In fact, in the context of SRI, many social and religious groups collaborate in assessing the social responsibility performance of their respective investment, and in many instances, jointly engaged with the businesses in relation to specific SEE issues of concerns. Therefore, together with the SRI industry, the Islamic investment movement can play an important role in the betterment of the society's quality of life and the environment, through its influence on the behaviour of the companies they invest in.

4.3.3 Addressing Social Responsibility Issues in Islamic Investment

Based on the preceding discussions, it is apparent that strict adherence to the *Shari'ah* injunctions and rules is the first necessary step in the investment process for Islamic investment. This is critical in ensuring the permissibility status of the investment and that there should be no involvement in activities or policies which are opposed to the teachings of the *Shari'ah*. Subsequently, other aspects to the screening process, particularly with respect to the positive side of the social responsibility dimension can be adopted as in the experience of the SRI industry, in line with the comprehensive notion of *maslahah* and justice in Islam. As highlighted earlier, this necessary means that the incorporation of social responsibility dimension in Islamic investment requires a 'double screening' process; initial screening for permissibility status and an additional screening for the broader social responsibility concerns. As shown in Figure 4.1, the screening for permissibility or *Shari'ah*-compliant must not only include the present sector and financial screens, but also should consider other elements of harm to the society and environment, particularly on the policies or business operations of the companies concerned. This second component to the qualitative filter for the investment provides the assurance that the *Shari'ah* compliant investment will avoid all forms of harm to the society and the environment, and the returns will not be tainted with impure income from exploitative and unethical business policies.

Hence, once the permissibility status of investment has been established, investment strategies like best-in-class, pioneer screening, or even simple screening can be freely implemented. For instance, in addressing the concern of its environmental impact, the investment in companies within the oil and gas industry can follow the best-in-class strategy, where the selection process for such companies can be based on their social responsibility performance, such as the policies adopted to reduce environmental pollution, contribution to research in renewable energy, or other efforts in reducing its carbon footprint. Likewise, fund managers can focus specific funds to invest in businesses whose priority are to venture into new clean and environmentally friendly technologies, as in the case of pioneer screening practiced in SRI. In fact, simple screening, where the additional investment focuses on a single criterion, such as on human right issues or labour standards, can be freely adopted by Islamic investment practices based on the specific concerns of the investors.

Figure 4.1: SRI Strategies for Islamic Investment



Negative and positive screenings are not the only means that can be used in Islamic investment. Shareholder activism through the engagement and advocacy strategy can be effectively exercised to influence management of corporations to assume more humanly and environmentally friendly policies in their operation. Islamic fund management companies can also follow the integration strategy where SEE risks of investment are evaluated together with the financial risks. This will provide a more comprehensive outlook on the risk and return profile of the investment, while at the same time consider social, ethical and environmental aspects related to it. Using these strategies, Islamic investment will be able to address broader social responsibility issues beyond the *fiqh* injunctions of the *Shari'ah*, and become more proactive in its approach towards promoting overall wellbeing of the society.

In the context of addressing the broader social responsibility dimension in Islamic investment, it is emphasised that the prevalent attitude of reducing all issues into either *halal* or *haram* is not the right approach (Wilson, 2004). Rather, the commitment to social responsibility concerns should be seen as a step-by-step approach in the journey towards meeting the broader religious objectives and ensuring that all the Islamic principles are fully upheld. In the context of SRI for instance, some fund managers offer funds with different level of ethical compliant (e.g. light to dark green). This can be a useful approach to accommodate different types of investors with different degrees of ethical commitment and financial expectations. This is also consistent with the behavioural framework synthesised earlier where the level of social responsibility commitment is part of the process of spiritual development, and this can be reflected in the investment choice among the investors.

4.4 THE POTENTIALS OF ISLAMIC INVESTMENT IN PROMOTING SOCIAL RESPONSIBILITY

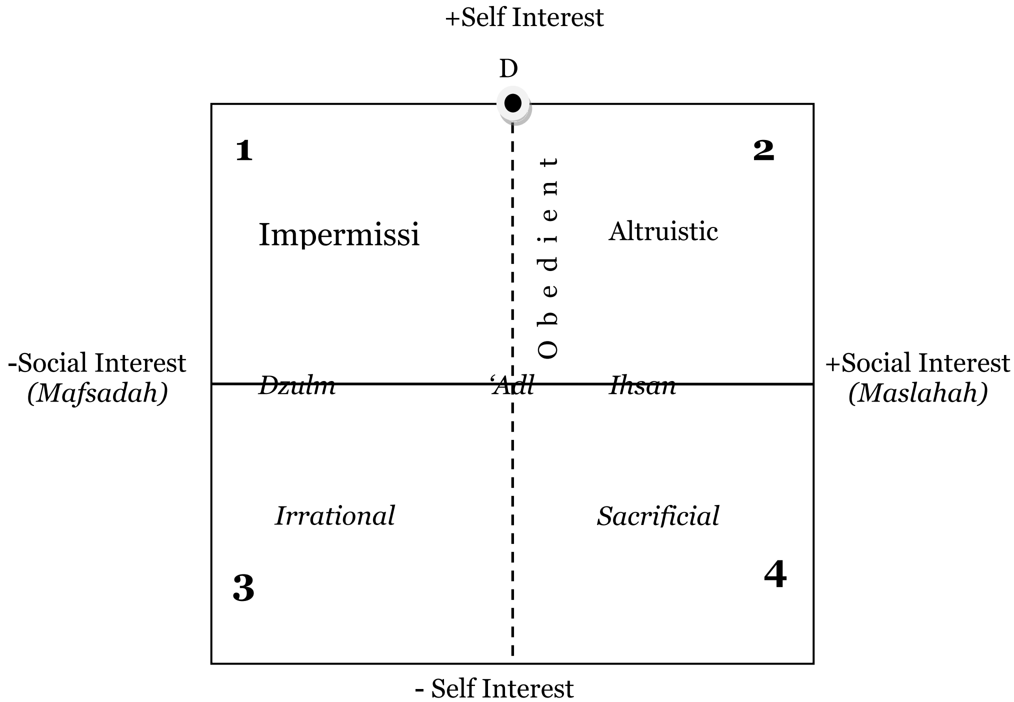
The forgoing sections have highlighted various strategies that can be used to address social responsibility concerns in an Islamic investment. The real challenge, however, is to place some of these concerns and strategies in the actual investment decision of Islamic investment products. This section seeks to explore the prospect of incorporating social responsibility issues in Islamic investment and its potential role in promoting socially responsible behaviours among corporations as well as the public at large.

4.4.1 Islamic Finance and Social Responsibility Commitment

One of the important factors highlighted in the literature on the failure of Islamic finance in promoting social responsibility issues is the behavioural norms of *homo Islamicus* reflected by the practice of Islamic financial institutions. The doctrine of shareholders' value, which is the bedrock of capitalistic market, has also been shown to be widely shared by Islamic financial institutions (Sairally, 2007). While major prohibitions in Islam are avoided, there seems to be some hesitance in addressing the voluntary aspects of the Islamic normative principles, as this is seen to be counterproductive to the shareholders' value and profit maximisation. This is consistent with the Friedman's (1962, 1970) doctrine, where profit is maximised within the rule of the game, all be it that the rule here is the *fiqh* injunctions and contractual technicalities of the Islamic law of commerce.[49] Therefore, the behavioural norms as highlighted in the discourse of the failure of Islamic finance can be understood from the following diagram, where such a tendency can be represented by the hypothetical point D (See Figure 4.2). Point D suggests that self-interest motive in the form of profit maximisation is pursuit in a manner which comply with the minimum requirement of the *Shari'ah* (avoidance of harm and injustice), but the equally important aspect of promoting the interest of the society is not addressed.

[49] Friedman's doctrine refers to his statement that "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1962: 112).

Figure 4.2: A Unified Behavioural Framework of Social Responsibility Issues and Commitment- Reflecting the Predominant Approach in Islamic Finance and Investment



In the context of Islamic investment, it has been argued earlier that the criteria for screening are limited to *fiqh* injunctions and sector-based exclusionary criteria. Other forms of harm to the society, especially on the policy side of businesses, have not been adequately considered. Therefore, the present screening criteria are insufficient in ensuring that Islamic investors are not involved, and therefore profiting, in potentially harmful business policies. Not only that, by investing in business activities that are socially or environmentally irresponsible, investors will be directly condoning such business behaviours. This phenomenon is reflected by the broken vertical line in Figure 4.2, where the strong emphasis of Islam on harm prevention may be potentially violated.

Nevertheless, recent developments suggest that the call to address social responsibility issues by Islamic financial institutions have gained momentum, and received increasing consideration in the discussions of major gathering of the industry players. Similarly, the social responsibility performance and disclosures of Islamic financial institutions have emerged as one of the growing fields of inquiry within the Islamic finance literature. Perhaps the recent survey on the social responsibility trends among Islamic financial institutions which was based on the AAOIFI social responsibility standard constitutes the greatest push by the industry to promote broader social responsibility practices among Islamic financial institutions (CSR-IFI, 2010). The increasing awareness and acceptance of such standard will proof to be a significant development towards mainstreaming social responsibility dimension in the realm of Islamic finance. Subsequently, this will create a favourable attitude towards the incorporation of social responsibility issues in all areas of the industry, including in the Islamic investment.

4.4.2 The Prospect of Incorporating Social Responsibility Dimension in Islamic Investment

This section seeks to highlight some important points which may provide accommodating environment to the greater acceptability of social responsibility dimension to be incorporated into Islamic investment. As highlighted earlier, the doctrine of shareholders' value has been one of the pervasive characteristics of the behaviour of corporations, including in the context of Islamic financial institutions. It was also found that stakeholders internal to the operations of Islamic banks placed greater importance on commercial interest of the organisations in comparison to social objectives (Dusuki, 2008b). However, if the fund owners themselves assign some degree of importance on social responsibility concerns, this can be then reflected in the behaviour and decisions of the institutions. As argued by Mulligan (1986), there will be no conflict between shareholders and other stakeholders of the institutions if the mandate to address social issues has been explicitly given by the shareholders themselves. In the context of investment, the setting is more straight forward where social responsibility issues can be reflected by various criteria which shaped the mandate of the fund, which is consistent with the investors' values and convictions. Therefore, if there is a strong support among investors, there can be a fertile ground for the incorporation of social responsibility dimension in Islamic investment.

Additionally, drawing from the literature on the instrumental theory of CSR, it has been argued that in a market where ethical concerns and awareness have increasingly becoming popular and a norm, it will be mandatory for businesses to engage in social responsibility initiative that goes beyond mere legal compliance (Wagner-Tsukamoto, 2007). Therefore, recent developments may have significantly paved the way for the creation of such 'ethical capital' in the field of investment. As concern over social, ethical and environmental issues is becoming more prevalent, it will be in a matter of time that these issues will be embraced by the Muslim world. In fact, Malaysia and Dubai, for instance, have already responded to these concerns by launching their CSR framework and ESG index of listed companies (Saidi, 2011).[50] Consequently, Islamic investment industry will inevitably need to address such concerns in order to remain relevant and compete within the investment industry.

Furthermore, social and environmental risks are becoming an important area of risk management by corporations alongside financial risks. It has become apparent to investors and shareholders that social and environmental misbehaves may prove to be a huge disadvantage to the businesses' profits and stock prices.[51] Perhaps, the most significant development is the democratisation of the economy in terms of the increasing stake of working people in the ownership of corporations through pension and mutual funds all over the world. The public, who have their long life savings and pensions invested in shares of corporations, has become the 'new capitalist'. While it is to

[50] The Malaysian stock exchange authority, Bursa Malaysia has introduced a framework for corporate social responsibility among the listed companies since 2006 and will be launching a CSR index scheduled in 2012. Recently, Hawkamah, a Dubai-based institution in collaboration with Standard & Poors and supported by International Finance Corporation, launched the first ever MENA-wide Environmental, Social and Corporate Governance Index – the S&P-Hawkamah Pan Arab ESG Index (HASPI)- that ranks and tracks the performance, transparency and disclosure of regional companies on ESG issues. The constituents of the index are drawn from the largest and most liquid companies listed in the stock exchanges of the United Arab Emirates, Saudi Arabia, Qatar, Bahrain, Oman, Kuwait, Jordan, Egypt, Lebanon, Morocco and Tunisia (Saidi, 2011).

[51] The oil spill disaster in Alaska for instance, which had cost Exxon to a total USD3.4 billion in criminal fines, cleanup costs and compensation payments, and battling to escape another USD2.5 billion of punitive damages represent a classical example in this respect (Sloan, 2008). Most recently, the oil spill disaster in the Mexican Gulf has caused BP to sustain more than USD20 billion of similar costs, not mentioning the huge plunge in its stock prices.

everyone's interest that businesses remain profitable, such pursuit must not be at the expense of the society, because in this new 'civil economy', "society and shareowners are becoming one and the same" (Davis et al., 2006: 52).

Against these backdrops, it is evident that the issue of social responsibility has gained considerable attention from both investors and corporations. The tremendous growth of the SRI movement reflects this phenomenon. Given such favourable environment, perhaps there can be a strong business case for both Islamic fund management companies and investors themselves to consider various social, ethical and environmental issues within the investment criteria. After all, the emergence of the modern SRI movement in the West is said to be 'a consumer driven' industry.

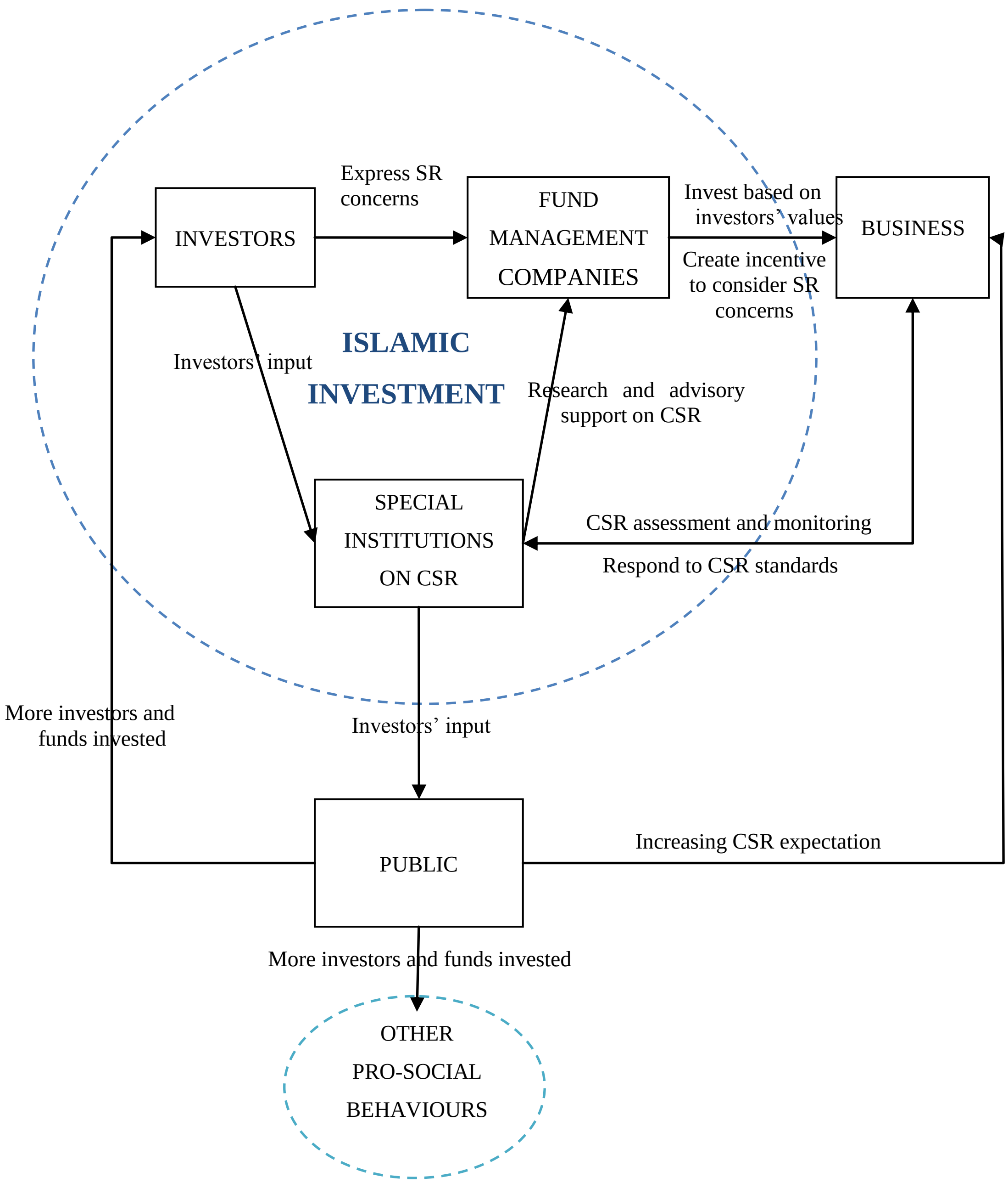
4.4.3 Islamic Investment Industry as an 'Institution' to Promote Social Responsibility

It is presumed that in an Islamic economy the realisation of its normative goals can be facilitated by the presence of an appropriate socio-economic environment. This can be achieved "by properly educating the public, creating an effective framework of checks and balances, and reforming the existing socio-economic, legal and political institutions or building new ones" (Chapra, 1996: 27). Recognising that the notions of CSR and SRI have been often celebrated as a force to tame the vigour of self-interested utilitarianism under Western capitalism, similar 'enabling environment' for social responsibility can also be introduced in the context of Islamic economy. As practiced in the western SRI movement, SRI is used to promote changes in the manner corporations doing their business. While there are some criticisms against SRI in this respect (e.g. Haigh and Hazelton, 2004; Scholtens, 2006), the role of SRI in rewarding socially responsible policies and initiatives of corporations through their investment are well acknowledged in the industry, and the launch of the United Nations' Principle of Responsible Investment (UNPRI) reflects its global recognition.

Despite the infant stage of the Islamic investment industry in comparison to the SRI movement, the prospect of Islamic investment in influencing corporate policies has been argued to be stronger (Pitluck, 2008). Unlike the SRI industry, where the ethical criteria are diverse and potentially contradictory, the ethical criteria subscribed by the whole Islamic investment industry are deduced from the sources of the *Shari'ah*, in line with the normative values of Islam. It has been shown that avoiding any harm to the community and the environment are considered a mandatory requirement for *Shari'ah* permissibility. The wider acceptance and recognition on the importance of this aspect among the stakeholders of the industry can lead to a standardised *Shari'ah* parameter of broader screening criteria, such as in the area of environmental policies, treatment of workers, unfair business activities, and the like. Such a common framework subscribed by the whole Islamic investment industry in the financial market will essentially generate greater impact on the policies and operations of businesses. Additionally, the voluntary aspects of social responsibility can be freely practiced depending on the investors' preferences and ethical intensity. Therefore, Islamic investment, by embracing social responsibility dimension, will not only distance itself from activities considered repugnant to the *Shari'ah*, but also reward companies with responsible business policies. This will provide economic incentives for corporations to conduct business responsibly and to put more effort towards broader social responsibility initiatives in their operations.

Figure 4.3 describes the relationship between the different stakeholders that interact in this process. Investors with social responsibility concerns will express their ethical values onto the Islamic fund managers. As the ones who carry the mandate of the investors, the fund managers reflect such concerns by investing based on the investors' values. In doing so, research and advisory support from specialist institutions which make assessment on social responsibility performance of businesses will be an important infrastructure to facilitate this investment approach. Consequently, the integration of social responsibility performance in the investment decision will create incentive for businesses to consider these concerns in their operation to remain attractive for investors. Additionally, the assessment and continuous monitoring of social responsibility records and performance will in turn create a standard of acceptable business conduct where they need to respond to. As the issues and circumstances changes and other social responsibility issues gain intensity than others, the input from the investors will continue to shape the investment practices. As the social responsibility issues and practices become widely recognised and increasingly popular among the public, this will contribute to more funds invested based on such criteria and therefore further strengthen its position in the market. Likewise, the increasing awareness on social responsibility issues will further raise public expectations on the role of businesses in the promotion of society's wellbeing. Finally, the growing awareness of investing responsibly can also contribute to greater practices of wider socially responsible behaviours. This is consistent with the numerous studies in SRI, where ethical investing is associated with other forms of pro-social behaviours such as green purchasing, recycling, and involving in community works and charities.

Figure 4.3: Promoting Social Responsibility Practices through Islamic Investment



Therefore, Islamic investment has to evolve from a mere financial product to a credible and formidable movement for social responsibility. The tremendous growth of Islamic funds globally has provided a good base to this end. The challenge now is to move from a '*legal*-compliant' approach, which mainly focuses on the avoidance of major prohibitions and the observance of *fiqh* rules, to a more proactive and positive approach in realising the normative goals of Islamic economics. The launch of Dow Jones Islamic Sustainability Index is one important step towards this direction. More importantly, the recent introduction of the Hawkamah Index provides the awaited catalyst to the potential offerings of investment products which address broader social responsibility issues, especially in the context of businesses operating within the Muslim world (Saidi, 2011). This will also act as a mechanism in promoting social responsibility issues such as environmental standards, labour rights, and corporate governance, which are still very much lacking in the Muslim world.

4.5 MULTIPLE ASPECTS TO INDIVIDUAL'S MOTIVATION IN ISLAMIC FINANCE

Despite the desirability of addressing broader social responsibility issues in Islamic investment from the normative perspective and its potential role in promoting socially responsible behaviours in the economy, the viability of such investment approach depends on the support from investors. This section seeks to survey the available literature on the support for social responsibility issues among the users of Islamic financial services and other aspects of their behavioural tendency and motivation.

An important area of behavioural research in Islamic banking and finance is centred on the study of patronage of Islamic banks. This line of inquiry focuses on the general motivations of customers selecting Islamic banks and its services. Based on the review of the literature, important aspects of the selection criteria among others include cost and benefits, service delivery (fast and efficient), size and reputation of the bank, convenience, and the friendliness of bank personnel (Dusuki and Abdullah, 2007b; Gait and Worthington, 2008). Nevertheless, few studies have also included social responsibility aspect of Islamic banks as part of the potential important criteria in the selection decision of bank customers. The studies by Dusuki and Abdullah (2007b) and Al-Ajmi et al. (2009) have provided favourable findings in this respect, where they show that social responsibility characteristic of Islamic banks formed one of the top criteria in the patronage decision of bank customers. Additionally, Dusuki (2008b) investigated the opinion of different stakeholders on the perceived importance of commercial and social objectives of Islamic banks. Despite the differences in terms of the priorities attached by different stakeholders (e.g. customers, depositors, employees, managers, *Shari'ah* advisors, regulators and local community) on the two aspects, there seemed to be a general support among all the groups on the importance of the social objectives of Islamic banks.

While research that specifically examines social responsibility dimension is relatively limited, many behavioural studies have incorporated the religious or *Shari'ah* compliant nature of the financial products as one of the key elements in influencing the decision of individuals to patronise Islamic finance. This is very relevant in the context of this research as studies have indicated that religious factor contributes positively to favourable attitude towards the support for social responsibility practice of businesses (Angelidis and Ibrahim, 2004). This is also consistent with the behavioural framework synthesised previously in Chapter 3 where the drive for social responsibility acts is a part of the process of spiritual development, and this motivation is determined by the level of religious commitment. Similarly, religious groups have been instrumental in developing the SRI industry in the West which is basically inspired by their religious convictions.

Majority of the extant literature reveals that religious motivation is considered to be the primary factor in selecting Islamic banks among the customers (Metwally, 1996; Metawa and Almossawi, 1998; Naser et al., 1999; Bley and Kuehn, 2004; Okumkus, 2005; Dusuki and Abdullah, 2007b; Khan et al., 2008; Al-Ajmi et al., 2009). This reflects the strong influence of the religious factor which pre-dominates their patronage decision of Islamic banks. Nevertheless, despite the studies showing the religious factor as the most important element in the selection criteria, other economically oriented concerns have been shown to be prominently featured. Some of these concerns, among others include the Rate of return (Metawa and Almossawi, 1998), financial reputation and service quality (Dusuki and Abdullah, 2007b), brand (Ahmad et al., 2011), cost-benefit factor (Al-Ajmi et al., 2009), and low monthly payment (Amin, 2008). In fact, some of these factors trump the religious factor as the most important aspect to the patronage decision as found in other studies. For instance, religious factor are considered less important in the choice criteria of Islamic banks as compared to provision of fast and high-quality services (Haron et al., 1994), product features and quality of service (Awan and Bukhari, 2011), or low service charges (Mansour et al., 2010). Some have even shown that the religious aspect has not been a significant factor in the decision to choose Islamic banks or its products between Muslim and non-Muslim customers (Haron et al., 1994; Gerrard and Cunningham, 1997).

Apart from the general attitude towards the selection of Islamic banks and their financial products and services, some studies have examined specific behaviour of depositors in relation to the rate of returns on deposits within the Islamic banking industry. This is also relevant to this study as the economic aspect of the decision making process is further amplified in the context of investment, as the rate of return on investment often strongly dominates investment decision. In this respect, it has been shown that one important motivating factor to the depositors in selecting Islamic banks is the higher deposit rate of return (Erol and El-Bdour, 1989; Erol *et al*., 1990; Haron et al., 1994; Rammal and Zurbruegg, 2007; Hamdan, 2007). The importance of this aspect can be reflected by the findings of these studies which reveal respondents' willingness to move their money from the Islamic banks either to another Islamic or a conventional bank if the return on their deposits is not satisfactory or below their expectation. In addition to studies which are attitudinal in nature, few studies have used real empirical data on the level of deposits of Islamic banks in comparison to conventional banks. This necessary increases the accuracy of the results as it measures actual changes in the level of deposits due to changes in the rate of return. A recent study found that the level of deposits for both conventional and Islamic banking systems in Malaysia is sensitive to changes to the financial returns, with any increase in interest rates will give rise to the level of deposits in conventional banking system, resulting in a decline in the level of deposits for Islamic banking system, and vice versa (Haron and Azmi, 2008). This corroborates earlier findings of Ramlee (2000) and Sukmana and Yusof (2005), where considerable outflows of deposits from the Islamic to the conventional banking were observed, as a result of a relatively lower rate of return declared by the Islamic banks. Nevertheless, a relatively similar study by Nezhad and Askari (2006) who examined the role of interest rates in influencing the decision of money demand and investment in five selected Muslim and non-Muslim countries, found that religious values played a strong influence on the economic behaviour. The results revealed that the investment decision was completely inelastic to changes in interest rates in the sample Muslim countries (i.e. Jordan, Algeria, Morocco, Egypt, Iran and Guinea), unlike in the selected non-Muslim countries (*i.e*. Peru, Bolivia, Guatemala, Colombia, Philippines and Ecuador), where such decision was significantly influenced by changes in interest rates.

Preceding review of the literature has shown mixed results on the motivation in the support for Islamic financial services among customers and depositors of Islamic banks. This mixed finding is consistent with the multiple aspects to the utility function of individuals as discussed in Chapter 3. While the religious dimension to the motivation has been shown to be dominant in most studies, the economic aspect of such decision remains as an important element for some individuals. In fact, in some cases, this has been given priority over the religious factor. This can be further corroborated by the finding of Dar (2004) where religious commitment to comply with *Shari'ah* principles in banking and finance among Muslims has been shown to vary widely. Differences in this respect may contribute to the differences in the extent in which individuals would support social responsibility concerns. It is natural to assume that those investing in Islamic investments driven by strong religious motivation would be more accommodative towards the incorporation of social responsibility issues as compared to those who are purely driven on profit motive. Hence, in the context of this research, it is important that normative and economic dimensions to the perceptions, attitudes and behaviours of investors towards various aspects of social responsibility issues and commitment in Islamic investment are given appropriate consideration.

4.6 SUMMARY AND CONCLUSION

This chapter has provided a review of the Islamic investment practices, particularly within the context of the conceptual framework of social responsibility synthesised in Chapter 3. While the present screening norms is critical to the permissibility status of the investment, this practice should also include all forms of *Shari'ah* repugnant activities which are detrimental and harmful to the society and the environment, especially with respect to the policies and operations of the businesses. Another major implication of the discussion is Islamic investment should be concerned with much more than just avoiding from *Shari'ah* repugnant sectors and activities. Based on the general objective of the *Shari'ah*, in line with its normative foundations with the goal of realising human wellbeing and social justice, it is imperative that positive and proactive approach towards investment should transpire in all aspects of Islamic investment practices. In applying such an approach, Islamic fund management companies can benefit from the vast literature and experience of the SRI movement, especially in the various strategies used in the promotion of SEE concerns. While there are fundamental differences between SRI and Islamic investment as the values and principles which guide the whole operation of the latter is based on the *Shari'ah* principles, the issue of addressing social responsibility concerns are shared by both industry, and convergence in this respect will be beneficial to all.

Recent developments in the area of Islamic finance and investment have clearly created a favourable atmosphere in which the social, ethical, and environmental issues can be introduced in the investment criteria of Islamic funds, and therefore, paved the way for the new phase of development for Islamic investment. Despite the desirability of addressing broader social responsibility issues in Islamic investment from the normative perspective and its potential role in promoting socially responsible behaviours in the economy, the feasibility of such investment approach ultimately depends on the support from the public, particularly the investors. Review on the available literature related to the support for social responsibility issues provides encouraging findings. Nevertheless, the extant literature on the underlying motivation of customers and depositors with respect to their decision in patronising Islamic financial services have revealed mixed result, with both religious and economic aspects having important influence on the decision process. Therefore, the ensuing empirical analysis will examine the support among investors of Islamic funds on the issue of social responsibility and their willingness to incorporate such concerns in their investment. This will fill in the gap in the existing body of knowledge on the area and enrich the embryonic state of the literature. The next chapter explains the methodological framework for the empirical component of this research.

CHAPTER 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter presents the research methodology employed for this study in exploring the perceptions, attitudes, and behaviours of investors of Islamic funds on the incorporation of social responsibility dimension in Islamic investment. As described in Chapter 1, the empirical component of this research focuses on answering these three research questions;

(i) What are the investors' underlying motivations when investing in Islamic funds?

(ii) How do the investors perceive the importance of social responsibility dimension and its various issues in Islamic investment?

(iii) Are the investors of Islamic funds willing to incorporate social responsibility criteria in their investment, and what are the factors that influence this commitment?

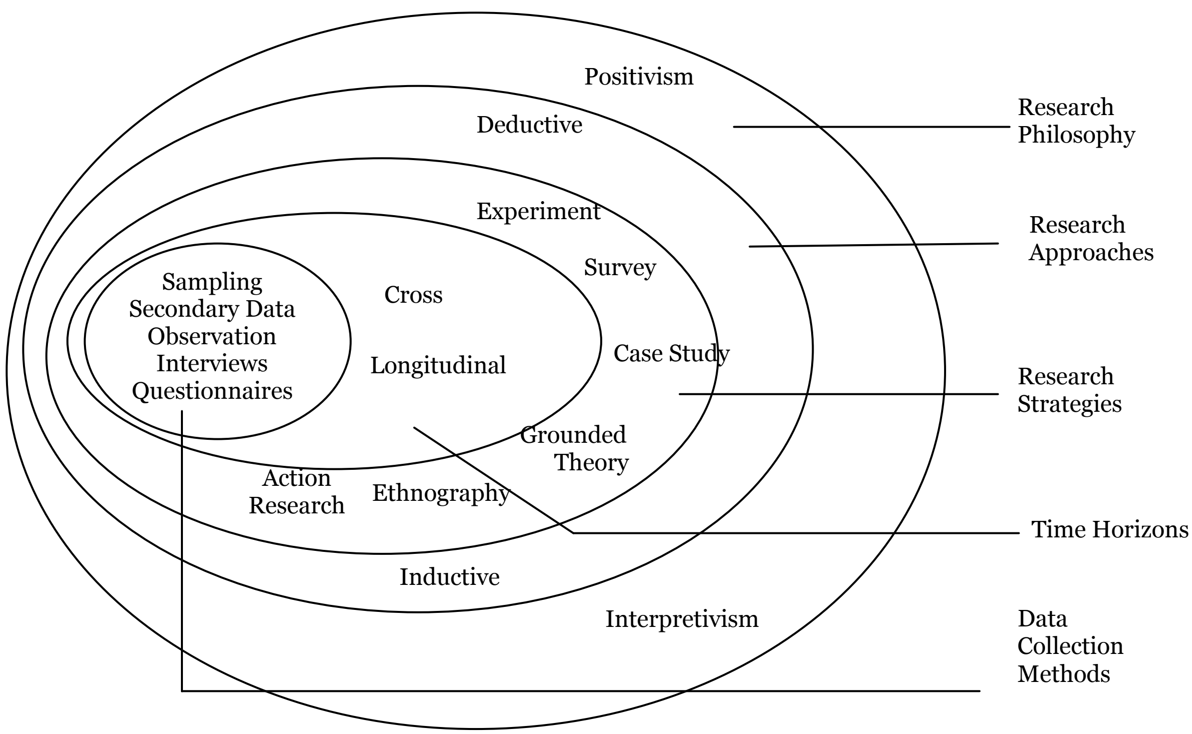
The chapter starts by delineating the various components of the research process and design, particularly on the choice of methodology, approach, strategy, and instrument used in this research and the justification for having Malaysia as the country case. This is then followed by identifying various important variables relevant to this empirical investigation, the development of the survey instrument, the sampling and data collection process, as well as the statistical procedures employed in analysing the data. The chapter concludes by providing a road map for the three empirical chapters that follows.

5.2 RESEARCH PROCESS AND DESIGN

5.2.1 The Research Process 'Onion'

In order to systematically conduct the empirical study, Saunders et al.'s (2003) framework is used to identify the various aspects of this research. The research process 'onion' provides a coherent structure in designing the overall research process starting from the conception of the research philosophy to the appropriate choice of data collection methods. As shown in Figure 5.1, the layers of the research onion represent the following research sections: philosophy; approach; strategy; time horizons; and data collection methods.

Figure 5.1: The Research Process 'Onion'



Source: Saunders *et al.* (2003: 83).

The research philosophy depends on the way the researcher thinks about the development of knowledge and his or her view of the world (Saunders *et al.*, 2003). While there are several philosophical paradigms in social research (see Figure 5.1), the two most prominent paradigms are the positivism and interpretivism. A positivist approach is highly influenced by the scientific methodology commonly found in natural science research and involves empirical testing. Within this paradigm, a scientific research is associated with objective statements (instead of subjective or normative statements), claimed to be value-free, and "only dealt with phenomena that can be known through senses" (Greener, 2008: 16). In contrast, interpretivism promotes the idea that subjective thought is equally valid areas of scientific inquiries, and the researcher embracing this paradigm "aims to see the world through the eyes of the people being studied, allowing them multiple perspectives of reality, rather than the "one reality" of positivism." (Greener, 2008: 17).[52]

On the other hand, the research approach indicates whether the use of "theory is explicit within the research design" (Saunders *et al*., 2003: 87). For instance, within the deductive approach, the role of existing theory and previous research findings is well-established in the research process as they provide the basis for the development of hypotheses, the choice of variables and the resultant measures which researchers intend to use (Ali and Birley, 1999). On the contrary, the inductive approach does not pre-occupied itself with a rigid nature of objective measures and theory testing, rather it emphasises gaining access to understanding of meanings humans attach to events, with a more flexible attitude towards the evolution of the emergent theory as the research progress, leading to an eventual development of a comprehensive theory (Saunders *et al*., 2003). The stark contrast between the objective nature of the deductive approach with the subjective orientation of the inductive approach is further emphasised by the typical association of quantitative method of analysis with the former and the qualitative method with the latter. Quantitative research relates to the collection and analysis of numerical data, and tends to involve relatively large-scale and representative sample. Qualitative research, on the other hand, is concerned with collecting and analysing information in as many forms,

[52] This idea is based on the work of Max Weber (1864-1920) who described sociology as a social science "which attempts the interpretive understanding of social action in order to arrive at a causal explanation of its course and effects" (cited in Greener, 2008: 17).

primarily non-numeric. "It tends to focus on exploring, in as much detail as possible, smaller numbers of instances or examples which are seen as being interesting or illuminating, and aims to achieve depth rather than breadth" (Blaxter *et al*., 2006: 64).

Figure 5.2: Stages in deductive and inductive approaches

Pure Deductive	Pure Inductive
Develop theoretical framework ↓ Variables identified for relevant constructs ↓ Instrument development ↓ Outcome: theory tested according to whether hypotheses are accepted or rejected	Area of inquiry identified but no theoretical framework ↓ Respondents identify constructs and explain the relationship between them ↓ Broad themes for discussion identified Outcome: theory developed

Source: Ali and Birley (1999: 106).

The different stages of the two approaches in research are depicted in Figure 5.2. While the presence of the theoretical framework is essential in guiding the research process in the deductive approach, this is considered to be secondary and even preferred to be avoided at the early stage of an inductive inquiry.[53] Nevertheless, it is argued that even for an inductive research, "starting off with a clean slate" is rarely practiced, and moving away from such a purist approach is said to have its benefits (Ali and Birley, 1999: 104). For instance, available theories in the subject area may help researchers in the process of identifying potential constructs important to the inductive investigation. While a specific research may be using deductive or inductive approach at any particular period in time, the overall process of doing scientific research always involves both (Calof *et al*., 2008). For instance, a study can start with an inductive approach and from the patterns and observations form a theory where hypotheses can be developed and tested (deductive mode). On the contrary, a research can begin deductively and if the results of the analysis do not match the hypothesised theory, relevant modification to the theory can be made in order to reach a better description of the reality. This can be done by examining the prevailing patterns in the data and trying to develop an alternative theory that does fit the

[53] This is based on the argument that preconceived ideas (theories) should not be imposed on the research since they can limit the scope of the inquiry and may lead to bias interpretations of the data (Calof et al., 2008: 17).

data (inductive mode) (Calof *et al*., 2008). Similarly, there has been widespread debate in recent years within many of the social sciences regarding the relative merits of quantitative and qualitative strategies for research. "The positions taken by individual researchers vary considerably, from those who see the two strategies as entirely separate and based on alternative views of the world, to those who are happy to mix these strategies within their research projects" (Blaxter *et al*., 2006: 64). Ultimately, the choice of the approach to research, i.e. between the deductive and inductive or quantitative and qualitative, depends on the nature of the research questions and the most appropriate approach in answering them.

As for the research strategy, Saunders *et al.* (2003) describes it as a generic plan guiding the researcher to answer the specific research questions. There are various different research strategies described by various authors, and the choice depends on the nature of the research at hand. In this context, Sekaran (2003) identifies a number of categories including exploratory, descriptive, hypothesis testing, or case study analysis. Exploratory research is particularly useful if there is only limited knowledge or research available on the subject matter, and highly relevant to studies involving new area of inquiry. It involves extensive preliminary works to gather important information, understand various aspects of the area, identify problems, and provide the necessary groundwork for further rigorous investigation. On the other hand, descriptive strategy is suitable for studies aiming to give an accurate description of the research area, such as the characteristics of relevant components in the area and variables important to the research. Beyond the exploratory and descriptive analysis, explanatory (hypothesis testing) study goes a step further by seeking to investigate the association or causal relationships among different variables in a situation that contribute to a particular observed phenomenon or outcome (Sekaran, 2003).[54] For instance, in the context of a marketing research, an exploratory

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[54] It is important to note that explanatory study comprises of two levels; causal and correlational (Sekaran, 2003). The former is a more rigorous approach to research where it is necessary to establish a definitive cause-and-effect relationship (causality). This necessitates special consideration in the research process and normally requires experimental design where variables important to the analysis can be controlled. On the other hand, explanatory study at the level of the latter, as adopted in this study, would not require such

research focuses on gathering preliminary information about the market for a specific product; a descriptive study seeks to describe the market potential for such a product or the demographics and attitudes of potential consumers; while an Explanatory research attempts to determine the effect and relationship between the various demographic or attitudinal factors on the purchasing decision (Kotler and Armstrong, 2006).

On the other hand, the time horizon of a study depends on the nature of the research questions and the length of time available for the researcher. Longitudinal studies require repeated data collection over an extended period of time. This design is particularly advantageous in examining the effects of certain events or policies as the data are collected before and after such changes are made, as well as in the context where the research is interested in the long term implications of specific treatment or environment. On the other hand, cross-sectional studies represent a snapshot of the reality at one point in time during the research. The data collection process is carried out once and it can be conducted within a period of days, weeks or even months in order to answer the research questions. Finally, the data required for the research can be collected in many ways and forms. Interviews, focus groups, observation and questionnaires are some of the common data collection methods.[55]

5.2.2 The Research Process and Design Adopted for the Study

The preceding discussions have touched on various philosophical and practical aspects of the research process. These inter-related concepts can be summarised into two distinct families as shown in Table 5.1. Nevertheless, as recognised by various methodologists, moving away from following such a strict dichotomy may be beneficial (Ali and Birley,

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definitive causality and the analysis frequently employed involves identifying important factors associated with the observed variables of the research.

[55] It is common that the term ‘research methods’ and ‘research methodology’ being referred to as representing similar meaning. However, as define by Greener (2008: 10), “research ‘methods’ usually refers to specific activities designed to generate data (e.g. questionnaires, interviews, focus groups, observation) and research ‘methodology’ is more about your attitude to and your understanding of research and the strategy you choose to answer research questions.”

1999; Blaxter *et al*., 2008), and the choice of the appropriate methodology and strategy depends on the research questions.

Table 5.1: Summary and Synthesis of the Two Prominent Methodological Paradigms in Social Research

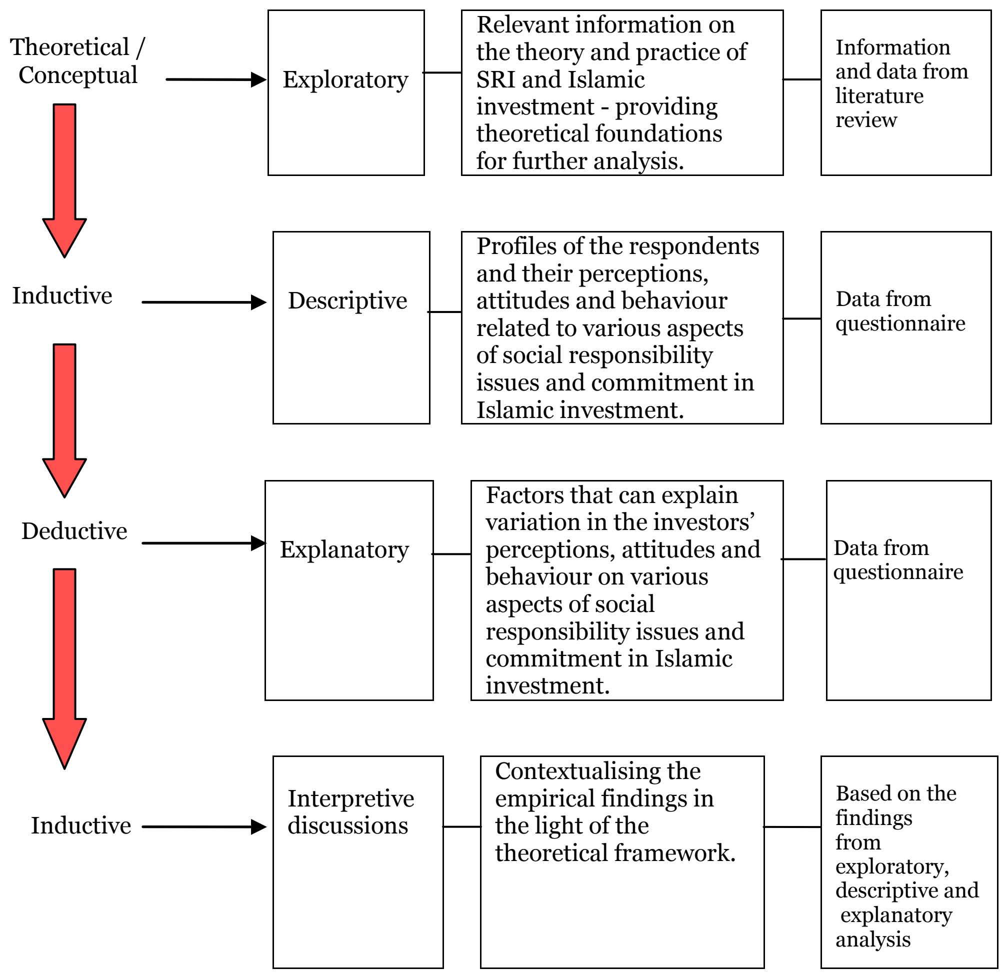
Positive-Deductive-Quantitative Paradigm	Interpretive-Inductive-Qualitative Paradigm
Seeks the facts/ causes of social phenomena	Concerned with understanding behaviour from actors' own frames of reference
Assumes a stable reality	Assumes a dynamic reality
Objective	Subjective
Removed from the data: the 'outsider' perspective	Close to the data: the 'insider' perspective
Ungrounded, verification oriented, reductionist, hypothetico-deductive	Grounded, discovery oriented, exploratory, expansionist, descriptive, inductive
Outcome-oriented	Process-oriented
Reliable: hard and replicable data	Valid: real, rich, deep data
Generalisable	Ungeneralisable
Synthesis of the Two Paradigms	
• The underlying philosophical positions are not necessarily as distinct as the stereotypes. • While quantitative research may be mostly used for testing theory, it can also be used for exploring an area and generating theory. • Both the deductive and inductive approach can be used at different stages of the research. •Similarly, exploratory and descriptive strategies can be complemented with explanatory strategy and analysis.	

Source: Adapted from Blaxter (2006: 65)

Therefore, this study takes a more liberal view on the dichotomy between the two prominent methodological paradigms. This can be reflected by the combination of research approach and strategies as adopted in this study. In this context, the attempt to provide a comprehensive study on various aspects of social responsibility issues and commitment in Islamic investment as specified in the research questions necessitate the use of the exploratory, descriptive as well as the explanatory strategies, and therefore, involves both the inductive and deductive approach. With respect to the time horizon of the study, it is decided that a cross-sectional type of data collection is appropriate given the limited time available for conducting this research. Some consideration has also been given to the type of the data collection methods. Based on the nature of the research and the need to get a representative and large sample of potential respondents, it is decided that the questionnaire type of survey method is the best option for this study. To sum up, the whole research process and design in this study is illustrated in Figure 5.3.

As shown in Figure 5.3, the earlier part of this research uses exploratory design to gather relevant information on the theory and practice of the SRI and Islamic investment industry. This has provided the necessary input for further analysis, particularly for the empirical component of this study. On the other hand, the initial analysis on the questionnaire data uses the descriptive approach which aims to provide the description on various characteristics of the investors, their underlying motivation in investing in Islamic funds, and their perceptions and attitudes towards various aspects of social responsibility in investment. As this relates to the understanding of “meanings humans attach to events” (Saunders et al., 2003: 87), this falls under the realm of inductive inquiry. This analysis would reveal the potential clustering of investors based on their motives, the hierarchy of importance they attach to different dimensions in Islamic investment (i.e. between the *fiqh*, economic and social responsibility dimensions), and their perceived important of various social responsibility issues in investment, which provides new knowledge and understanding of the area of study from the respondents point of view. The exploratory and descriptive designs provide the theoretical framework and preliminary empirical ground for the study and enable the identification of important variables and the development of hypotheses for further analysis. Subsequently, the explanatory design is then employed to examine the different factors that can explain investors’ behavioural commitment for social responsibility dimension in Islamic investment, which lies within the deductive paradigm. Finally, as noted by Calof *et al*. (2008), the result of the deductive approach may provide some new findings which are not necessarily consistent with the theoretical framework initially employed, and this can be contextualised and incorporated within a new understanding of the reality through an interpretively oriented discussions.

Figure 5.3: Research Process and Design Adopted for the Study



In summary, this study benefits from both the inductive and deductive approaches in the research process, as it responds to the research questions of this study through primary research for which data are collected using questionnaire survey. Thus, attitudes, perceptions and opinions of the participants determine the nature of this study, which makes it an inductive research. Nevertheless, the explanatory design which involves hypothesis testing in identifying the determinants of participants' behavioural commitment benefits from the hypothetico-deductive approach. Finally, the interpretive nature of the discussions involves the reinterpretation of the theoretical framework in the light of the findings, making it a mixed method study.

5.2.3 Malaysia as the Case Country

Malaysia has been in the forefront in championing the cause of Islamic banking and finance industry. As envisage in the Capital Market Master Plan, and with the launch of the Malaysia International Islamic Financial Centre (MIFC) initiative, the country aspires to become an International Islamic Finance Centre. Numerous efforts have been made to increase the breadth and depth of the industry to create ‘end-to-end’ *Shari’ah*-compliant products and instruments, provide financial solution to an increasingly complex and sophisticated financial market. In doing so, Malaysia has been pioneering into new innovative *Shari’ah*-compliant products and set up key milestones of the industry. Recent examples of such efforts can be seen in the *sukuk* market. Over sixty percent of global *sukuk* issuance originates from Malaysia and these include some of the landmarks of the industry; the first global sovereign *sukuk* worth USD600 million in 2002 by the Government; the first exchangeable *sukuk* worth USD750 million in 2006 by Khazanah Nasional Berhad; and the largest *sukuk* issued worth RM15.4 (USD4.8) billion in 2007 by Binariang GSM Sdn Bhd (Anwar, 2008a).

Malaysia has also been a leader in the area of Islamic investment. Since the first Islamic unit trust fund was launched in 1993, the sector has experienced a tremendous growth, not only in terms of the size, but also in the breadth and depth of the product offered in the market. As of 31 December 2008, 149 Islamic unit trust funds have been approved representing 25.7% of the total approved funds in the industry (1994: 7.69% @ 4 funds). Despite the effects of global equity meltdown in the aftermath of the sub-prime crisis, the net asset value (NAV) of Islamic unit trust funds still managed to keep their upward trend to RM17.19 billion, forming a 12.79% of the overall unit trust industry. This constitutes a compounded annual growth rate of 26.3% for the previous five years compared to the industry’s growth of 11.4%. These funds were pre-dominantly equity- based with 68 funds, while 21 were balanced funds, 18 were *sukuk* funds and the remaining funds comprised of money market funds, structured products, feeder funds, fixed income funds, and mixed asset funds (Securities Commission, 2009: 54). This constitutes almost a quarter of the total Islamic funds available in the global market (Baddepudi & Vizcaino, 2008; IFIR, 2010). The increase in the asset of Islamic funds is supported by the buoyant stock market with market capitalisation surpassing RM1 trillion mark. Amongst the securities listed in Bursa Malaysia, a total of 855 are *Shari'ah* -compliant representing 87 percent from the total number of securities and approximately 64.2 percent of total market capitalisation (Securities Commission, 2009). In the effort to augment the international recognition and standard of the Malaysian capital market, the FTSE-Bursa Malaysia EMAS *Shari'ah* Index was introduced in January 2007, and effectively replacing the Kuala Lumpur *Shari'ah* Index (KLSI) which had been the benchmark for *Shari'ah*-approved securities since 1999 (Securities Commission, 2008).

In the effort to further strengthen Malaysia's position in the global Islamic finance industry, some new measures have been announced in the 2008 Federal Budget. Among others, Islamic fund management companies are allowed to be wholly owned by foreigners, a total of RM7 billion from EPF will be released to be invested based on *Shari'ah* principles by Islamic funds, Islamic fund management companies will be allowed to invest all their assets abroad, and fund management companies will be given income tax exemption on all fees received in respect of Islamic fund management activities until 2016 (Treasury Malaysia, 2007). Measures to liberalise the market and promote cross border flows of funds have also been emphasised. An important milestone is the recent mutual recognition agreement between the Securities Commission and the Dubai Financial Services Authority (DFSA). Under this arrangement, market players in the two countries will enjoy free access to the other market with minimal regulatory intervention. In other words, Malaysian Islamic funds that have been approved by the SC will be able to be marketed and distributed in the Dubai IFC with minimal regulatory intervention and vice versa. Not only that this will lead to a lower cost for cross border regulatory compliance and provide an enlarged investors base for the products, perhaps more importantly, allow the penetration of Malaysian *Shari'ah*-compliant funds into the

Middle East market and break the barrier of the *Shari'ah* differences (Anwar, 2008b). Acknowledging the pioneering efforts and leadership in the development and promotion of the industry, Securities Commission was named 'Best Regulator for Islamic Funds' in the recent inaugural Master of Islamic Funds Awards, reflecting of the country's efforts to position Malaysia as a global hub in the origination, distribution, and trading of Islamic funds and wealth management (Securities Commission, 2007).

As a vibrant economy, Malaysia has been very accommodative in engaging with the rapidly changing global market environment. Apart from positioning itself to be the international Islamic financial centre, tremendous efforts have also been put into promoting governance, transparency, accountability and social responsibility in the corporate world. One of the important milestones in this context is the requirement for all public listed companies (PLCs) to disclose CSR initiatives in their annual financial reports (Treasury Malaysia, 2006). To this end, as the supervisory body of the exchange, Bursa Malaysia launched its CSR framework consisting of guidelines to facilitate the practice of CSR among PLCs (Yakcop, 2006). The government's commitment to this end has not been restricted to regulatory measures. In fact, a CSR fund, with an initial sum of RM50 million, was established to jointly finance selected CSR projects (Treasury Malaysia, 2006). To provide incentive for such an effort, the high achievers in CSR initiatives have also being recognised with numerous awards including the Prime Minister's CSR Awards, the StarBiz-ICR Malaysia Corporate Responsibility Awards and the ACCA Malaysia Environmental and Social Reporting Awards (MESRA) (Mahmood, 2008). Parallel with the increasing importance of the doctrine of CSR in the developed economies, and the integration of ESG issues in the investment decision making of major investors, Bursa Malaysia has recently announced that a new ESG Index for Malaysian public listed companies is to be introduced in 2012.

The level of awareness on social responsibility issues among the Malaysian public has also increased in line with the growing concerns on the impact of business activities on their community and environment. This includes recent reports of environmentally damaging activities such as illegal disposal of toxic waste, toxic landfills, pollution of rivers and deforestation, and the overall effects of climate change. This has force companies to respond by disclosing the environmental impact of their operation and engage in programmes to promote environmental protection.[56] The recent incidents of landslides have also brought public attention to the importance of responsible development in the construction industry. Parallel with the higher level of economic development, issues related to labour rights, safe working conditions and discrimination in the workplace have also emerged. Another important area of social responsibility relates to the wellbeing of the less fortunate groups such as the orphans, single mothers, persons with disabilities, and the poor in the society. Additionally, despite the overall increase in the society's quality of life, developmental gaps between the rural and urban areas is still an important aspect of social concern. The importance of these aspects can be reflected by the various CSR programmes which have mainly focused on the area of education, leadership, health care and awareness, as well as entrepreneur development among the underpriviledged groups in the society as well as rural communities in Malaysia (ACCA-The Edge, 2006).

Leveraging on the strong domestic Islamic investment and funds market, as well as the favourable atmosphere for social responsibility, the prospect for the incorporation of social responsibility dimension in Islamic investment in Malaysia is very promising. Nevertheless, the survey of the literature suggests that a dedicated study in this respect has yet to be conducted. Therefore, this research focuses on Malaysia and the findings will have important practical implications on the viability of such investment approach in the Malaysian Islamic investment sector. Not only that it will bring a new phase in the approach towards Islamic investment, the incorporation of broader social, ethical and environmental concerns in the investment criteria will create a market incentive towards the strengthening of corporate social performance among corporations. Given the

[56] For instance, since 2002, BP Malaysia has invested in programmes to reduce emissions by its petrochemical plants in Kerteh and Kuantan. As a result, the company managed to reduce carbon dioxide emission by 10 percent per tonne of acetic acid produced in Kerteh, and reduce energy costs in Kuantan by 10 percent (ACCA-The Edge, 2006: 17).

leadership of Malaysia in the Islamic finance industry, such a pioneering initiative can also create a global trend in the Islamic investment sector and become the industry's catalyst in addressing the broader principles of Islamic ethics, with the aim of contributing positively to the society and environment.

5.3 VARIABLES IDENTIFICATION AND INSTRUMENT DEVELOPMENT

As the present study deals with new area of investigation, the research aspires to incorporate an extensive range of variables in order to provide a holistic understanding on the topic. Based on the Islamic perspective of social responsibility issues and commitment (discussed in chapter 3) and the survey on the theory and practice of SRI (discussed in chapter 2), many potentially relevant variables can be identified and included in the survey instrument. These variables are expected to provide a comprehensive insight into the profiles and motivations of investors of Islamic funds; how they perceive the importance of social responsibility dimension and its various issues in *Shari'ah* based investment; and the level of commitment to incorporate such issues in their investment decision. Therefore, this section delineates the important variables and the development of the questionnaire which measures these variables.

5.3.1 Characteristics and Profiles of Investors

i. Socio-Demographic Characteristics

Socio-demographic characteristics are perhaps the most popular component in any empirical social research, including in the field of socially responsible behaviours (Diamantopoulos et al., 2003). Some of these variables such as gender, marital status, age, level of education, income and type of occupation have been extensively used in previous SRI studies and shown to be useful grouping factors in understanding variations in investors attitude and behaviour on social responsibility issues in investment (Nilsson, 2008; Tippet and Leung, 2001; Woodward, 2000; Dbeal and Goyen, 1998; Rosen *et al.*, 1991). Therefore, these variables are included in the questionnaire along with religion and ethnicity.

ii. Investment Related Characteristics

It is also important to gather information related to various aspects of investment characteristics of the investors. Apart from having the insights on the general risk-return attitude and their objective in investing, this information can also be used as explanatory variables in understanding their perceptions, attitudes and behaviour with respect to social responsibility issues and commitment in an Islamic investment. For instance, the investors' main investment objective can be used to reflect their investment horizon, with those having long term objective, such as investing for retirement and children's education, can be assumed to have long term investment horizon. The general risk-return appetite of the respondents can also be an important factor in shaping their attitudes towards the various aspects of social responsibility issues in investment.

Another important information is related to the proportion of investment the respondents invested in Islamic funds in comparison to the overall unit trust investments. In the context of Muslim investors, this reflects their commitment in observing the *Shari'ah* principles in their investment decision. As seen in past SRI studies, it is common for SRI investors to have SRI based investments and at the same time, hold other non-SRI related investment (Nilsson, 2008; Lewis & Mackenzie, 2000). Some considered this behaviour as an attempt to balance two conflicting motives; to avoid the feeling of guilt if not acting in a way that is consistent with their ethical conviction, while at the same time, would prefer not to substantially sacrifice financial returns from investment. In other words, such a pragmatic behaviour is consistent with the principle of 'not putting all your eggs in one basket', even if this involved a matter of conviction or principles (Lewis, 2001). It is also shown in the literature that knowledge about social responsibility issues can contribute to favourable attitudes towards socially responsible behaviour (Schahn & Holzer, 1990; Cheung et al., 1999; Frick et al., 2004). In this context, knowledge about social responsibility issues in investment is also included in the questionnaire and measured by the self-reported level of SRI awareness among the respondents.

iii. Pro-social Behaviours

The role of habitual element and past behaviour has been shown to be part of a strong influencing factor on socially and environmentally responsible behaviours (Knussen et al., 2004; Cheung et al., 1999). Research in SRI has also revealed that investing ethically is a part of an overall socially responsible lifestyle of ethical investors (Lewis & Mackenzie, 2000; Rosen et al., 1991), and participation in pro-social activities has also been employed to understand differences in the attitudes and investment behaviour among SRI investors (Woodward, 2000). Therefore, it is important that such information is gathered from the respondents. For this purpose, the respondents are asked to report the pro-social activities that they participate consistently for the past six months. Regardless of the size or frequency of the activities, such participation reflects the habitual commitment or part of the lifestyle of the respondents. Following Rosen et al., (1991) and Woodward (2000), this study includes socially responsible activities at both individual and collective level. Pro-social activities at the individual level includes donating money to charities, local community or NGOs, volunteering time for charities or social work, recycling household waste, boycotting products from companies or countries with poor social or environmental records, and purchasing environmentally friendly products. On the other hand, socially responsible behaviour at the collective level includes the involvement in the activities of local community, social groups or NGOs, pro-environmental organisations and consumer associations. The score on this index measure will be used to reflect the respondents' level of pro-social behaviour

iv. Underlying Motivations When Investing in Islamic Funds

The review of literature on socially responsible investment has identified several motivations which may influence investors to subject their investment decision on certain SEE concerns. Past empirical studies have also shown that SRI decisions may well have a mix of both self-interested and altruistic motives. In order to understand such interaction in the context of investors of Islamic funds, four possible motivations for such a decision are included in the questionnaire as shown in Table 5.2. The items were measured on a five-point Likert scale ranging from ‘Not important at all (1)’ to ‘Very important (5)’. In addition to the above items, three additional statements are also included in the questionnaire to understand the motives for making the investment decision in Islamic funds. In this case, however, the respondents are asked to state their level of agreement on the statements ranging from ‘Strongly disagree (1)’ to ‘Strongly agree (5)’.

Table 5.2: Items Related to the Investors’ Underlying Motivation When Investing in Islamic Funds

Why invest in Islamic funds?	I want to earn *halal* returns from my investment.
	I want to diversify my investment with conventional funds.
	I invest because it gives high returns.
	I want my investment to be used in economic activities that have positive impact to the society.
Additional statements	I expect Islamic funds to provide at least similar returns as compared to conventional funds.
	I am prepared to accept lower returns from my investment as long as it is based on Islamic principles.
	Investments that are based on Islamic principals are more resilient against fluctuations in the market.

5.3.2 Social Responsibility Dimension in Shari’ah-Based Investment and Its Various Issues

i. Perceived Importance of Social Responsibility Dimension vis-a-vis Other Dimensions in Shari’ah Based Investment

In the light of the earlier discussions in Chapter 3 and 4, it is pertinent to obtain the perceptions and opinion on the scope of the *Shari'ah* principles subscribed by the investors in the context of an Islamic investment. The recognition by the investors on the importance of the social responsibility dimension within the principles of *Shari'ah* will potentially increase the support for the dimension to be applied in the investment decision of the Islamic investment products. Therefore, this study seeks to explore the respondents’ opinion on the elements they perceive as important to be considered when making any investment that is based on *Shari’ah* principles. When commenting on the scope of *Shari’ah* supervision of Islamic funds, DeLorenzo (2004) highlights three different classes of rewards expected of Islamic investing; spiritual, financial and social.

While the spiritual reward is frequently associated with the acknowledgement of the *Shari'ah* imperative and its compliance in the investment process, such compliance has been shown to be pre-dominantly focussed on the *fiqh* injunctions and negative screening strategy. The social aspect of Islamic investing, however, addresses broader ethical and environmental concerns and requires not only exclusionary, but also positive screening as well as advocacy and engagement strategies with companies (DeLorenzo, 2004; Wilson, 2004), and the rewards will be experienced as a result of the positive contribution and policies of such companies to the society. On the other hand, pecuniary returns from investment should not be limited to financial reward alone, as broader economic benefits can be realised when investment is efficiently used and allocated.

Therefore, the three dimensions; i.e. *fiqh* injunctions, economic, and social responsibility, are believed to be an appropriate characterisation on what is expected of a holistic approach in the practice of Islamic investment in the light of realising overall human wellbeing and social justice (refer to Table 5.3). For this purpose, a total of ten criteria are identified and selected which constitute various *Shari'ah* prohibitions normally used in investment screening criteria, aspects of risks-returns and efficient use of resources (as normally the concerns in any investment), as well as social responsibility issues often promoted in the literature of Islamic economics such as poverty eradication, social welfare and care about the environment. The items are listed at random in the questionnaire and measured on a five-point Likert scale ranging from 'Not important at all (1)' to 'Very important (5)'.

Table 5.3: Items Related to Various Dimensions of *Shari'ah* Based Investment

Fiqh Injunctions	Economic	Social Responsibility
- Not be involved in conventional financial services (conventional banking, insurance, etc) - Not be involved in the manufacture or sale of prohibited products (liquor, pork, tobacco, etc) - Not be involved in gambling related activities -Not be involved in entertainment activities which are not permissible in *Shari'ah*	- Maximise returns from investment - Manage risks prudently - Use resources efficiently	-Contribute to poverty eradication - Contribute positively to the development of the society - Care about the impact to the environment

ii. Perceived Importance of Various Social Responsibility Issues

Given the wide spectrum of social responsibility issues, it is important to identify the areas investors consider important when making investment. This may have important practical implication as investors would be more incline to support the incorporation of social responsibility criteria if the issues addressed match their personal concerns and priority. For this purpose, five areas of social responsibility issues which are prevalent in the literature have been identified and selected in this study. These areas include environment, labour standards, human rights, business practice and community involvement.[57] Each of them is represented by three items as shown in Table 5.4. In line with the previous discussions on the different levels of social responsibility issues, the three items are also carefully selected to represent different degrees of intensity and priority from the overall notion of *maqasid* and justice.[58]

[57] The corporate governance aspect has not been included in this research as the area has been shown to be largely financially driven and concerned by institutional investors (EuroSif, 2003; 2006).

[58] The researcher initially intended to select the three items representing each of the social responsibility area based on their level of importance within the framework of the levels of *maslahah*. For this purpose, the items were sent for content validity to three reviewers (with both *Shari'ah* and economics background). Despite an overall recognition on the relevance of the items, it was apparent from the comments received that the issue is subjective in nature, and the interpretation of the matter depends highly on the context of the situation. Therefore, this study will only treat the items (within each of the social responsibility area) as having different degree of intensity and priority based on the overall notion of *maqasid* and social justice, without ascribing them to any specific level of *maslahah*.

Table 5.4: Items Related to Various Areas and Levels of Social Responsibility Issues

Areas	Items
Environment	1. Not involve in environmentally damaging activities 2. Adopting good waste management and recycling policies 3. Using environmentally friendly technologies
Labour Standards	1. Ensuring a safe and healthy working environment 2. Providing a good benefits scheme to employees (medical cover, loans, etc) 3. Promoting employees' competency and career development
Human Rights	1. Are not using child or forced labour 2.Treating employees, customers and suppliers fairly (no discrimination) 3. Respecting the rights of employees and the freedom of association (workers' union)
Business Behaviour	1. Not involved in unethical business behaviours (fraud, price manipulation, bribery, etc) 2. Having a good system of accountability and transparency in its operation 3. Promoting ethical values in its operation
Community Involvement	1. Helping the less fortunate groups (orphans, disable, poor students, charities, etc) 2. Investing in poor and underdeveloped areas 3. Providing facilities to community (community hall, recreational area, etc)

These areas and the corresponding items were selected and adapted based on various global principles and practices (such as the Global Compact, the United Nation's Principles of Responsible Investment (UNPRI), EUROSIF, local CSR and SRI framework (such as the Bursa Malaysia Framework for Corporate Social Responsibility and Malaysia SRI Index by OWW Consultant), in line with the literature on social responsibility issues from the Islamic perspective as discussed in Chapter 3.

As this study is exploratory in nature, it is also interesting to explore the attitudes of investors of Islamic funds towards various other negative screening criteria popular in the Western SRI movement. These criteria are related to arms industry[59], nuclear power, pesticides/chemicals, genetically modified food (GMF) and animal abuse.

[59] While the arms industry has been included in the *Shari'ah* non-compliant sector by some institutions (e.g. Dow Jones Islamic Market Index), this criterion is not part of the sector screen in the screening criteria adopted by the *Shari'ah* Advisory Council of the Securities Commission of Malaysia, which is the main screening norm used in the country.

5.3.3 Commitment to Incorporate Social Responsibility Criteria in Islamic Investment

Based on previous SRI studies, three types of questions are employed to measure the behavioural commitment of the respondents to incorporate social responsibility criteria in their investment. The first two constitutes a direct question on the investors 'willingness to support the use of additional social responsibility criteria in the investment decision of their currently held Islamic funds' and the 'willingness to invest in an Islamic fund that applies additional social responsibility criteria if it is offered to them'. The response for both questions take a five point Likert scale ranging from 'I will not support (1)' to 'I will support (5)' for the former and 'I will not invest (1)' to 'I will invest (5)' for the latter.

In line with the behavioural framework as discussed in Chapter 3, the third type of the question examines the sacrificial behaviour associated with the commitment to social responsibility dimension in investment. This is measured by the level of investors' willingness to invest in an Islamic fund that applies additional 'social responsibility criteria in the context where the expected rate of returns and its alternative are assumed to be known. In this scenario, given that the ordinary Islamic fund's return is assumed to be 10 per cent, investors are asked to express their willingness to invest in an Islamic fund that applies additional social responsibility criteria when its return is expected to be more than 10%; 10%; 9%; 8%; 7%; and 6% and below. The scoring from the six items will provide an index measure on the level of sacrifice the investors willing to take for social responsibility commitment in Islamic investment.

5.3.4 Financial and Normative Aspects of Individual's Investment Decision

The theoretical discussions on the behaviour of economic agents suggest that individuals have at least two irreducible objectives; self-interest and socially altruistic motives. In this context, a model to understand individual behaviour is inadequate without these two important components. Thus, this section delineates the items used in the study to measure such aspects.

i. Perceived Risk and Return on Investing Using Social Responsibility Criteria in Islamic Investment

The mainstream theory of investment highlights the two overarching considerations for investors; risk associated with the investment and its financial returns. Nevertheless, in cases where the actual risk and return of any investment are absence or not easily available, studies have used perceive risk and return of investment as a substitute. In fact, it is argued that even in the context where actual risk and return are available, the decision to invest is more likely to be influenced by perceptions. In SRI literature, past studies have used the investors' perceive risk and return of SRI as a direct variable to explain variation in SRI behaviour. In the context of this study, the perception on the risk and return associated with the use of social responsibility criteria for Islamic funds will be used in determining the investors' willingness to invest in such funds. For this purpose, the respondents are asked to express their expectation on the possible level of risk and return of an Islamic fund that applies social responsibility criteria as compared to ordinary Islamic funds. The responses for the two questions range from 'Much lower (1)' to 'Much higher (5)'.

It is also useful to understand how the above perceptions are formed by the investors. In the context of SRI and Islamic investment, the need to consider other ethical or religious criteria beyond the two concerns in investment have raised several critical issues, particularly on the implications of such additional concerns to the investment performance. For instance, some argued that the incorporation of additional social responsibility criteria in the investment decision will compromise the potential returns from the funds. Among others, concerns over social responsibility dimension may limit the universe of investable securities and may negatively impact the potential returns of the portfolio. Additionally, the limited pool of socially responsible securities may also reduce the ability to optimise the level of risk diversification of the portfolio. On the contrary, the proponents of SRI claim that the application of social responsibility criteria will bring long term benefit in terms of sustainability and reputational goodwill in the invested securities. In addition to that, by following a certain rule of socially responsible criteria, SRI investors will also discard investment in potentially problematic companies that may result in future losses due to potential lawsuits and compensation damages.

Based on the above discussions, four different statements which relate to the implication of social responsibility criteria in Islamic investment are incorporated into the questionnaire. Each of the items evaluates the opinions of the respondents on different aspects of risks and returns as a result of the incorporation of social responsibility criteria in the investment decision of Islamic funds. These statements are measured on a five-point Likert scale from 'Strongly disagree (1)' to 'Strongly agree (5)', and are shown in Table 5.5.

Table 5.5: Statements Related to investors' Views on the Implications of incorporating social responsibility criteria in Islamic investment

Statements
1. By adding 'social responsibility' criteria, the scope of profitable investment will be reduced.
2. By applying 'social responsibility' criteria, Islamic funds will avoid investing in potentially problematic companies.
3. By applying 'social responsibility' criteria, Islamic funds will invest in sustainable businesses.
4. By adding 'social responsibility' criteria, Islamic funds will have limited opportunity to diversify investment risks.

ii. Constructs of Moral Norms

Since behaviour is motivated by normative or altruistic motives as much as self-interest motive, many studies have incorporated it in providing a comprehensive understanding of individual's behaviour (Wall *et al*., 2007; Valle et al., 2005; Corbett, 2005; Bamberg and Schmidt, 2003; Hunecke *et al*., 2001). One of the most prominent theories is the model of altruistic behaviour, or the Norm-Activation Model (NAM) (Schwartz, 1977, 1981). It has been acknowledged that the use of the NAM constructs contribute significantly to explaining behaviours, particularly when the behaviour is perceived to be within the domain of morality (Thogersen, 1996). This is evident by its extensive use in the well developed inquiries of pro social and pro environmental behaviours (De Groot and Steg, 2009). According to Schwartz (1977), personal or moral norms are a form of internalised values and are experienced by individuals through the feelings of personal obligation to engage in certain behaviour. However, the realisation of such internalised norms into actual behaviour depends on two things; the awareness of the consequences of such behaviour for the welfare of others and whether one ascribes at least some responsibility for the consequences of the behaviour to oneself. In other words, awareness of consequences and ascribed responsibility activate the moral norms and therefore influence one's behaviour. However, as reviewed by De Groot and Steg (2009), there have been great variations in the application of this model in past studies. As this is an exploratory attempt to apply these constructs in the context of incorporating social responsibility dimension in Islamic investment, it is important that appropriate consideration is given in applying such constructs. As noted by Heberlein (1975), in situations where the moral norms are not yet widely held, conditions of high awareness of consequences and acceptance of responsibility appear to sensitise individuals to the emergence of such norms. "Hence, perception of negative consequences and/or awareness of personal responsibility become prerequisites to initial awareness of the existence of a new norm, rather than simply being conditions necessary for the activation of norms already part of the cognitive system" (cited by Liere and Dunlap, 1978: 177). Based on this exertion, this study will not focus on the norm-activation aspect of the model; rather the constructs of awareness of consequence and ascribed responsibility are used as a direct explanatory variable to the behaviour under study, and represent the socially altruistic component to individual's decision. Secondly, despite the fact that Schwartz's (1977) original conceptualisation postulates that personal norm has a direct influence over actual behaviour (and not behavioural intention), numerous studies have used the norm-activation model to explain pro environmental and pro social behaviour, mostly under the conditions where actual behaviours are difficult or cannot be measured (Wall et al., 2007). This is also true with this study, as the dependent variables constitute the investors' self-reported willingness to incorporate social responsibility criteria in Islamic investment, and not the actual investment itself.

For the purpose of this study, three statements related to awareness of consequences (AC) and ascribed responsibility (AR) were included in the questionnaire to help measure such constructs. The items were adapted from Wall et al. (2007) and Bamberg and Schmidt (2003) and carefully phrased to reflect the behaviour studied. Given the apparent variations in the way these constructs been operationalised in past research, the items (as shown in Table 5.6) were chosen and phrased to be as closest as possible to the conception of awareness of consequence and ascribed responsibility as originally theorised by Schwartz (1977, 1981).

Table 5.6: Items Measuring the Constructs of Moral Norms

Awareness of Consequence (AC)	1. I might support irresponsible business behaviours if I ignore 'social responsibility' issues in my investment. 2. I can help to improve the society's quality of life by investing using 'social responsibility' criteria. 3. I do not believe that my investment decision can have any adverse effects on the wellbeing of the society.
Ascribe Responsibility (AR)	1. I am not concerned about 'social responsibility' issues in my investment. 2. Every investor must take responsibility on the effects of his or her investment. 3. 'Social responsibility' issues should be addressed by the government and social organisations, and not by investors.

5.3.5 Development of Survey Instrument

The detailed examinations on various aspects towards incorporating social responsibility dimension in investment, both from the western SRI and Islamic perspective, have highlighted various important variables relevant to this research. These variables as identified above have been incorporated in the questionnaire for the purpose of collecting the required data for the study. In this context, a structured questionnaire consisting of mainly close-ended types of questions with a few open-ended questions was carefully constructed. This allowed the researcher to use appropriate statistical tests in evaluating the empirical findings of the study and to encourage easy response from the target sample. It also enables uniformity and consistency throughout the data collection process.

The questionnaire was then piloted in September 2008 on 20 respondents. The purpose of the pilot study is to test the instrument in terms of its appropriateness, timing, length, language and overall reliability and validity. To increase its validity, the questionnaire was also sent for review to several other researchers in the area of *Shari'ah*, Islamic banking and finance, corporate social responsibility, and economics. Based on the responses from the pilot study, some revisions were made to the questionnaire. Since the length proved to be burdensome, some 'nice to have' questions were dropped. Some of its parts which required respondents to rank the given options had produced unexpected responses. Therefore, the ranking type questions were omitted, and the relevant items were converted into Likert scale type of questions. Questions regarded as too technical and demanding were simplified based on the suggestions by the reviewers.

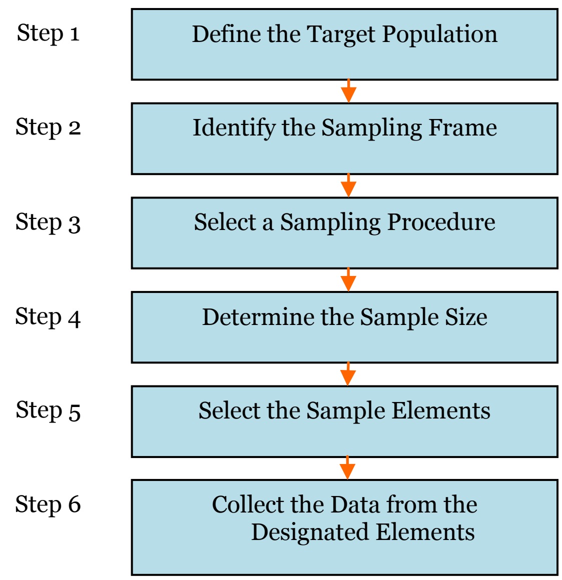
The revised questionnaire was designed to be simple, straight forward, has appropriate length, and only includes variables which were crucial in the analysis. Two sets of identical questionnaires were prepared, one in English and the other in Malay. The translated questionnaire was prepared using the backward translation method to increase its validity. The final questionnaire was 7 pages long (including the cover page) and consisted of twenty five questions, divided into 5 sections (Refer to Appendix 5A).

5.4 SAMPLING PROCESS AND DATA COLLECTION

5.4.1 Sampling Process

Having determined the technique used for data collection i.e. cross-sectional survey using questionnaire, the next step is to define the population and the sampling process for the study. For this purpose, the study follows the six-step procedure as outlined by Churchill and Lacobucci (2002) and is depicted in Figure 5.4.

Figure 5.4 Six-Step Procedure for Drawing a Sample



Source: Churchill and Lacobucci (2002)

As found in the literature, investors can be individual or institutional. While targeting both groups of investors would provide a broader and more comprehensive outlook of the research, there are several important issues to be considered in this respect. As highlighted by the discussion in Chapter 2, the behaviour, motivation and strategies adopted by institutional investors can be very different from individual investors. This would require a totally different approach in the identification, selection and development of the research instrument, and therefore warrants a dedicated study of its own. Limiting the scope of this research to individual investors also allows the study to increase its depth of analysis. Not only that the multi-dimensional aspects of investment decision can be examined in a more thorough manner, the variables included in the analysis can also focus specifically on the factors relevant to individual investors. This can be reflected by the nature of the research instrument which includes individually oriented variables such as the constructs of ascribed responsibility, awareness of consequences, as well as habitual commitment in the form of pro-social behaviours. Another important aspect to be considered is the challenge in getting the cooperation from institutional investors, especially if the survey is conducted by an individual researcher.[60] For instance, most studies on socially responsible investors in the developed markets have focus on retail investors. The few studies which include institutional investors (e.g. SIF, 2006; EuroSIF, 2006; Ambachtsheer and Mercer Investment Consulting, 2005) are done by credible organisations that have good connection and reputation with the institutional investors, beyond the reach of individual researchers. Based on the above considerations, it was decided that the target population for the study will focus on individual investors of Islamic investment.

As the study aims to explore the perceptions, attitude and behaviour of investors on the incorporation of social responsibility dimension within the context of Islamic investment, the target population for the survey must also constitute investors who have some investment that comply with the Islamic principles. In this respect, unit trust investment scheme has been one of the most developed investment instruments in the financial sector and has become very popular among the Malaysian public. In addition, the number and size of unit trust funds that comply with the *Shari'ah* principles have grown rapidly and they are widely offered in the market. Therefore, the survey will focus on collecting the data from these unit trusts investors, and the target population is defined to be all individual investors who at least have some investment in one or more of the Islamic unit trust funds available in Malaysia.

At the end of 2008, there were 28 companies in the Malaysian unit trust industry that managed and offered various types of Islamic funds in the market. Therefore, the ideal sampling frame in this context would be the list of individual investors of all Islamic funds managed by these management companies. For this purpose, the researcher

[60] On this note, it is important to highlight that the process of getting the cooperation from the respondents is a major challenge, especially in the capacity as an individual researcher for a PhD study. The cooperation for this survey considerably improved after the researcher uses his affiliation with the International Islamic University Malaysia where he works as an academic staff. Even so, as reported in Table 5.10, the response rate on the questionnaire is only around 40 percent.

approached the Federation of Malaysian Unit Trust Managers (FMUTM) to seek their help in conducting the survey. Unfortunately, despite being the umbrella body for all the fund management companies and actively involved in the promotion of the unit trust industry in Malaysia, such databases are not available at the disposal of FMUTM.

The next approach was to seek the cooperation from the respective fund management company for the survey. After explaining the objectives of the study and its implications on increasing the knowledge and promote the development of the industry, FMUTM's Executive Director, Mr. Lee Siew Hoong, and Prof. Dr. Saiful Azhar Rosly (a Council Member of FMUTM) have agreed to help in getting their fellow FMUTM members to participate in this study. Despite the endorsement, only two management companies agreed to cooperate in the study, namely CIMB-Principal Asset Management Bhd. and Prudential Fund Management Bhd. Many of the CEOs approached cited confidentiality of their investors as the main reason for their reluctance. As such, it was quite apparent that a probabilistic sampling technique would not be feasible in the sampling process. In order to ensure a representative sample, a purposive sampling method was used. As Public Mutual Berhad is identified as the largest private fund management company in Malaysia, both for conventional and Islamic funds, it was given a special focus in the sampling procedure. Based on the substantial portion of the market share of the Islamic funds industry (refer to Table 5.7 and Appendix 5B), it was important that the investors of Public Mutual funds were included in the sample. Therefore, additional attempts were made through the Executive Director of FMUTm in December 2008 and January 2009 to seek the company's cooperation in the survey. However, both requests were declined. Alternatively, attempts were made to seek the cooperation directly from Public Mutual funds’ agent/consultants who were involved in the sales and financial advisory services of unit trust funds investment to investors. Considerable efforts were made to engage with as many agents/consultants as possible in order to obtain their cooperation in conducting the research.

Based on the above, the sampling procedure adopted a purposive sampling method with three fund management companies selected for the survey; Public Mutual Bhd, CIMB-Principal Asset Management Bhd and Prudential Fund Management Bhd. These companies represent the leading fund management companies in Malaysia. Table 5.7 summarises the total asset under management for the three fund management companies, and the statistics for the overall unit trust fund industry. Based on the data, it can be said that each of the company represents different categories of asset size in the Malaysian unit trust industry. Additionally, the inclusion of respondents from three different fund management companies will reduce the sampling bias that may result if the survey is conducted among the investors from only one fund or company, as in the case with some previous SRI studies.

Table 5.7: Some Statistics of the Fund Management Companies Included in the Survey

Fund Management Company	Total Fund Size of Overall Unit Trusts Funds (RM billion)	Total Fund Size Under Islamic Funds (RM billion)
Public Mutual Bhd.	23.3[a]	7.68[d]
CIMB-Principal Asset Management Bhd.	16.9[b]	3.01[d]
Prudential Fund Management Bhd.	3.65[c]	0.295[d]
Total for Private Funds	64.5[e]	16.9[e]
Total for the industry (including federal and state funds)	134.436[e]	16.9[e]

[a] As at end of December 2008. See http://ww2.publicbank.com.my/cnt_press290.html.
[b] As at end of December 2008. See
[c] As of July 2008. See http://www.prudential.co.uk/prudential-plc/media/newsreleases/archive2008/2008-08-20/.
[d] Compiled from The Edge-Lipper Funds Table, The Edge 27 November 2008 (Refer Appendix 5B).
[e] Securities Commission Annual Report (as of 31 December 2008).

The next step is to determine the sample size appropriate for the study. It was recommended that, with a target population comprising one million elements or greater, a sample size of 384 was considered to be sufficient (Sekaran, 2003). Additionally, as a rule of thumb, it was suggested that a sample size between 30 and 500 are appropriate for most research (Sekaran, 2003). Despite the many constraints, such as the issues related to the costs required, the time available and the level of cooperation received, the study seeks to achieve a sample size of 500 respondents to ensure a higher level of representativeness and better statistical power in the analysis. Based on a conservative estimate on the response rate of the survey (40%), the target sample and the required number of questionnaire distribution for each of the fund management company included are shown in Table 5.8.[61] The target sample size between the three companies was determined purposively based on their relative size.

Table 5.8: Sample Elements and the Target Sample Size

Fund Management Company	Target Sample Size	Target Questionnaire Distribution*
Public Mutual Bhd	250	625
CIMB-Principal Asset Management Bhd	150	375
Prudential Fund Management Bhd	100	250
Total	500	1250

* Based on an anticipated response rate of 40 per cent.

Another important consideration in the sampling process is the scope of the survey. Given the limited resources available in terms of funding and time, the idea of a nationwide survey was untenable. Secondly, the different degrees of cooperation received and the nature of the distributional channels for the survey created an additional challenge. Therefore, a purposive sampling decision was made by focusing the geographical scope of the survey in Kuala Lumpur. As the country's capital, commercial and financial centre, Kuala Lumpur and its surrounding areas is the most populated region, and attracts citizens from all regions who migrate for better employment and business opportunities. As a result, its dwellers come from diverse socio-economic, ethnic, and religious backgrounds, which can be considered representative of the general

[61] This approach of determining the number of questionnaire that needs to be distributed based on the anticipated level of response rate is adopted from Gough and Sozou (2005). The authors used a 25% response rate as a guide. However, given the encouraging level of response rate from previous studies in the field of Islamic banking (e.g. Dusuki (2008b) yielded 84%, Jamal and Naser (2002) yielded 85%, Naser *et al*. (1999) yielded 69%, Metawa and Almossawi (1998) yielded 75%, Gerrard and Cunningham (1997) yielded 55%), a conservative response rate of 40% is believed to be appropriate in this study. Such a conservative estimation is due to the unique distribution technique adopted in the survey as explained later in this chapter.

Malaysian population. Having identified all the components necessary for the sampling procedure, the following section discussed the data collection process.

5.4.2 Questionnaire Distribution Method

The questionnaire was administered for three months between January and March 2009. Prior to the distribution of the questionnaire, detailed consideration have been given on the advantages and disadvantages of alternative distribution method, the varying level of cooperation received from the fund management companies, and the distinct nature of unit trust distribution as compared to other types of retail financial product or services. Discussions were also held with several people in the industry to obtain their opinion. Based on these, it was decided that since the distribution of unit trusts was done through the network of agents/consultants, and these agents/consultants had direct and personal relationship with the investors, it is believed that the best approach to reach investors of Islamic funds is through this network.[62] Secondly, given the concerns about investors' confidentiality, this approach is considered to be the most appropriate option as the identity and details of these investors are not shared with other third party (i.e. the researcher).

As generally practiced in the industry, unit trust agents/consultants are registered and attached with the recruiting agency, and each agency is led by a Group Agency Manager. In the case of CIMB-Principal Asset Management Bhd., the details of the selected agencies and their corresponding group agency managers were given to the researcher after being informed by the management to cooperate with the survey. Each of the agencies operates from their individual agency sales office located at different areas within the vicinity of Kuala Lumpur. A total of six agencies under CIMB-Principal Asset Management Bhd cooperated in distributing the questionnaire. As for Prudential Fund Management Bhd, the top management agreed to handle all the distribution and

[62] For instance, when seeking the cooperation for the study, the CEO of CIMB-Principal Asset Management Bhd. instantaneously referred to the company's network of unit trust agents as the best way of distributing the questionnaire to the investors.

collection process using their network of branches and licensed agents. Due to the lack of cooperation from the management of Public Mutual Bhd, extensive efforts were made to make direct contacts with group agency managers and individual agents to seek their cooperation for the survey. Unlike CIMB-Principal Asset Management Bhd, unit trust sales agencies under Public Mutual Bhd operate within the Public Mutual branches. All three Public Mutual branches in Kuala Lumpur were included in the survey involving five agencies and nine individual agents. Table 5.9 shows the location of branches and sales offices involved in the survey as well as some descriptions on the method of questionnaire distribution.

Table 5.9: Description on the Questionnaire Distribution

Fund Management Company	Branch/Sales Office	Description
Public Mutual Bhd	Damansara Perdana branch	Two agencies and five individual agents assist in the data collection
	Bangsar branch	Two agencies and four individual agents assist in the data collection
	Cheras branch	Only one agency assists in the data collection
CIMB-Principal Asset Management Bhd	Wangsa Maju agency office	Altogether, six agencies assist in the data collection
	Ampang agency office	
	Kelana Jaya agency office	
	Kota Damansara agency office	
	Damansara Intan agency office	
	Pelangi Damansara agency office	
Prudential Fund Management Bhd	Various branches and licensed agents of PFMB	PFMB handled the data collection using their network of branches and licensed agents

In the context where the group agency manager agreed to cooperate in the survey, the researcher presented the background and the purpose of the study to all the agents during one of the agency gathering. They were assured on the anonymity and confidentiality of the information provided by their client investors. Subsequently, they were also kindly requested to help with the distribution of the questionnaire to their client investors. Similar approach was also followed in the case of individual agents, except that the presentation was less formal. The agents were informed that the questionnaire could be completed either in English or in Malay according to their investors' language of preference.

The investors could either return the completed questionnaire to their respective agent (to be collected by the researcher) or post it using the self-addressed prepaid envelope enclosed in the questionnaire kit. Depending on the situation and their willingness to assist, each participating agent was given between five to twenty questionnaires. Wherever possible, personalised cover letters were used to seek the assistance from the agents to distribute the questionnaires to their client investors. As a recognition on their cooperation and to encourage participation among the investors, an incentive program was initiated. A donation pledge was made for a sum of RM5.00 to be channelled to the Malaysian Association for the Blind (MAB) for every completed and returned questionnaire. Each questionnaire kit contains the questionnaire, cover letter from the researcher, supporting letter from the Federation of Malaysian Unit Trust Managers (FMUTM), acknowledgement letter from MAB concerning the donation pledge, and a reply self-addressed prepaid envelope. All documents have both English and the Malay versions for the respondents' convenience, except for the supporting letter from FMUTM.

5.4.3 Response

Table 5.10 shows the actual number of questionnaires distributed and returned for all the three fund management companies.

Table 5.10: Total Questionnaire Distributed and Returned

Fund Management Company	Questionnaire Distributed	Completed and Usable Questionnaire	Response Rate
Public Mutual Bhd	525	215	40.95
CIMB-Principal Asset Management Bhd	450	141	31.33
Prudential Fund Management Bhd	150	95	63.33
Total	1125	451	40.09

Note that there are some deviations between the actual number of distributed questionnaire (Table 5.10) with its initial target (Table 5.8). This is largely due to circumstances which are beyond the control of the researcher. Firstly, despite the tremendous initiative to engage with individual agents and agency managers, the researcher only managed to obtain nine individual agents and 5 agencies to assist with the distribution of questionnaire for Public Mutual Bhd. On the other hand, despite the full cooperation received from Prudential Fund Management Bhd, only a total of 150 questionnaires distributed. In order to mitigate this shortfall, the actual distribution of questionnaire for CIMB-Principal Asset Management Bhd was increased. Therefore, the total number of questionnaire managed to be distributed through the network of agents of the three fund management companies included in the survey was 1125 questionnaires, with a total of 523 being returned.[63] However, after examining the returned questionnaire, 72 questionnaires were discarded, leaving 451 usable questionnaires valid for analysis, yielding an average response rate of approximately 40%. However, there exists sizeable variation in the response rate between the three fund management companies. The high response rate from Prudential Fund Management Bhd could be attributed to several reasons. In addition to the RM5 pledge donation by the researcher, the company also made similar pledge with an additional sum of RM15 as part of its CSR activity. Secondly, the distribution and collection of the questionnaire was handled by the company itself through its network of branches and licensed agents and it had received strong support from the top management.

It is also important to note that the reported number of questionnaire distributed is the total number of questionnaire given to all agents for distribution. While efforts had been made to follow up with the relevant group agency managers and individual agents, there was no way to ascertain whether all of the questionnaires given were actually distributed to investors. If some of the questionnaires were not distributed to the investors, the actual response rate would be much higher.

[63] As a result, a total of RM2615 was donated to the Malaysian Association for the Blind (MAB) in line with the donation pledge of the study.

5.4.4 Data Quality and Reliability

In order for the data to be analysed, the responses were manually coded. The coding process enables the raw data to be systematically transformed into numerical code so that it could be easily analysed by the statistical software.[64] Once the coding process had been completed, the raw data were then keyed into the data file of the software. SPSS version 13.0 was used in order to facilitate the analysis. The completed data set was then screened to ensure that all responses were entered correctly; such as checking for duplication, discrepancies, and scores that are out of range and correcting the error in the data file (Pallant, 2005). In addition, it was important to check the quality of the data before any analysis could be done. One of the most accepted method of analysis to check the reliability and internal consistency of the data is the Cronbach's Alpha measure. The test was employed on the 58 scale measurements in the questionnaire, and the result is shown in Table 5.11.

Table 5.11: Test of Overall Reliability

Cronbach's Alpha	No. of items	N
0.928	58	451

The high Cronbach's alpha measure indicates the reliability and the internal consistency of the questionnaire responses and provides confidence on the quality of the data collected.[65]

[64] For instance, in the case of an item with a five point Likert scale, the responses were transformed into; 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for strongly agree.

[65] The result of a Cronbach's Alpha test ranges from 0 to 1, with higher score indicates higher level of reliability of the measured scales. As a rule of thumb, the Alpha measure should be at least 0.7 for the scales to be considered as having good internal consistency (Pallant, 2005; Field, 2009).

5.5 DATA ANALYSIS TECHNIQUES

5.5.1 General Overview of the Analysis

Preliminary descriptive analysis such as frequencies, proportions, means and standard deviations, cross-tabulations and correlations are used to provide an overall review of the findings and basic relationships between variables. In the context of applying inferential tests, it is important to choose the appropriate type of analysis based on the nature of the data. Generally, analytical techniques can be classified into two; parametric or non-parametric, with the former known to be superior in terms of its statistical power. There are several assumptions that need to be fulfilled in order for any data to qualify for using parametric tests; the level of measurement should be measured at the interval or ratio level; the sampling must be based on probability or random sampling; the observations must be independent of one another; and the data are assumed to be normally distributed (Pallant, 2005). Non-parametric tests, on the other hand, are less stringent in its assumptions related to the level of measurement (at least ordinal) and the underlying distribution of data, and are also known as distribution-free tests (Field, 2009). In the context of this study, some of the assumptions related to parametric tests have been violated; e.g. the data collection process does not apply probabilistic sampling, and most of the measured variables are discrete and ordinal in nature. Therefore, non-parametric tests are employed here; Mann-Whitney and Kruskal-Wallis tests are used to compare the scores between sub-groups, while the Spearman rank test is used for the purpose of establishing correlation between two ordinal variables.

For more in-depth analyses, cluster analysis and exploratory factor analysis are employed. While cluster analysis seeks to group respondents based on their responses on certain variables, exploratory factor analysis categorises variables based on the similarity of their underlying factors. Finally, given the nature of the dependent variables in this study, ordinal regressions are used in the estimation of econometric models to examine the factors influencing various aspects of investors' willingness to incorporate social responsibility criteria in their investment decision. These relatively advanced type of analysis are further explained in the following sub-sections.

5.5.2 Cluster Analysis

In the survey of the literature, it has been shown that SRI comprises diverse groups of investors with differing underlying motivations. Therefore, different investors may subscribe to different ethical concerns and level of commitment, as well as different strategies and approach in investment. In the light of this, it is crucial to identify differences in the profile of the investors of Islamic funds. In exploring this, a cluster analysis is employed. Cluster analysis is a statistical technique widely used to group or classify the units under study by identifying groups of individuals or objects that are similar to each other, but different from individuals in other groups. For instance, it has been employed to group SRI investors based on their objective in SRI investment (Nielsson, 2009).

There are three types of clustering procedures available in SPSS; hierarchical cluster analysis, k-means cluster, and two-step cluster. Hierarchical cluster analysis is suitable for small data set and a very useful tool to examine solutions with increasing numbers of clusters. On the other hand, if the desired number of clusters is already known, k-means clustering will provide a good classification and is suitable for a moderately sized data set.[66] The two-step procedure, on the other hand, is appropriate for a large data file or an analysis with a mixture of continuous and categorical variables. At the initial stage, cases are assigned to 'precluster', and these preclusters are then clustered using the hierarchical clustering algorithm in the second stage.

There are several issues that need to be considered before running a cluster analysis. Firstly, the variables relevant to the analysis (where the grouping is based) should be carefully chosen based on the objective of the analysis. Subsequently, several important

[66] It is common for researcher to use hierarchical cluster analysis to examine the most appropriate number of clusters and then use that information to run k-means clustering. The advantage of k-means procedure is that the algorithm iteratively estimates the cluster means and assigns each case to the cluster for which its distance to the cluster mean is the smallest. Therefore, the iteration process allows cases to be shifted from one cluster to another if they are no longer fit in the original cluster. The process continues until cluster means do not shift more than a given cut-off value or the iteration limit is reached. This is not possible for hierarchical procedure, i.e. once cases are grouped together they will remain in the cluster (Garson, n.d.; Norusis, 2005).

decisions on the procedure of the analysis must also be made, such as the standardisation of the included variables[67]; the clustering procedure to be used; and the optimal number of clusters (Norusis, 2005).

As the objective of this analysis is to group respondents based on their motivation when investing in Islamic funds, the four scaled items reflecting this aspect are important variables for the analysis (refer to Table 5.2). Additionally, as such decision is also believed to be influenced by religious factor; religion is also identified as an important grouping variable. However, being Muslim alone may not necessarily imply that the respondents will strictly comply with the *Shari'ah* principles in their investment decision. Therefore, the respondents' choice of investment, i.e. the percentage invested in Islamic funds from overall unit trust investment is an important variable in reflecting such commitment. As a result, four scaled items and two categorical variables are used to group the respondents with the aim of understanding the possible profile of the investors. Based on the above description, the two-step procedure is the most appropriate technique as it allows the use of categorical and continuous variables to be included in the analysis. By default, all variables included in the two-step procedure will be automatically standardised. Another interesting feature of this method is that the algorithm employed can automatically select the optimal number of clusters, either using the Schwarz Bayesian Criterion or the Akaike information criterion (Norusis, 2005). The validity and utility of the results can be determined based on several criteria. Among others, all clusters should have reasonable number of cases and the meaning of each cluster should be readily intuited from the constituent variables used to create the clusters. Additionally, the validity of the clustering results can be established through the verification of the expected relationships between the cluster memberships with other variables known from theory or prior research to correlate with the concept which clustering is supposed to reflect (Garson, n.d.).

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[67]Standardisation is very crucial for variables with different measured scales. This will allow all the variables contribute equally to the distance or similarity between cases in the analysis.

5.5.3 Exploratory Factor analysis

While cluster analysis seeks to group cases, factor analysis, on the other hand, examines the correlation between variables and group the variables based on their underlying factors. There are three situations where exploratory factor analysis are applied; to validate the factor structure as theorised by the researcher; to establish which factor structure best fit the data when there are more than one competing a priori understanding of the factor structure; and to explore the underlying factor structure from the variables when the latent construct are not known (Costello and Osborne, 2005). Additionally, the result of exploratory factor analysis is often used for further analysis.[68] As described by Costello and Osborne (2005), factor analysis is a complex statistical procedure which involves multiple steps and therefore requires important methodological consideration and decision making. As choices are made at each step of the analysis, inappropriate choices may lead to inaccurate results. Hence, it is important to review some methodological issues surrounding the technique and explore the best practices before employing it.

The methodological literature related to factor analysis differentiates between the exploratory factor analysis (EFA) and the Principal Component Analysis (PCA). While Principal Components Analysis (PCA) has been extensively used by researchers in various fields and frequently presented as factor analysis, "strictly speaking, PCA is not factor analysis" (Field, 2009). Perhaps, the method is popular due to the fact that it is the default procedure available in major statistical package like SPSS (Costello & Osborne, 2005), and the fact that the option of PCA is located within the factor analysis menu aggravates the confusion. Unlike Principal components analysis (PCA) which is primarily concerned with data reduction, Factor analysis depends on a reasonable underlying statistical model (Johnson and Wichern, 2002). Some authors may argue that

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[68] As summarised by Johnson and Wichern (2002), the goals of an exploratory factor analysis includes the following; to determine whether a smaller set of variables (underlying factor) exists that will explain the relationships between the original variables; to determine the number of the underlying factors; to interpret these factors; to evaluate the respondents with respect to these factors; and to use these new factors in other statistical analyses.

PCA and EFA often produce similar results (Field, 2009); this is not true in certain contexts. "When the goal of the analysis is to identify latent constructs underlying measured variables, it is more sensible to use EFA than PCA" (Fabrigar et al., 1999). In the context of this study, both instances where this analysis are applied require the validation of latent constructs or factors , and therefore, EFA procedure is believed to provide a more accurate results.[69]

Another critical step in conducting factor analysis concerns with the determination of the appropriate number of underlying factors in the analysis. The method widely used for this purpose is the Kaiser's criterion of Eigenvalue greater than 1. Recent methodological literature on factor analysis has questioned the wisdom of this approach. While it is quite appealing to use this rule as it provides a certain degree of objectivity and simplicity in determining the number of factors to be retained, it nevertheless creates some problems. For instance, while a factor with Eigenvalue of 1.01 is considered as a major factor, a component with Eigenvalue of 0.99 is excluded. Additionally, the use of this criterion has been demonstrated to lead to substantial over factoring and occasionally to under factoring (Fabrigar et al., 1999). On the other hand, some methodologists consider this rule as restrictive, and would accept any component with Eigenvalue greater than 0.7 (Johnson and Wichern, 2002). These issues have raised doubts on the reliability of the said rule and some have even claimed that the use of Eigenvalue is among the least accurate method to determine the number of factors in factor analysis (Costello & Osborne, 2005).

[69] In the context of the exploratory factor analysis, several extraction methods are available in SPSS. Nevertheless, two methods have been relatively popular and recommended in the literature; the Maximum Likelihood and Principal Axis Factoring. The Maximum Likelihood method provides several statistical measures that enable objective evaluation in determining the most appropriate number of factors to be retained for the final factor solution. However, Maximum Likelihood method requires that the variables included in the analysis to satisfy normality assumptions. In addition, some of the analyses required to determine the most appropriate number of factors are not available in common statistical packages and require manual calculation (Costello & Osborne, 2005). On the other hand, in cases where the variables included in the analysis do not satisfy the normality assumption, Principal Axis Factoring will be the most appropriate method (Costello & Osborne, 2005; Fabrigar et al., 1999; Johnson and Wichern, 2002).

On the other hand, recent literature on exploratory factor analysis has emphasised on the utility of conducting multiple factor analysis with different number of factors extracted as a basis in choosing the most appropriate structure of the data. According to Darlington (1997), Kaiser's major justification for the Eigenvalue greater than 1 rule was that it "matched pretty well the ultimate rule of doing several factor analyses with different numbers of factors, and seeing which analysis made sense." As he argued, the procedure of running multiple factor analysis with different number of factors are much easier now as compared to a generation ago, and render the rule of strictly determining the number of factors to retain using Eigenvalue greater than 1 approach (as a substitute for the ultimate rule) as obsolete. The desirability of conducting multiple factor analysis in order to determine the best structure that fits the data is also supported by other methodologists (Fabrigar et al., 1999; Johnson and Wichern, 2002; Costello and Osborne, 2005). While Darlington (1997) recommends the use of the Eigenvalue greater than 1 rule as the reference point for the number of factors in conducting the multiple factor analysis, Costello and Osborne (2005) favour the use of the scree test. In addition to that, as researchers employing exploratory factor analysis frequently have some a priori understanding on the underlying theoretical structure of the variables, they also recommend the use of this as a point of reference. Multiple factor analysis are then performed by setting the number of factors to retain based on the reference point; the predicted factor structure; the number suggested by the scree test (if it is different from the predicted factor structure); and at numbers below and above those numbers. For example, if the predicted number of factors is six and the scree test suggests five, multiple factor analysis complete with rotation are performed by setting the number of factors extracted at four, five, six, and seven.[70] The post rotation results of the four models are then analysed and the one with the "most appealing"[71] or "cleanest"[72] factor

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[70] This example is based on the choice of the reference point favoured by Costello and Osborne (2005). If the Eigenvalue greater than 1 rule is used here as recommended by Darlington (1997), the same procedure will be employed with multiple factor analysis being performed with the numbers of factors to be retained are set at and around the number suggested by that criterion.

[71] According to Darlington (1997), the post rotation Eigenvalue of the factors can validate the significance of each factor (post rotation Eigenvalue must be greater than 1).

[72] According to Costello & Osborne (2005), the cleanest factor structure that provides the best fit to the data is when most measured variables within each factor have loadings above .30, no or few variables cross

structure is chosen as the most appropriate model to the data (Darlington, 1997; Costello and Osborne, 2005).

In order to aid the interpretation of the exploratory factor analysis, the results are commonly rotated with the aim of reaching the most simple factor structure. There are two methods available for rotation of factors, orthogonal and oblique rotation. The former rotates on a perpendicular manner and ensures the factors produced will be uncorrelated to each other, while the latter allows the factors to correlate between themselves (Hair et al., 1998). While there are a number of techniques within each of the rotation method, the most commonly used rotation technique is the varimax for the orthogonal rotation and direct oblimen for the oblig rotation method. One of the advantages of using orthogonal rotation particularly the varimax approach is the claim that the method will provide the simplest structure for the factor matrix (Nunnelly, 1978 cited by Fabrigar et al., 1999). However, authors like Fabrigar et al. (1999) and Castello and Osborne (2005) have argued otherwise; in many instances, oblig rotation has produced the simplest structure for the factor matrix. Perhaps, a more important consideration whether to use orthogonal or oblig rotation depends on the theoretical understanding of the factors concerned. In the case that there is no theoretical justification to expect that the underlying factors would be correlated, orthogonal rotation method will be appropriate, and if it is otherwise, oblig rotation method would be more suitable. In this context, numerous authors have argued that many variables in the real world are in some way related to each other, especially if the variables included are related to attitudes and perceptions. Therefore, based on the nature of the variables used in this research, oblig rotation is believed to be the appropriate rotation method.

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loads with other factors, and no factors with fewer than three variables. Nevertheless, Johnson and Wichern (2002) consider factor with two items as acceptable if the two items load highly with the factor and do not cross load with other factors.

5.5.4 Ordinal Regression Analysis

One of the most important aspects to the empirical component of this research is to determine the factors that influence the level of support and sacrifice investors' willing to commit for social responsibility dimension in Islamic investment. In this context, the most extensively used method to examine the influence of multiple predictor variables on the interest observed outcome is the Regression analysis. However, standard linear regressions require that the variables included in the analysis to meet certain assumptions, One of which that the dependant variable must be a continuous variable (Borooah, 2002). This requirement can be difficult to be met in various situation of social research as many outcome variable of interest are discrete and ordinal in nature (Norusis, 2004). While many studies solve this by giving scales on the ordered categories of the dependent variable and treat the ordinal data as interval, this poses serious inference problems (Borooah, 2002). Therefore, when the dependant variable is discrete and consisting of two or more outcome categories, maximum likelihood techniques such as logit and probit are generally more efficient (Borooah, 2002). There are a number of analysis that can be employed using these models, such as the binomial or multinomial regressions, however they do not provide the most efficient results as the ordered nature of the outcome variables is ignored (Norusis, 2004). As the dependant variables used to measure the level of willingness of respondents to incorporate social responsibility criteria in Islamic investment are ordinal in nature, the ordinal regression procedure is considered to be the most efficient method for the analysis.

There are five different functions available in SPSS in estimating ordinal regressions. However, as mentioned above, it is claimed that the most commonly used and appropriate methods are the logit and probit functions. The key difference between the two lies on the theoretical distribution of the error terms, with the former assumes a logistic while the latter assumes a normal distribution. In practice, it is difficult to justify the selection of one over the other (Borooah, 2002). Therefore, this study will focus on the use of the ordinal logistic regression as the required assumption on the underlying distribution is less stringent. Nevertheless, for additional validity of the estimated models, the ordered probit regressions are also performed and the results are provided in the appendix.

Basically, the ordinal regression technique is an extension of the basic binary regression with some modifications on the underlying probabilities in order to incorporate the ordinal nature of a dependent variable. Instead of considering the probability of an individual event (as in the case of a binary regression), the model considers the probability of that event and all events that are ordered before it (Norusis, 2004). This is why the model is also called the cumulative logit model (Chen and Hughes, 2004). When the ordinal regression is estimated for a model, it is assumed that the relationships between the explanatory variables and the logits are the same for all the logits; i.e. the results are a set of parallel lines - one for each category of the dependent variable (Norusis, 2004). In other words, the slope coefficients of the model are the same across all the ordered categories of the dependant variable. Given this desirable feature, there will only be a single logit model regardless of the number of categories of the dependent variable, with only one set of coefficients for the explanatory variables. This would also mean that the direction and magnitude represented by the parameters' coefficients will be the same across all levels of the ordered categories of the dependent variable.[73] That is why the parallel line assumption is also known as the proportional odds assumption (UCLA-ATS, n.d.).[74]

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[73] To illustrate this point, consider a regression model with income and age as continuous explanatory variables and individuals' risk appetite in investment as the ordinal dependent variable with three ordered categories; low, average and high. If the result shows a significant coefficient of .05 for income, it can be said that for a one unit increase in income, there will be a .05 increase in the ordered log odds of being in a higher level of risk appetite category, given all of the other variables in the model are held constant (e.g. age). In this case, the increase in the log odds will be the same for all the categories of the risk appetite, i.e. whether going from low to average or from average to high.

[74] It is critical that this assumption holds in the analysis for the model to be valid. SPSS uses a chi-square test to check the null hypothesis that there is no difference in the coefficients between models (the parallel lines for each category of dependent variables). The parallel line assumption is assumed to hold if the test returns a non-significant result. If this is not the case, the ordinal regression model should not be carried out and other models such as the multinomial regression should be considered for the analysis. See Borooah (2002) for details.

Interpreting the results of the ordinal regression is slightly different from the usual interpretation of the standard linear regression method. One important point to note is that the outcome of the ordinal regression model is not the predicted values of the dependent variable; rather it is the probability of the occurrence of the dependant ordered categories. Therefore, a positive coefficient for a continuous explanatory variable means that as the values of the variable increase, so does the likelihood of being at a higher level on the ordinal dependent variable, and vice versa. For a dichotomous variable such as gender (e.g. male=1 and female=2, female being the reference category), a positive coefficient of the variable means that male is more likely to be at a higher level on the ordered dependent as compared to female. Likewise, for multinomial variables, a positive coefficient for a particular category means that the likelihood of being at a higher level on the ordered dependent is higher for that group as compared to the reference category.[75]

5.6 SUMMARY AND CONCLUSION

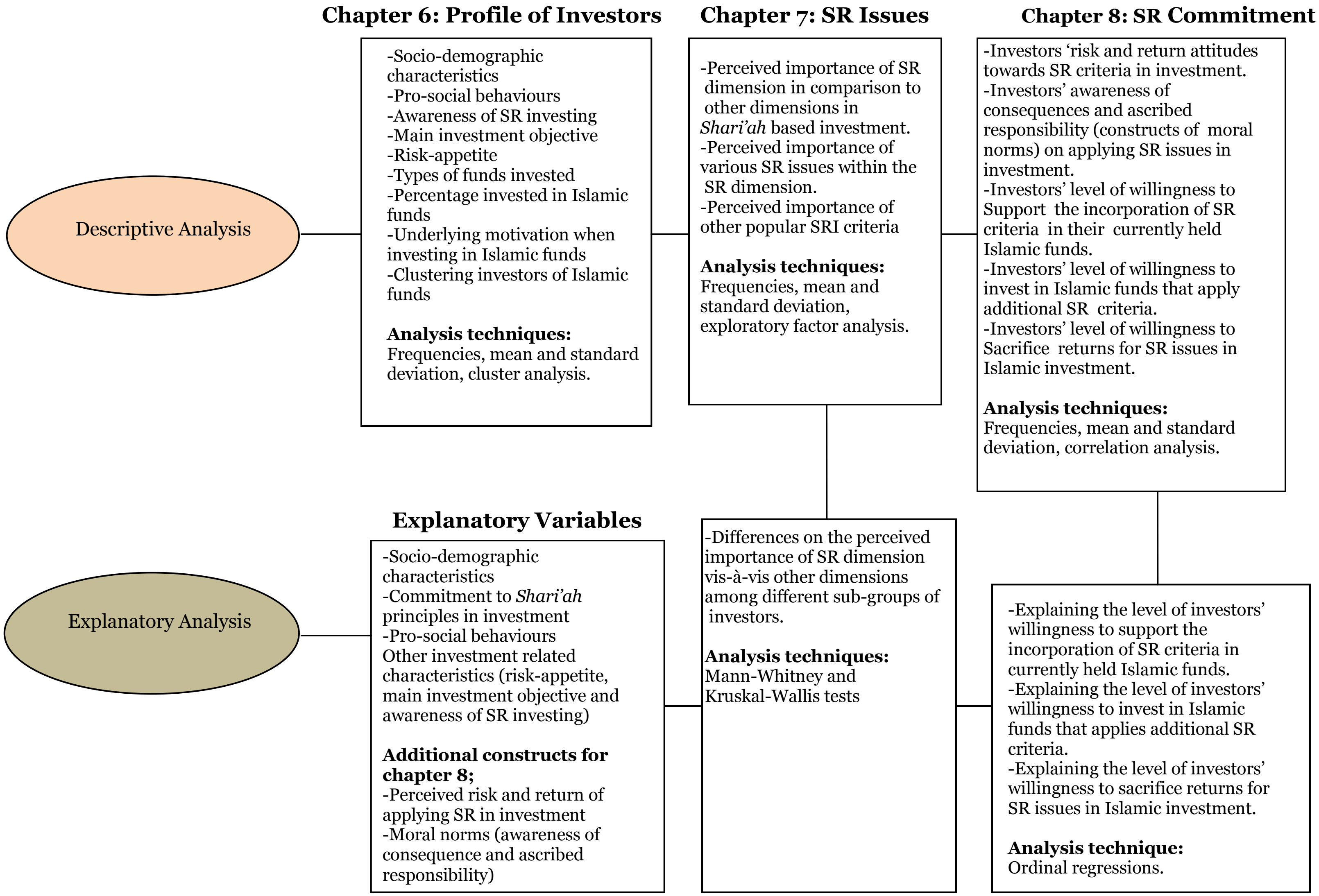
This chapter has discussed various components related to the research framework and methodology employed in this study. Since the research deals with a new area of investigation, the earlier part of the study adopts an exploratory strategy where relevant information, theories and practices of SRI and Islamic investment are explored in detail. This has provided a firm basis for further investigation in the form of descriptive and explanatory analysis of the topic, where important variables have been identified and incorporated in the survey instrument. Given the nature of the research which requires the collection of data from large sample of investors of Islamic funds on their perceptions, attitudes and behaviours on the incorporation of social responsibility dimension in Islamic investment, a cross-sectional data utilising questionnaire instrument is deemed as the most appropriate method of data collection. The chapter has also highlighted the

[75] Multinomial variables refer to categorical variables with 3 or more categories (k number of categories). One of the categories will be chosen as the reference category, and the variable will be entered into the regression model as k-1 separate dichotomous variables. For instance, respondents age may be grouped into young=1, middle age=2, and elderly=3, and if the elderly is chosen as the reference category, a positive parameter of age=1 (young) means that compared to the reference category (age=3, i.e. the elderly), being young is associated with higher probability of being at a higher level of the ordered dependant category.

sampling procedure and the data collection process adopted in this study. Finally, the statistical techniques most appropriate to meet the research objectives are also discussed.

Based on the three research questions identified earlier (section 5.1), the analysis of this research will be presented in the preceding three chapters, chapter 6, 7 and 8, with each chapter aims to address each of the research questions. In summary, Figure 5.5 provides the road map for the ensuing three empirical chapters.

Figure 5.5: Road Map for the Empirical Chapters



CHAPTER 6

PROFILE ANALYSIS OF INVESTORS OF ISLAMIC FUNDS

6.1 INTRODUCTION

This chapter presents the respondents' profile analysis, which constitutes the investors of Islamic funds in Malaysia. Such an analysis will provide important information about the relevant characteristics and background of the respondents in order to understand their perceptions, attitudes and behaviours on various aspects of social responsibility issues and commitment in Islamic investment. The chapter starts by presenting the socio-demographic characteristics of the sample, followed by some key information related to the investment decision of the respondents. It then continues with the description on the investors' level of awareness of investing using social, ethical and environmental (SEE) issues, and the information related to various pro-social activities they consistently participate both at the individual and collective level. Subsequently, the chapter proceeds to examine the respondents' motivation to invest in Islamic funds. As shown in SRI literature, investors who invest in SRI related investment can come from various groups and therefore, may differ in their motives. In view of this, a cluster analysis is employed to investigate a possible segmentation of the respondents and explore the differences in the profile of each cluster. By segmenting the participants into different distinct clusters, a clearer understanding of the different types of investors investing in Islamic funds can be achieved. Consequently, this may have significant influence on their perceptions, attitudes and behaviours towards social responsibility issues and commitment in Islamic investment, which is the primary objective of the study.

6.2 RESPONDENTS' SOCIO-DEMOGRAPHIC PROFILE

As described in Chapter 5, the study involved a survey of investors of Islamic funds from 3 fund management companies; Public Mutual Bhd (215 respondents), CIMB-Principal

Asset Management Bhd (141 respondents) and Prudential Fund Management Bhd (95 respondents), with a total of 451 respondents. As depicted in Table 6.1, male respondents formed 58.1 percent of the total sample while female respondents were 41.9 per cent. The proportion of male and female respondents across different demographic variables closely approximates the total sample proportion. Apart from the responses received from the ethnic Malays, which formed about 80 percent of the total respondents, the survey also included a total of 73 (16.2%) respondents from the Chinese ethnic and 17 (3.8%) from the Indian ethnic. In terms of religion, a total of 363 (80.7%) respondents were Muslims, 43 (9.6%) were Buddhist, 29 (6.4%) were Christians while 11 (2.4%) were Hindus. A cross tabulation of ethnicity by religion (Appendix 6A) showed that all Malay respondents were Muslim, while another 3 Muslim respondents came from the Indian ethnic. As the distribution of investors of Islamic funds between ethnic and religion in the Malaysian market is not known, direct comparison between the sample and the population cannot be made. Nevertheless, the participation of investors from other faiths contributes to a comprehensive outlook of the study and is representative of the actual population. On another note, it appears that Islamic investment products are also marketable and consumed by fellow Malaysians from other faiths.

The bulk of the investors (47%) were between the age group of 31–40, followed by the age group of 41-50 (26.6%) and the age group of 21-30 (20%). Relatively few were either above 50 (5.3%) or 20 years and below (1.1%). On the other hand, around 70 percent of the respondents were married, while 26 percent were single, and another 3.4 percent were either divorcees or widows. A cross-tabulation of age by marital status (Appendix 6B) showed more than 80 percent of the married respondents were in the age group of 31-50 years, while more than half of the single respondents were under the age of 30. Thus, this would suggest that the findings will largely represent the middle-aged married investors.

Table 6.1: Distribution of Respondents by Fund Management Company, Ethnicity, Religion, Age and Marital Status (Cross Tabulation by Gender)

		Gender		Total
		Male	Female	
Company Name	CIMB-Principal Asset Management	90 (63.8%)	51 (36.2%)	141 (31.3%)
	Prudential Fund Management	50 (52.6%)	45 (47.4%)	95 (21.1%)
	Public Mutual	122 (56.7%)	93 (43.3%)	215 (47.7%)
Ethnicity	Malay	208 (57.8%)	152 (42.2%)	360 (80.0%)
	Chinese	45 (61.6%)	28 (38.4%)	73 (16.2%)
	Indian	9 (52.9%)	8 (47.1%)	17 (3.8%)
	Others	-	-	-
Religion	Islam	211 (58.1%)	152 (41.9%)	363 (80.7%)
	Christianity	15 (51.7%)	14 (48.3%)	29 (6.4%)
	Buddhism	26 (60.5%)	17 (39.5%)	43 (9.6%)
	Hinduism	7 (63.6%)	4 (36.4%)	11 (2.4%)
	Others	2 (50.0%)	2 (50.0%)	4 (.9%)
Age	20 and below	3 (60.0%)	2 (40.0%)	5 (1.1%)
	21-30	48 (53.3%)	42 (46.7%)	90 (20.0%)
	31-40	123 (58.0%)	89 (42.0%)	212 (47.0%)
	41-50	70 (58.3%)	50 (41.7%)	120 (26.6%)
	Above 50	18 (75.0%)	6 (25.0%)	24 (5.3%)
Marital Status	Single	62 (54.9%)	51 (45.1%)	113 (26.0%)
	Married	194 (63.2%)	113 (36.8%)	307 (70.6%)
	Divorced/Widowed	2 (13.3%)	13 (86.7%)	15 (3.4%)

Table 6.2 shows that the responding investors can be considered to be highly educated. Compared to a mere 8.3% who only completed primary or secondary schooling, a total of 153 respondents or 34.5% held either a college diploma, matriculation or A-level certificates, while a total of 254 or 57.2 percent held at least a bachelor degree. This

would provide some confidence on the quality and reliability of the responses provided in the survey.

Table 6.2: Distribution of Respondents by Highest Education, Monthly Income, Types of Occupation and Types of Organisation (Cross Tabulation by Gender)

		Gender		Total
		Male	Female	
Highest Education	Primary/Secondary School	14 (37.8%)	23 (62.2%)	37 (8.3%)
	Certificate/Diploma/Matriculation/A-Level	85 (55.6%)	68 (44.4%)	153 (34.5%)
	Bachelor (First Degree)	104 (60.5%)	68 (39.5%)	172 (38.7%)
	Professional/ Postgraduate (Master or PhD)	56 (68.3%)	26 (31.7%)	82 (18.5%)
Monthly Income	RM1500 and below	11 (33.3%)	22 (66.7%)	33 (7.3%)
	RM1501-RM3000	53 (58.2%)	38 (41.8%)	91 (20.3%)
	RM 3,001 - RM 5,000	75 (50.3%)	74 (49.7%)	149 (33.2%)
	RM 5,001 - RM 10,000	66 (66.0%)	34 (34.0%)	100 (22.3%)
	RM 10,001 - RM 20,000	38 (69.1%)	17 (30.9%)	55 (12.2%)
	More than RM 20,000	18 (85.7%)	3 (14.3%)	21 (4.7%)
Types of Occupation	Professionals/Technical/Related	102 (65.4%)	54 (34.6%)	156 (34.6%)
	Administrative/Managerial	58 (48.7%)	61 (51.3%)	119 (26.4%)
	Clerical/related	8 (32.0%)	17 (68.0%)	25 (5.5%)
	Sales/Services	33 (51.6%)	31 (48.4%)	64 (14.2%)
	Businessman/Merchant	47 (73.4%)	17 (26.6%)	64 (14.2%)
	Operators/Labourers	5 (71.4%)	2 (28.6%)	7 (1.6%)
	Retired	3 (75.0%)	1 (25.0%)	4 (.9%)
	Others	6 (50.0%)	6 (50.0%)	12 (2.7%)
Types of Organisation	Government/Government Agency	30 (47.6%)	33 (52.4%)	63 (14.1%)
	Government Linked Corporation	26 (56.5%)	20 (43.5%)	46 (10.3%)
	Multi-National Company	54 (62.8%)	32 (37.2%)	86 (19.2%)
	Public Listed Company	43 (56.6%)	33 (43.4%)	76 (17.0%)
	Large Company	25 (62.5%)	15 (37.5%)	40 (8.9%)
	Medium-sized Company	14 (53.8%)	12 (46.2%)	26 (5.8%)
	Small-sized company	11 (52.4%)	10 (47.6%)	21 (4.7%)
	Self employment/Own Business	56 (66.7%)	28 (33.3%)	84 (18.8%)
	Others	2 (33.3%)	4 (66.7%)	6 (1.3%)

Based on the official definition of income group in Malaysia, it is quite apparent that the respondents represented largely middle and higher income earners. The largest group of respondents (33.2 %) earned between RM3001-RM5000 monthly, while another 20.3 percent earned between RM1501-RM3000. These two income groups (RM1501-5000), which represented the middle income earners, comprised of 53 percent of the total sample. The second largest group with 22.3 percent of the respondents came from those earning RM5001-RM10000, while 12.2 percent were from RM10001-RM20000 and another 4.7 percent earned more than RM20000. Therefore, the high income earners formed about 39 percent of the total respondents. Respondents from the lower income group (RM1500 and below) only made up less than 8 percent of the sample. This observation is far removed from the pattern of income distribution of Malaysian households which constitutes around 20 percent from lower income, around 65 percent from middle income, while only around 13 percent from higher income group. Such distribution of income group is somewhat expected as investment originates from surplus funds available to individual and such surpluses is likely to be available to those having higher income.

The composition of respondents' occupational background provides another important insight into the socio-demographic profile of the sample. Table 6.2 shows that more than 60 percent of the respondents worked either at the professional/technical related level (34.6%) or administrative/managerial level (26.4%). This explains the high level of income earned and the educational credential held by the bulk of the respondents. Other types of occupation were Businessman/merchant (14.0%), sales/services (13.3%), and clerical/related (5.5%). Around a quarter of the respondents worked either with government/government agency (13.8%) or Government Linked Corporation (10.3%). Quite a sizeable number of respondents were the employees of Multinational Corporations (19.2%) and Public Listed Companies (16.7%). Other respondents worked with large companies (8.3%), medium-sized companies (5.6%), small-sized companies (4.7%), while the remaining substantial percentage of respondents (18.5%) were self-employed or run their own business.[76] It appears that the findings of this study will be influenced by the perceptions, attitudes and behaviours of highly educated, middle and high income investors with professional/technical related and administrative/managerial occupation.

6.3 RESPONDENTS' INVESTMENT RELATED CHARACTERISTICS

It is also important to understand the characteristics of the respondents with respect to their investment profile. According to Table 6.3, the two most popular main investment objectives of unit trust funds among the respondents were to save for retirement (38.6%) and achieve financial freedom (25.5%). While unit trust investment is traditionally linked to retirement plan, the considerable percentage of respondents who identified 'achieving financial freedom' as their main investment objective signifies a new trend and outlook of the investors. Not only that it implies the high level of financial sophistication possessed by these investors, it also suggests that these investors use unit trust investment as part of a financial planning package. Other objectives which were less popular among investors include earning income from dividends (12.0%), saving for children's education, (8.2%), and protecting savings from the effects of inflation (7.8%), while saving to buy properties and setting-up own business were considered to be the main investment objective by only 4.7 percent and 1.6 percent of the respondents respectively.

[76] There are a number of methods to identify the size of a company ranging from the number of workers the company employs, its value of total assets or the annual turnover. In order to facilitate easy responses from the respondents, the questionnaire uses the simple method of the number of workers to reflect the size of the company, with large company having more than 250 workers, medium-sized company having between 51 to 250 workers, and small-sized company having 50 or less workers (refer to the questionnaire in Appendix 5A). This is based on the definition used by the European Union and followed (with minor differences) by other countries in the world. Public listed company is put in a different category regardless of its size since the company is monitored by the Securities Commission and the stock exchange, and therefore need to comply with various reporting and operational standards as well as other initiatives such as the CSR framework introduced by the Malaysian bourse.

Table 6.3: Respondents' Main Investment Objective

Main Investment Objective	No. of Respondents	Percent	Investment Horizon
To save for retirement	174	38.6	Long-term (46.8%)
To save for children's education	37	8.2	
To save for buying properties (house, land, etc)	21	4.7	Medium-term (31.8%)
To save for setting-up own business	7	1.6	
To achieve financial freedom	115	25.5	
To protect savings from the effects of inflation	35	7.8	Short-term (21.4%)
To earn income from dividends	54	12.0	
Others	7	1.6	
Total	450	99.8	
No Response	1	.2	
	451	100.0	

It is also common to associate unit trust funds as an instrument for a medium to long term investment. In this context, respondents' investment horizon can be estimated from the nature of their main investment objective.[77] Based on the categorisation shown in Table 6.3, it appears that this proposition can be supported. Almost 80 percent of the investors had either a long term horizon (46.8%) or a medium term horizon (31.8%).

From the responses shown in Table 6.4, investors participated in this study were generally having high risk-return attitude with about 31.3 percent described themselves as taking high risk in expecting high returns while another 40.6 percent described themselves as taking moderately high risks in anticipating moderately high returns. Combined together, this represented more than 70 percent of the total respondents. Around 20 percent of the respondents considered themselves as having average risk-return attitude, while only 6.2 percent of the respondents having low risk-return attitude when making investment. This is not surprising as unit trust investment, which

[77] It is a common practice for unit trust consultants to gather important information about the investor's goals, risk-return appetite, current financial standing and other relevant characteristics before coming up with the investment proposal. In this context, if the investor is not sure of his or her investment horizon, the investment objective is commonly used to reflect this and therefore help the consultants to match the investor with the right types of funds. The common categorisation of investment horizon as reflected by the investor's investment objective is shown in Table 6.3.

predominantly involved portfolio of equity investment, is considered to be a relatively high risks investment as compared to other asset classes.

Table 6.4: Respondents' Level of Risk-Return Attitude

	No. of Respondents	Percent	Risk-return Attitude
I take low risk expecting to earn low returns	11	2.4	Low (6.2%)
I take moderately low risk expecting to earn moderately low	17	3.8	
I take average risks expecting to earn average returns	94	20.8	Average (20.8%)
I take moderately high risks expecting to earn moderately high returns	182	40.4	High (71.9%)
I take high risks expecting to earn high returns	142	31.5	
Total	446	98.9	
No Response	5	1.1	
	451	100.0	

Similar assessment on the risk-return attitude of the respondents can also be derived from their actual investment pattern. The respondents were asked on the types of funds that they are currently holding. The types of funds listed in the survey question include equity, balanced, bond, fixed income, money market, real estate, and capital protected funds. As seen from Table 6.5, equity funds were the most popular instruments, followed by balanced funds. Both types of funds enable full or partial exposure in the equity or stock market and therefore, provide greater opportunity for high returns, but at the same time are faced with greater risks of market volatility. Other popular types of funds included fixed income fund, money market funds, capital protected funds, Bond funds while Real Estate Investment Trust funds was the least popular. The observation from Table 6.5 concerning the actual investment behaviour of the respondents which is dominated by equity related assets is consistent with the self-reported risk-return attitude observed earlier in Table 6.4, and hence provides confidence on the accuracy of the responses.

Table 6.5: Types of Funds Invested by the Respondents

Islamic Funds			Conventional Funds		
Type	N	Percent	Type	N	Percent
Equity	364	80.7	Equity	104	23.1
Balance	128	28.4	Balanced	42	9.3
Bond	27	6.0	Bond	19	4.2
Fixed Income	48	10.6	Fixed Income	25	5.5
Money Market	35	7.8	Money Market	15	3.3
Capital Protected	22	4.9	Capital Protected	25	5.5
Real Estate Investment Trust	8	1.8	Real Estate Investment Trust	6	1.3

In addition to the level of diversification offered by the professionally managed unit trust fund within a given portfolio, considerable number of investors attempted to improve their position by investing in more than one type of fund that represents different asset classes and risk exposure. Evidence of this behaviour can be observed from Table 6.6. While some investors went to the extent of investing in a total of eight different types of funds to achieve this goal, the bulk of the respondents (30%) were satisfied with having only two types of funds, while around a half of the respondents maintained their investment in just one type of fund. (In the analysis, the series of Islamic and conventional funds are treated as different).

Table 6.6: Diversification between Different Types of Funds

No. of different types of funds invested	N	Percent
1	218	48.3
2	135	29.9
3	30	6.7
4	22	4.9
5	12	2.7
6	11	2.4
7	5	1.1
8	5	1.1

Another important finding from the survey is regarding the proportion of funds the respondents invested in Islamic funds in comparison to the overall unit trust investment. In the context of Muslim investors, this will reflect their commitment in observing the *Shari'ah* principles in their investment decision. As shown in Table 6.7, slightly more than half of the respondents held all of their unit trust investment in Islamic funds, while the remaining had varying percentages of their overall investment held between Islamic and conventional funds. A cross tabulation of religion by the percentage invested in Islamic funds (see Appendix 6C) reveals that almost all respondents who held all of their unit trust investment in Islamic funds were Muslims. However, this was not the case for more than a third of the Muslim investors as they held different proportion of their unit trust investment in conventional funds. This suggests that while religion (Islam) may be a strong factor in guiding the investment decision for some Muslim investors, it does not provide sufficient influence over others.

Table 6.7: Percentage Invested in Islamic Funds

Percentage Invested in Islamic Funds	No. of Respondents	Percent
Less than 20%	38	8.4
20-39%	54	12.0
40-59%	49	10.9
60-79%	49	10.9
80-99%	29	6.4
100%	229	50.8
Total	448	99.3
No Response	3	.7
	451	100.0

Another variable identified earlier as important to this study is the level of awareness of investing based on social, ethical and environmental (SEE) issues. As previously discussed in Chapter 2, ethical and SRI has been rapidly expanding in the Western and developed market, and currently becoming more popular in the Eastern and emerging economies. These funds incorporate various social, ethical and environmental criteria in determining their investment portfolio. Respondents were surveyed on their awareness on the practice of such funds, and the result is shown in Table 6.8. Interestingly, almost 30 percent of the respondents described themselves either 'very' familiar or 'quite' familiar with SRI funds. The bulk of the respondents (41%) had at least some idea of the nature of SRI funds, while another 12.9 percent had at least heard about such funds. Despite the fairly encouraging results on the level of SRI awareness among the respondents, there remain some who had never heard of such practice. It will be interesting to examine whether the varying degrees of SRI awareness have influence on the respondents perceptions, attitudes and behaviour on various aspects of social responsibility issues and commitment in Islamic investment in further analysis of this study.

Table 6.8: Respondents' Awareness of SRI Funds

Level of Awareness	No. of Respondents	Percent
I have never heard of them.	70	15.5
I have heard of them but know nothing about them.	58	12.9
I know only a little about them.	185	41.0
I am quite familiar with them	89	19.7
I am very familiar with them.	41	9.1
Total	443	98.2
No Response	8	1.8
	451	100.0

6.4 RESPONDENTS' PRO-SOCIAL BEHAVIOURS

Habit or lifestyle has been one of the important components in the literature related to pro-social or pro-environmental behaviour. Even in SRI literature, past studies have established that investing in SRI were considered as part of an overall socially responsible lifestyle (Rosen et al, 1991; Lewis & Mackensie, 2000). In view of this important element especially in the context of how such behaviour may influence the respondents' perceptions, attitudes and behaviours towards the application of social responsibility issues in Islamic investment, the respondents were asked on the pro-social activities that they participated consistently in the past six months. Regardless of the amount or frequency of the activities, participating consistently in these activities reflect the respondents' habitual commitment or part of their lifestyle. As previously highlighted, this study included socially responsible activities at both individual and collective level. Table 6.9 presents the frequencies of the pro-social activities as reported by the respondents. The most popular pro-social activities participated consistently among the respondents were donating money to charities, local community or NGOs and recycling household wastes with a total of 59.2 percent and 51.0 percent respectively. This was followed by purchasing environmentally friendly products (41.3%), boycotting products from companies or countries with poor social or environmental records (39.1%), while volunteering time for charities or social work observed the lowest count with only 86 respondents or 19.0 per cent from the total sample. The findings provide some interesting facts of the respondents. Firstly, it is expected that giving donation will be the socially responsible behaviour most commonly practiced since Malaysians by large is considered to be quite generous in giving donations. However, despite being the most popular activity, the percentage is relatively modest at around sixty percent, given the fact that the respondents are relatively well off (middle and high income earners). Secondly, awareness and the practice of socially responsible behaviours such as recycling, purchasing environmentally products and boycotting products or countries with poor social and environmental records are quite encouraging. Thirdly, volunteerism is still at a very low level with less than 20 percent of the respondents participate in this activity. Perhaps, this reflects the lifestyle of most modern city dwellers that are extremely occupied with work.

Table 6.9: Various Pro-Social Activities Consistently Participated by the Respondents

Pro-Social Activities	Frequencies	Percentage
Donate money to charities, local community or NGOs	270	59.9
Volunteer time for charities or social work	86	19.1
Recycle household wastes (newspapers, bottles, etc)	231	51.2
Boycott products of companies or countries with poor social or environmental records	178	39.5
Purchase environmentally friendly products	187	41.5
Involve in the activities of the local community	154	34.1
Involve in the activities of social groups or NGOs	72	16.0
Involve in the activities of pro-environmental organisations	39	8.6
Involve in the activities of consumer associations	49	10.9

Looking at the collectively oriented pro-social behaviours, it was apparent that participation in these activities was consistently low except for the involvement in the activities of the local communities with a total of 154 or 34.1 percent of the respondents. This was followed by involvement in the activities of social groups or NGOs (16.0%), and activities of consumer associations (10.9%), while the involvement in the activities of pro-environmental organisations recorded the lowest participation with only 39 respondents or 8.6 per cent. Despite the fact that pro-environmental behaviour at the individual level is quite encouraging, e.g. recycling waste and purchasing environmentally friendly products, this has still not translated into the involvement in a more collectively oriented effort towards promoting pro-environmental causes.

As pro-social behaviour will be used as part of explanatory variables on various aspects of social responsibility issues and commitment in this study, it is interesting to examine the overall level of participation of the investors in these activities. Table 6.10 presents the level of participation of the respondents in the socially responsible behaviour. In the context of the individually oriented behaviour, almost 80 percent participates between one and three activities with a median of 2 and a mean of 2.1. As anticipated earlier, the results for the collectively oriented behaviour are less encouraging with a mode of 0 and a mean of 0.66. More than half of the respondents were not involved in any of the activities, and out of those who did, around two-third of them only participated in one activity. As habit and lifestyle have been shown in previous studies to have significant influence on the attitude and behaviour of individuals, it is interesting to see whether such an influence hold true for investors of Islamic funds on the issue of incorporating social responsibility criteria in Islamic investment.

Table 6.10: Level of Participation in Individually and Collectively Oriented Pro-Social Activities

Level of Participation	Individually Oriented Pro-Social Activities			Collectively Oriented Pro-Social Activities		
	N	Percent	Cumulative Percent	N	Percent	Cumulative Percent
0	28	6.2	6.2	243	53.9	53.9
1	134	29.7	35.9	136	30.2	84.0
2	129	28.6	64.5	51	11.3	95.3
3	95	21.1	85.6	8	1.8	97.1
4	50	11.1	96.7	13	2.9	100.0
5	15	3.3	100.0			

6.5 MOTIVATION TO INVEST IN ISLAMIC FUNDS

As previously discussed in Chapter 2, investors who invest based on social responsibility criteria can come from various backgrounds, and may often have differing motives when making SRI investment. For instance, value-based investors commit to align their investment with their personal values or religious belief. In doing so, some of these investors choose to distance themselves from investing in activities that contradict their values. Others consider the avoidance strategy as insufficient and channelled their investment in a way that can promote positive impact on the society or environment. It has also been established that SRI investors may hold both SRI and non-SRI investments. Some consider such behaviour as a way to cover the feeling of guilt arising from other 'unethical' economic pursuit and lifestyle, while others see that SRI investment as part of a component of a diversified portfolio of overall investment. This entails that the principle of diversification, whether as a mean of freeing the feeling of one's guilt, or as a component of one's diversified portfolio, can be an important element in the investment decision making process. The fact that SRI related investments can provide competitive or even higher returns may well mean that there can be some group of investors who invest with purely financial concern without sharing the SRI cause.

In brief, we can have at one end of the spectrum investors who are highly committed to the extent that they are willing to sacrifice financial return to achieve their cause, while at the other extreme, there are some investors who use social responsibility criteria as a mere instrument to seek investment prospect with higher financial returns. Therefore, it is important to understand the investors' underlying motivation with respect to their investment decision in order to have an accurate insight to their investment behaviour. As highlighted in the literature of SRI (Nilsson, 2009); "when treating all socially responsible investors as one group, it becomes difficult to draw conclusions about the behaviour, since the reason that the behaviour is performed is not known."

Similarly, it cannot be assumed that all investors of Islamic funds have homogeneous motive. For instance, while complying with the injunction of the religion (Islam) could be an important motivation, it has been shown earlier (Table 6.1 and Appendix 6C) that investors of other faiths also invest in Islamic funds. In fact, a considerable number of Muslim investors also hold some proportion of their overall unit trust investment in conventional funds. Therefore, it is imperative to understand the underlying motivation of the participating investors with respect to their decision to invest in Islamic funds, as this could have significant influence towards their perceptions, attitudes and behaviours related to various aspects of social responsibility issues and commitment in Islamic investment. For example, those investing in Islamic funds because they share its ethical principles would likely to have different perspective and attitude towards social responsibility issues as compared to those who just in it for the benefit of diversification or the financial returns.

Based on the literature of SRI and Islamic investment, four basic motives are listed in the questionnaire to understand the underlying motivation of the investors. Respondents were asked to rate the importance of each when they decide to invest in Islamic funds. Table 6.11 presents the frequencies, means and standard deviations of the four basic motives.

Table 6.11: Respondents' Underlying Motivation When Investing in Islamic Funds

Items	Not Important	Neutral	Important	Mean	Std. Deviation	N
I want to earn *halal* returns.	43 (9.7%)	49 (11.0%)	355 (79.4%)	4.293	1.0742	447
I want to diversify my investment with conventional funds.	152 (36.1%)	89 (21.1%)	180 (42.8%)	2.988	1.3723	421
I invest because it gives high returns.	14 (3.2%)	80 (18.3%)	343 (78.5%)	4.096	.8459	437
I want my investment to be used in economic activities that have positive impact to the society.	21 (4.8%)	107 (24.3%)	313 (71.0%)	3.952	.8893	441

By looking at the standard deviation of the four items (Table 6.11), it can be observed that the first two items seemed to have greater dispersion as compared to the other two. As we have seen in previous analysis, the respondents comprised of various ethnic and religious groups, including the non-Muslims, and these investors held varying proportion of their overall unit trust investment in Islamic funds. In view of this, earning *halal* returns, which basically reflects the religious motive of Muslim investors will not be shared by investors from other faiths. Similarly, while some investors would consider diversification benefit between conventional and Islamic funds as important in their investment decision, those investors who strictly commit to *Shari'ah* principles would reject any investment in non-*Shari'ah* compliant products, and hence consider the potential diversification between Islamic and conventional funds to be irrelevant.

On the other hand, a closer agreement can be found in terms of the financial motives of the investment with substantial number of respondents expressed the importance of high returns in their investment decision. As shown in Table 6.11, financial concerns were shared by most investors regardless of their background. Similar observation can also be said for the social objective of the investment. Though be it at a relatively lower level of magnitude, most investors recognised the importance of investing in economic activities that have positive impact to the society when making investment in Islamic funds.

It is also interesting to compare the stated motivation to invest with the actual investment pattern among the respondents. For instance, the cross tabulation shown in Table 6.12 reveals that despite expressing the importance of '*halal*' returns from investment, around one-third of Muslim investors held varying percentage of non-*Shari'ah*-compliant funds. While a religious factor can be an important element in guiding investment decision, this cannot be generalised to all Muslims as depicted in Table 6.12. Some Muslims do not even consider 'earning *halal* returns' to be an important reason when making investment in Islamic funds.

Table 6.12: Cross-Tabulation of 'I want to earn *halal* returns from my investment' by Percentage Invested in Islamic Funds among Muslim Investors

		Less than 20%	20-39%	40-59%	60-79%	80-99%	100%	Total
I want to earn *halal* returns from my investment	Not Important	2 (100.0 %)	0 (.0%)	0 (.0%)	0 (.0%)	0 (.0%)	0 (.0%)	2 (.6%)
	Neutral	2 (9.5%)	6 (28.6%)	5 (23.8%)	3 (14.3%)	2 (9.5%)	3 (14.3%)	21 (5.8%)
	Important	4 (6.2%)	18 (27.7%)	3 (4.6%)	13 (20.0%)	2 (3.1%)	25 (38.5%)	65 (18.1%)
	Very Important	16 (5.9%)	12 (4.4%)	13 (4.8%)	14 (5.1%)	21 (7.7%)	196 (72.1%)	272 (75.6%)
Total		24 (6.7%)	36 (10.0%)	21 (5.8%)	30 (8.3%)	25 (6.9%)	224 (62.2%)	360 (100.0%)

6.6 CLUSTER ANALYSIS- SEGMENTING INVESTORS OF ISLAMIC FUNDS

Consistent with the literature in SRI, the discussions in the preceding section have shown that investors of Islamic funds can also consist of diverse groups that may have differing motives. Recognising this, a cluster analysis was then employed based on their responses to six questionnaire items related to their motivation to invest in Islamic funds. In addition to the responses to the items shown in Table 6.11, two categorical variables namely religion and the percentage invested in Islamic funds were also included in the analysis. While religious commitment is expected to be an important element in the investment decision for Muslim investors, the percentage invested in Islamic funds will reflect the actual extent in which such a commitment is upheld.

Using the above variables, a two-step cluster analysis was employed. The method was chosen because it allows the use of both categorical and continuous data to be included in the analysis. In addition, the method is appropriate for large sample and uses objective criteria in determining the most appropriate number of clusters in the analysis (refer to section 5.5.2). Results of the two-steps cluster analysis are shown in Table 6.13, 6.14 and 6.15.

Table 6.13 shows that the cluster algorithm had identified three appropriate clusters for the respondents based on the variables used in the analysis. A total of 83 respondents were clustered in cluster 1, 131 or 31.7 percent were in cluster 2 while the remaining 199 or 48.2 percent were grouped in cluster 3.

Table 6.13: Cluster Analysis-Distribution of Respondents Based on Cluster Membership

		N	% of Combined	% of Total
Cluster	1	83	20.1%	18.4%
	2	131	31.7%	29.0%
	3	199	48.2%	44.1%
	Combined	413	100.0%	91.6%
Excluded Cases		38		8.4%
Total		451		100.0%

Due to some missing values, only a total of 413 respondents were included in the analysis. In order to interpret the results of the cluster analysis, it is important to examine the characteristics of the variables associated with each of the cluster. Table 6.14 shows the results of the cluster analysis based on the two categorical variables included in the analysis. It is quite apparent that religion had played a major role in the identification of the cluster membership. All 83 respondents grouped in cluster 1 are non-Muslims, while Muslim investors were split into either cluster 2 with 131 respondents or cluster 3 with 199 respondents. The information related to the percentage invested in Islamic funds provides additional explanation on the cluster distribution. The result shows that respondents who were grouped in cluster 2 had investment both in conventional and Islamic funds while those grouped in cluster 3 had all their unit trust investment in Islamic funds. As the two clusters consist of all Muslims, this suggests that there exists some distinction on the underlying motivation of Muslim investors based on their actual investment decision. However, this is not applicable to investors from other faiths as they were grouped in cluster 1 despite few of them (3 respondents) having all their unit trust investment in Islamic funds.

Table 6.14: Cluster Analysis -Distribution of Respondents' Religion and Percentage Invested in Islamic Funds According to Cluster Membership

		Cluster Membership			
		1	2	3	Total
Religion	Islam	0 (.0%)	131 (39.7%)	199 (60.3%)	330 (79.9%)
	Christianity	28 (100.0%)	0 (.0%)	0 (.0%)	28 (6.8%)
	Buddhism	41 (100.0%)	0 (.0%)	0 (.0%)	41 (9.9%)
	Hinduism	10 (100.0%)	0 (.0%)	0 (.0%)	10 (2.4%)
	Others	4 (100.0%)	0 (.0%)	0 (.0%)	4 (1.0%)
Percentage Invested in Islamic Funds	Less than 20%	13 (35.1%)	24 (64.9%)	0 (.0%)	37 (9.0%)
	20-39%	17 (34.0%)	33 (66.0%)	0 (.0%)	50 (12.1%)
	40-59%	27 (57.4%)	20 (42.6%)	0 (.0%)	47 (11.4%)
	60-79%	19 (38.8%)	30 (61.2%)	0 (.0%)	49 (11.9%)
	80-99%	4 (14.3%)	24 (85.7%)	0 (.0%)	28 (6.8%)
	100%	3 (1.5%)	0 (.0%)	199 (98.5%)	202 (48.9%)
Total		83 (20.1%)	131 (31.7%)	199 (48.2%)	413 (100.0%)

Table 6.15 presents the results of the cluster analysis based on the four items reflecting the underlying motivation to invest in Islamic funds. For the first basic motive, which is to earn '*halal*' returns from investment, the highest level of importance came from the respondents of cluster 3 with a mean score of 4.854, followed by cluster 2 with 4.397, while cluster 1 only had a mean score of 2.651.

Table 6.15: Cluster Analysis - Mean and Standard Deviation on the Underlying Motivation to Invest in Islamic Funds According to Cluster Membership

Items		Cluster 1	Cluster 2	Cluster 3	Combined
I want to earn *halal* returns.	Mean	2.651	4.397	4.854	4.266
	Std. Dev.	.9931	.7813	.3942	1.0779
I want to diversify my investment with conventional funds.	Mean	3.566	3.336	2.492	2.976
	Std. Dev.	.9395	1.1342	1.4937	1.3704
I invest because it gives high returns.	Mean	3.952	4.000	4.206	4.090
	Std. Dev.	.9094	.7545	.8485	.8385
I want my investment to be used in economic activities that have positive impact to the society.	Mean	3.277	3.855	4.281	3.944
	Std. Dev.	.8310	.8514	.7462	.8837

Despite the fact that both cluster 2 and 3 consist of all Muslim investors, the highly ranked mean score for cluster 3 with a substantially low standard deviation (0.3942) show how strong this motive was in their investment decision, separating them from their fellow Muslims investors in cluster 2. The differences in the mean responses suggest a varying degree of importance of complying with the principles of *Shari'ah* in the investment decision. As this is not applicable for investors from other faiths, it explains the low importance of this objective for the respondents in cluster 1.

Substantial variation on the scores of importance can also be observed between clusters with respect to the second item related to the diversification motive. The respondents in cluster 1 (which consists of non-Muslim investors) ranked relatively important the significance of diversification motive between the two types of funds with a mean score of 3.566. The results for cluster 2 and 3, on the other hand, accentuate further the distinction between the two groups of Muslim investors with a mean score of 3.336 for cluster 2 and 2.492 for cluster 3.

The apparent distinction between cluster 2 and 3 in both of the above motives (earning '*halal*' returns and diversification) can be explained by looking at the percentage they invest in Islamic funds. As previously described, the respondents in cluster 3 only invest in Islamic funds. This would suggest their strong commitment to comply with the principles of *Shari'ah* and avoid any investment that contradicts their conviction. On the other hand, as Muslims, respondents of cluster 2 still recognise the importance of earning '*halal*' returns, but nevertheless compromise the injunctions of *Shari'ah* by having some portions of their investment in conventional funds. Accordingly, this behaviour reveals a pattern of a pragmatic approach by these respondents in their investment decision. Based on the data, and to achieve clarity in subsequent discussions and analysis, cluster 3, 2 and 1 will be referred as 'committed' investors, 'pragmatic' investors, and 'non-Muslim' investors respectively.

The results for the fourth motive which relates to investing in economic activities that have positive impact on the society are consistent with the understanding that have been established so far on the characteristics of the three clusters. The mean scores for 'committed' and 'pragmatic' investors were 4.281 and 3.855 respectively, while the value for the 'non-Muslim' investors was relatively lower at 3.277. The higher level of importance that the 'committed' investors attached to this motive as compared to the 'pragmatic' investors and the 'non-Muslim' investors may be the result of the ethical dimension embraced by the 'committed' investors in line with their commitment to the *Shari'ah* principles in their investment choices.

Despite the earlier differences, the three clusters seemed to have an equal agreement on the level of importance of earning 'high returns' when making investment in Islamic funds. The mean scores for 'committed' investors, 'pragmatic' investors and 'non-Muslim' investors were 4.206, 4.000 and 3.952 respectively. Therefore, regardless of the *Shari'ah* compliant nature of the funds, or the types and background of the investors, profit motive remains an important element in the investment decision making of most investors.

6.7 FURTHER PROFILING OF THE CLUSTERS

Apart from the key variables used above in the cluster analysis to group investors based on their underlying motivation to invest in Islamic funds, the questionnaire has also included three additional items that may provide further information on the profile of the clusters. The respondents were asked to state their level of agreement (or disagreement) on their expectation on the returns from Islamic funds as compared to conventional funds, the willingness to sacrifice returns for complying with the principles of *Shari'ah* and the perception towards the resilient of investment based on *Shari'ah* principles against market volatility. As shown in Table 6.16, it appears that for all the three statements, there is a consistent ranking of agreement in terms of the highest mean score with 'committed' investors showing the highest values, followed by the 'pragmatic' investors and the 'non-Muslim' investors.

Table 6.16: Cluster Analysis -Additional Profile of the Investors

Items		Non-Muslim Investors	Pragmatic Investors	Committed Investors
I expect Islamic funds to provide at least similar returns as compared to conventional funds.	Mean	3.325	3.977	4.352
	Std. Dev.	1.1594	.8177	.7226
I am prepared to accept lower returns from my investment as long as it is based on Islamic principles.	Mean	2.494	3.389	3.970
	Std. Dev.	.9156	1.0196	.9151
Investment that is based on Islamic principals are more resilient against fluctuations in the market	Mean	3.651	3.878	4.152
	Std. Dev.	.9030	.7128	.8353

It is quite interesting to see that despite the commitment shown by the 'committed' investors in complying with the injunctions of *Shari'ah* in their investment; they expressed a relatively high level of agreement towards the expectation of earning similar returns in comparison with the conventional funds with a mean score of 4.352. This is compared to a more modest mean score for the 'pragmatic' investors (3.977) and a relatively indifferent attitude of the 'non-Muslim' investors (3.325). Nevertheless, the strong commitment of the 'committed' investors is clearly reflected in their willingness to sacrifice financial returns to comply with the principles of *Shari'ah* in investment with a mean score of 3.970. The mean scores for 'pragmatic' and 'non-Muslim' investors for this item were 3.389 and 2.494 respectively. While there were substantial variations in the mean scores among the clusters in the above two items, all the three clusters expressed relatively similar attitudes towards the resilient nature of Islamic investment against market volatility. The mean score was 4.152 for the 'committed' investors, 3.878 for the 'pragmatic' investors and 3.651 for the 'non-Muslim' investors.

The above results provide additional insights in the attitude and behaviour of the various groups of investors of Islamic funds revealed by the cluster analysis. A descriptive summary of the characteristics of the three clusters is presented in Table 6.17.

Table 6.17: General Descriptions of the Different Clusters of Investors

Non-Muslim Investors	Pragmatic Investors	Committed Investors
-Consists of all non-Muslim investors.	-Consists of all Muslims	-Consists of all Muslims
-Almost all held both conventional and Islamic funds.	-Compromise *Shari'ah* principles by holding conventional funds	-Committed to *Shari'ah* principles by having all investment in Islamic funds
-Consider '*halal*' returns as not important	-Consider '*halal*' returns as important	-Consider '*halal*' returns as very important
-But 'high' returns is important	-Consider 'high' returns as equally important	But 'high' returns is also important
-Diversification objective is relatively important	Relatively indifferent towards diversification objective	Diversification objective is not important
-Relatively indifferent towards social objective	Consider social objective as relatively important	Consider social objective as important
-Relatively indifferent on the expectation of similar returns from Islamic investment	Expect Islamic funds to provide similar returns as compared to conventional funds	Expect Islamic funds to provide similar returns as compared to conventional funds
-Not willing to accept lower returns	But willing to sacrifice returns to comply with *Shari'ah*	But willing to sacrifice returns to comply with *Shari'ah*
-Believe on the resilient of Islamic investment against market volatility	Believe on the resilient of Islamic investment against market volatility	Believe on the resilient of Islamic investment against market volatility

Committed' investors place high importance of earning '*halal*' returns from investment and this has been clearly demonstrated by their actual investment behaviour. Since a commitment to *Shari'ah* principles limits their investment universe to only Islamic funds, it is important for them that the Islamic funds provide comparable returns with the conventional funds. This will not be as important for the 'non-Muslim' investors or even for the 'pragmatic' investors as they have the flexibility of choosing between the two types of funds. On the other hand, in the case where complying with the *Shari'ah* principles in investment can result in lower returns, the 'committed' investors are willing to make this sacrifice, reflecting their strong commitment to the *Shari'ah* principles. This is, however, not the case for 'pragmatic' investors, as they have shown a relatively indifferent attitude towards this issue. This information strengthens our understanding of the results of the cluster analysis previously employed. Despite being Muslims and believe in the importance of earning '*halal*' returns from investment, the 'pragmatic' investors hold some proportions of their investment in conventional funds and recognise the importance of diversification benefits between Islamic and conventional funds when making investment decision. This reflects the pragmatic approach adopted by these investors and therefore, explains their unwillingness to sacrifice the financial returns in order to comply with the *Shari'ah* rules. As for the 'non-Muslim' investors, it is understandable that complying with *Shari'ah* principles is irrelevant, and therefore, sacrificing financial returns for this purpose is inappropriate. As previously shown, investors from other faiths invest in Islamic funds to seek high returns and benefit from diversification. The importance of diversification motive in their investment of Islamic funds can be explained by their relative belief on the resilient of Islamic investment against market volatility.

6.8 SUMMARY AND CONCLUSION

This chapter has discussed the various aspects of the respondents' profile. In general, they reflect a wide representation of the various groups in terms of their socio-demographic variables such as gender, ethnicity, religion, age, marital status, income, educational level and occupation. Specifically, majority of them were middle-aged group, middle and high-income earners, and highly educated individuals- which provide reassurance on the quality of the responses given. Another area of interest, which is particularly relevant to the present study, is the socially responsible lifestyle practiced by the respondents. While their pro-social behaviour was quite encouraging at the individual level, the same could not be said at the collective level. In terms of investment, a majority of the investors have relatively high risk-return appetite with a long or medium term investment horizon. Recognising the diversity of the responding investors, a cluster analysis was employed using key variables that reflected their underlying motivation when investing in Islamic funds. As a result, they were categorised into three distinct clusters, 'committed', 'pragmatic' and 'non-Muslim' investors. By having quite an elaborate profile analysis, this chapter has provided an enhanced picture of the respondents and enabled a better understanding of their perceptions, attitudes and behaviours on various social responsibility issues and commitment in Islamic investment.

CHAPTER 7

INVESTORS' PERSPECTIVE OF SOCIAL RESPONSIBILITY ISSUES IN ISLAMIC INVESTMENT

7.1 INTRODUCTION

As highlighted previously, one of the main objectives of this research is to investigate the perceptions, attitudes and behaviour of investors of Islamic funds concerning various social responsibility issues in Islamic investment. The chapter starts by examining the respondents' overall perceptions on the importance of social responsibility dimension in comparison to other dimensions in *Shari'ah* based investments. Recognising the multi-faceted nature of social responsibility issues, the discussion also explores the various areas of social responsibility concerns that investors may perceive as important in their investment. Apart from descriptive information, exploratory factor analysis is employed along with other non-parametric inferential statistics, such as the Mann-Whitney U-test and Kruskal-Wallis test for comparison of differences between sub-groups.

7.2 CRITERIA PERCEIVED AS IMPORTANT IN *SHARI'AH* BASED INVESTMENT

As shown in Chapter four, the Islamic investment practices have been pre-dominantly shaped by a 'legalistic' outlook and focussed on exclusionary strategies. This has led to the call for Islamic investment to address a broader social responsibility outlook beyond the traditional focus on *fiqh* injunctions, in line with the normative goals of Islamic economics and the objective of the *Shari'ah* (*maqasid al-Shari'ah*). Hence, it is pertinent to obtain the perceptions of the investors on the scope of *Shari'ah* principles they subscribed in Islamic investment. Given the fact that complying with the *Shari'ah* is a strong motivation in the investment decision for most investors, the recognition of the fact that social responsibility dimension is an essential part of the holistic notion of the

Shari'ah principles would therefore increase the investors' support for the issue to be applied in the Islamic investment decision.

7.2.1 Overall Ranking of the Criteria

Table 7.1 below shows the frequencies, means and standard deviations of the ten items relevant to *Shari'ah* based investment as identified in Chapter 5. The items were ranked according to their level of importance perceived by the investors using the mean scores of each item. It is apparent that the top three criteria were dominated by the *fiqh* injunctions of the *Shari'ah* namely 'not be involved in the production or sales of *haram* products', 'not be involved in gambling related activities', and 'not be involved in entertainment activities that are not acceptable in *Shari'ah'* with a mean score of 4.572, 4.533, and 4.390 respectively. This is then followed by three economically driven criteria which include 'manage risk prudently' (4.359), 'maximise returns from investment' (4.340), and 'use resources efficiently' (4.219). However, despite the fact that the hallmark of Islamic finance is the interest-free system, the criterion of 'not be involved in conventional financial services' only came seventh in the ranking with a mean of 4.171. The last three items in the mean rank constitute those components related to the social responsibility aspect of investment. These include 'contribute to poverty eradication' (4.164), 'contribute positively to the development of the society' (4.118), and 'care about the impact to the environment' (3.991).

The overall results in Table 7.1 reveal several interesting patterns with respect to the ranking of the items. Except for 'Not be involved in conventional financial services', all the other three items representing the major prohibitions in *Shari'ah* were ranked highly. Looking at the values of the standard deviation, it is quite apparent that among the four items representing *Shari'ah* prohibition, 'Not be involved in conventional financial services' recorded the highest value of 0.9798. In fact, this value is the highest standard deviation measure for the ten items. This suggests that the perceived importance of the prohibition of interest-based transactions in Islamic investment suffers from greater variation in the responses.

Table 7.1: Perceived Importance of Criteria Related to *Shari'ah* Based Investment

Items	Not Important At All	Not Important	Neutral	Important	Very Important	Mean	Std. Deviation	N
Not be involved in the manufacture or sale of prohibited products	6	9	31	80	323	4.570	0.8156	449
	1.3%	2.0%	6.9%	17.8%	71.9%			
Not be involved in gambling related activities	6	9	36	74	295	4.531	0.8498	420
	1.4%	2.1%	8.6%	17.6%	70.2%			
Not be involved in entertainment activities which are not permissible in *Shari'ah*	6	13	46	118	266	4.392	0.8826	449
	1.3%	2.9%	10.2%	26.3%	59.2%			
Manage risks prudently	0	7	43	180	219	4.361	0.7189	449
	0.0%	1.6%	9.6%	40.1%	48.8%			
Maximise returns from investment	1	6	40	195	206	4.337	0.7144	448
	0.2%	1.3%	8.9%	43.5%	46.0%			
Use resources efficiently	0	17	55	190	188	4.220	0.8026	450
	0.0%	3.8%	12.2%	42.2%	41.8%			
Not be involved in conventional financial services	7	24	69	134	214	4.170	0.9798	448
	1.6%	5.4%	15.4%	29.9%	47.8%			
Contribute to poverty eradication	1	13	70	194	172	4.162	0.8053	450
	0.2%	2.9%	15.6%	43.1%	38.2%			
Contribute positively to the development of the society	2	21	75	176	175	4.116	0.8788	449
	0.4%	4.7%	16.7%	39.2%	39.0%			
Care about the impact to the environment	3	21	98	181	147	3.996	0.8904	450
	0.7%	4.7%	21.8%	40.2%	32.7%			

Perhaps, such phenomenon can be explained on several grounds. First, unlike issues related to the production or consumption of '*haram*' products (e.g. liquor, pork) gambling and unacceptable entertainment (e.g. pornography, pubs,) which are traditionally and culturally recognised as major sins in Islam (for both Muslims and Non-Muslims), the banning of interest is less comprehensible in terms of its unethical nature and harmful outcome. In fact, there is the practice of some government funds which claimed to invest ethically by excluding industries like gambling, liquor, and pornography, but still invest in companies related to conventional financial services (Pitluck, 2008). Secondly, while the Islamic financial products and services have been offered in the market for quite some time, the market share of interest-free products by Islamic banks and windows instruments has yet to surpass the 20 percent mark, indicating the relatively low adoption of such products by the masses. The fact that Malaysia is practicing a dual system where conventional interest-based and Islamic banking system operate in parallel and the pre-dominant nature of the former on the latter may have caused the public to accept the practice as acceptable and desensitised its prohibition. In addition, note that in the cluster analysis discussed in Chapter 6, investors of Islamic funds participated in the study were grouped into three different clusters based on their motivation and commitment to comply with *Shari'ah* principles in investment. It is quite apparent that the pragmatic investors, despite acknowledging the importance of earning '*halal*' returns from investments, still hold different proportion from their total unit trust investment in conventional funds. If such a practice is also prevalent in other aspects of finance such as in banking and insurance, it is likely that these types of investors may also have used conventional financial services and therefore, perceived the issue as less important as compared to other forms of prohibitions. Whether or not the importance of the criterion of 'Not be involved in conventional financial services' is considered distinct from the other type of prohibitions, or there exist significant differences on how different groups rate the issue, will be examined in later analysis.

Another interesting pattern emerging from the mean scores of the ten items is the fact that the criteria related to economic dimension were consistently ranked higher from the three criteria representing the social responsibility dimension. This implies that after complying with the *Shari'ah* prohibitions, the next important criteria are related to economic consideration such as prudent risk management, maximisation of returns and efficient use of resources. On the other hand, among the three items representing the social responsibility dimension, 'contribute to poverty eradication' is ranked the highest, followed by 'contribute positively to the development of the society' and 'care about the impact to the environment'. This is in line with the literature in Islamic economics where issues related to poverty eradication received paramount attention and urgency.

7.2.2 Comparison of Ranking between Different Clusters of Investors

It is interesting to see whether there are some differences in the level of importance investors attached to the above criteria in Islamic investment. One of the simplest ways to determine if there is any difference in terms of the importance of issues between groups is to rank the items in order of importance for each group. In reference to the cluster analysis results in Chapter 6, Table 7.2 presents the mean score and the ranking between the three types of investors. For an easy comparison, the items are listed based on their overall mean score ranking as in Table 7.1 above.

Table 7.2: Perceived Importance of Criteria Related to *Shari'ah*-Based Investment According to Cluster Membership

Items	Non-Muslim Investors			Pragmatic Investors			Committed Investors		
	Rank	Mean	Std. Dev.	Rank	Mean	Std. Dev.	Rank	Mean	Std. Dev.
Not be involved in the manufacture or sale of prohibited products	2	3.928	1.1129	1	4.496	0.7583	1	4.839	0.5634
Not be involved in gambling related activities	3	3.915	1.1461	2	4.417	0.8163	2	4.826	0.5505
Not be involved in entertainment activities which are not permissible in *Shari'ah*	7	3.627	0.9717	4	4.244	0.9454	3	4.768	0.5394
Manage risks prudently	1	4.108	0.8117	5	4.206	0.6762	5	4.573	0.6304
Maximise returns from investment	4	3.793	0.7493	3	4.246	0.7050	4	4.593	0.5775
Use resources efficiently	6	3.663	0.9009	7	4.122	0.7944	7	4.518	0.6183
Not be involved in conventional financial services	8	3.349	1.0869	8	4.023	0.8177	6	4.530	0.8349
Contribute to poverty eradication	5	3.675	0.7175	9	4.023	0.7890	9	4.503	0.6504
Contribute positively to the development of the society	10	3.241	0.7900	6	4.123	0.7677	8	4.518	0.6501
Care about the impact to the environment	9	3.277	0.8162	10	3.931	0.7765	10	4.347	0.7624

Table 7.2 reveals a consistent pattern in terms of the mean scores with committed investors scored the highest mean and then followed by the pragmatic investors and the non-Muslim investors for all the ten criteria. The mean scores for the committed investors range from 4.839 for 'Not be involved in the manufacture or sale of prohibited products' to 4.347 for 'Care about the impact to the environment'. Similarly, pragmatic investors scored the criteria of 'Not be involved in the manufacture or sale of prohibited products' with the highest mean of 4.496 and 'Care about the impact to the environment' with the lowest mean of 3.931. On the other hand, the most important criterion perceived by the non-Muslim investors is 'manage risk prudently' with a mean of 4.108 and the criterion receiving the lowest mean is 'contribute positively to the development of the society' with a value of 3.241.

Except for few instances, it appears that the ranking of the criteria perceived as important among the committed and pragmatic investors are closely following the ranking in the overall result as presented in Table 7.1. Some of the exceptions include relatively higher rank scored for the criteria of 'maximise return from investment' (which came up as the third most important criteria) and 'contribute positively to the development of the society' (which came up to the sixth position) in the case of the pragmatic investors, while there are some minor changing of places in the context of the committed investors. However, greater variation in the ranking of the criteria can be observed for the non-Muslim investors. Apart from the fact that the most important criterion for them is 'manage risk prudently', the item 'contribute to poverty eradication' is scored quite favourably at the fifth position as compared to the other two criteria related to social responsibility issues which remain at the bottom two positions. In addition to that, the criteria of 'Not be involved in entertainment activities which are not permissible in *Shari'ah* was also rank at the seventh position, substantially lower as compared to its ranking for the other investor groups.

Apart from the differences in terms of the ranking between the three types of investors, some important variation of scores can also be observed among the criteria. With the exception of the non-Muslim investors, criteria related to the *Shari'ah* prohibitions, particularly for 'Not be involved in the manufacture or sale of prohibited products' and 'Not be involved in gambling related activities' dominated the top two positions. This, however, could not be said for the other two prohibitions. As also discovered in section 7.2.1, the criteria of 'Not be involved in conventional financial services' was consistently scored lower not only for the non-Muslim and pragmatic investors (both at eighth position), but also among the committed investors (at the sixth position). Though be it to a lesser extent, the criterion of 'Not be involved in entertainment activities which are not permissible in *Shari'ah* was also perceived by investors as not to be in the same league with the top two injunctions. For instance, the criterion only came fourth in the mean score ranking of the pragmatic investors, overpowered by a small margin by the criterion of 'maximise returns from investment', and only came seventh in the mean score of the non-Muslim investors. Further observation also reveals a relatively sizeable gap in the mean scores of the top two *fiqh* injunctions as compared to the remaining two criteria, reinforcing the above observation. For instance, in the context of the committed investors, the top two prohibitions recorded mean values of 4.839 and 4.826, before dropping to 4.768 for 'Not be involved in entertainment activities which are not permissible in *Shari'ah* and further down to 4.530 for 'Not be involved in conventional financial services'. The pattern becomes more apparent for the other types of investors. In the same order, the means for the mentioned criteria for the pragmatic investors were 4.496, 4.417, decreased to 4.244 and 4.023, while the values for the non-Muslim investors were 3.928, 3.915, slipped to 3.627 and 3.349 respectively.

As for the other criteria, again, the non-Muslim investors showed greater variations in their scores. For instance, the mean score for 'manage risk prudently' showed quite a big gap compared to the scores of other economically related criteria, i.e. 'maximise returns from investment' and 'use resources efficiently', with its mean value of 4.108 as compared to 3.793 and 3.663 respectively. The emphasis given to the risk management aspect of Islamic investment reinforce the findings in chapter six on the profile of the non-Muslim investors who invest in Islamic funds for the benefit of diversification and with the belief that investments based on *Shari'ah* principles are more resilient against market volatility. In addition, the results also showed that apart from 'contribute to poverty eradication' which received relatively higher mean score, the non-Muslim investors seemed to be undecided on whether or not criteria of 'contribute positively to the development of the society' and 'care about the impact to the environment' should be considered as part of the important elements in *Shari'ah* based investment.

Unlike the non-Muslim investors, the scores for the criteria related to the economic and social responsibility dimensions are not substantially varied in the case of the pragmatic and committed investors. However, it is important to note that not only the criterion of 'care about the impact to the environment' consistently recorded lower means for all the three types of investors, but there also seemed to be a noticeable drop in the value of its mean score as compared to the majority of other criteria. It appears that the encouraging environmentally responsible activities participated by the respondents (as described in chapter six) has not influenced the level of importance the investors attached to this criterion.

Nevertheless, it should be emphasised that with the exception of the non-Muslim investors, the mean score of the three social responsibility criteria ranged from 4.347 to 4.518 for the committed investors, and from 3.931 to 4.123 for the pragmatic investors, which in absolute terms are considered within the range of 'important' and 'very important'. In fact, if based on the frequencies presented in Table 7.1, the percentage of investors who considered the criteria either as important or very important were around 81 per cent for 'contribute to poverty eradication', 78 per cent for 'contribute positively to the development of the society', and 73 percent for 'care about the impact to the environment'. Therefore, it can be safely said that despite the lower ranking of the items, these social responsibility criteria are still perceived as part of an important element in *Shari'ah* based investments.

7.3 PERCEIVED IMPORTANCE OF SOCIAL RESPONSIBILITY DIMENSION IN *SHARI'AH* BASED INVESTMENT

From the descriptive analysis presented above, it appears that the level of importance investors attached to the different components of *Shari'ah* based investment may be influenced by the nature of the criteria. It has been shown that *fiqh* injunctions on avoiding any prohibited activities were consistently ranked highest, followed by the criteria related to economic and social responsibility dimensions. According to Johnson and Wichern (2002), whenever a large number of variables are measured on each experimental unit (e.g. the surveyed respondents), the variables are often related to each other in many different ways. One common technique to explore such correlation between variables is known as factor analysis. Factor analysis model "assumes there is a smaller set of uncorrelated variables that, in some sense, drives or controls the values of the variables that are actually being measured" (Johnson and Wichern, 2002: 147). Therefore, this analysis enables the ten items to be categorised into a smaller group of composite variables, reflecting an underlying factor or construct. This will ascertain whether the social responsibility dimension is recognised by the respondents as one of the important factors in *Shari'ah* based investment. Subsequently, the results will be used to investigate the importance of the social responsibility dimension in comparison to other dimensions, and to identify whether there are any significant differences in the perceived importance of the dimension among various groups of investors. Factor analysis allows the use of the identified construct instead of the individual items and therefore the subsequent analysis will be made more parsimonious (Hair et al., 1998).

7.3.1 Validating the Underlying Dimension- Criteria Perceived As Important in *Shari'ah* Based Investment

Prior to conducting the exploratory factor analysis, statistical tests were employed to determine the appropriateness of the data in terms of its sample adequacy and the strength of inter-correlation. As shown in Table 7.3, the KMO measure showed a value of 0.891, This indicates a 'meritorious' sample adequacy according to the Kaiser (1974) scale, and hence is deemed appropriate for use in further factor analysis. The Bartlett's test of sphericity also reached statistical significance (p=0.000), supporting the factorability of the correlation matrix.

Table 7.3: Results of the KMO and Bartlett's Test

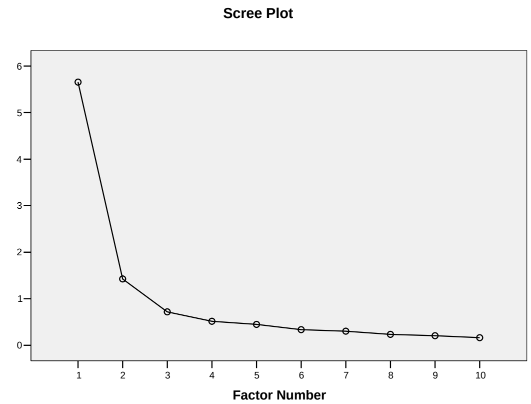
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.891
Bartlett's Test of Sphericity	Approx. Chi-Square	2807.619
	Df	45
	Sig.	.000

Based on the methodological considerations discussed in Chapter 5, an exploratory factor analysis was employed to the ten items as previously described in Table 7.1 and 7.2. Given the nature of the data and the variables, Principal Axis Factoring was employed for the extraction and direct oblimen was chosen as the rotation technique as recommended by Costello & Osborne (2005). In determining the appropriate number of factors to retain, the Eigenvalue greater than 1 rule and the scree test were used as starting points, along with the a priori understanding of the factor structure.

Table 7.4: Factor Analysis- Initial Eigenvalues

Factor	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	5.655	56.545	56.545
2	1.425	14.248	70.793
3	.717	7.174	77.967
4	.515	5.153	83.120
5	.448	4.484	87.604
6	.335	3.352	90.956
7	.303	3.025	93.981
8	.234	2.337	96.318
9	.205	2.050	98.368
10	.163	1.632	100.000

Figure 7.1: Scree Plot



As shown in Table 7.4, there were two factors with Eigenvalue greater than 1, with values of 5.655 and 1.425. Alternatively, Figure 7.2 shows the scree plot which illustrated the values of Eigenvalue against the number of factors. The plot slopes steeply downwards from one factor to two factors before moving slowly towards the horizontal line. Therefore, the scree test suggests a possible two-factor solution for the variables. On the other hand, based on the a priori understanding, the items were expected to constitute a three factor structure as described in Chapter 5 (Table 5.3).

Following the recommendations of Darlington (1997) and Costello & Osborne (2005), multiple factor analysis complete with rotation were conducted at two, three and four number of factors. The results for all the multiple factor analysis are shown in Appendix 7A1, 7A2 and 7A3. In Appendix 7A3, the pattern matrix of the four factor solution produced a trivial fourth factor with no items load significantly to the factor. However, both the two and three factor models (Appendix 7A1 and 7A2 respectively) provided reasonable results as the items within the factor loaded significantly to the factor and loaded poorly to the other factor(s). According to Fabrigar et al. (1999), by tradition, methodologists have regarded specifying too few factors in a model (i.e., underfactoring) as a much more severe error than specifying too many factors (i.e., overfactoring). This is because under-factoring will result in an inappropriate combination of two distinct factors into a single factor, which can lead to misleading interpretations of the data. Therefore, three-factor solution is chosen as the most appropriate factor structure for this analysis.

Table 7.5: Factor Analysis- Pattern Matrix and Commonalities

Variable	Factor			Communality of Each Variable
	1 (Social Responsibility)	2 (*Fiqh* Injunctions)	3 (Economic)	
Contribute positively to the development of the society	.918			.813
Care about the impact to the environment	.781			.719
Contribute to poverty eradication	.556			.657
Not be involved in gambling related activities		-.948		.833
Not be involved in the manufacture or sale of prohibited products		-.889		.791
Not be involved in entertainment activities which are not permissible in *Shari'ah*		-.823		.729
Not be involved in conventional financial services		-.550		.482
Manage risks prudently			.880	.723
Use resources efficiently			.633	.690
Maximise returns from investment			.552	.510
Post Rotation Eigenvalue	3.965	4.244	4.137	
Average Commonalities				.695
Cumulative % of Variance Explained				69.459

As shown in Table 7.5, the rotated factor solution reveals three strong factor model with all the ten items exhibit large factor loadings (above 0.3). Variables with factor loadings smaller than ±0.3 are normally considered insignificant and therefore, are suppressed in the table to ease interpretation. In addition, each of the factor in the three-factor solution consisted of at least three components and not a single item cross load with other factors, consistent with the recommendation of Costello & Osborne (2005). The validity of the three-factor model can also be supported by the values of the post rotation Eigenvalue with all the three factors displaying an Eigenvalue greater than 1, as suggested by Darlington (1997). These results are also consistent with the a priori understanding of the number of underlying latent constructs of the variables outlined in Chapter 5.

In brief, the exploratory factor analysis verifies the existence of three underlying factors which "drives or controls" the values of the variables that are being measured. As depicted in Table 7.5, the first factor constitutes three variables namely 'contribute positively to the development of the society', ' Care about the impact to the environment', and ' Contribute to poverty eradication'. The second factor consists of four factors namely ' not be involved in gambling related activities', ' Not be involved in the manufacture or sale of prohibited products', ' Not be involved in entertainment activities which are not permissible in *Shari'ah*', and ' Not be involved in conventional financial services'. On the other hand, the third factor consists of three items with 'Manage risks prudently', ' Use resources efficiently', and ' Maximise returns from investment'. All of the items load heavily to its respective factor as anticipated (see Table 5.3), and therefore named accordingly as 'social responsibility', '*fiqh* injunctions', and 'economic' factor respectively.

As shown in Table 7.5, the total variance explained after the extraction process is almost 70%. However, unlike orthogonal rotation, in an oblig rotation where factors are allowed to correlate, sums of squared loadings cannot be added to obtain a total variance, and therefore, the total variance exclusively explained by each of the factor is not available. Nevertheless, the values of the Eigenvalue of the respective factor may provide some general impression of the extent of variance explained by each of the factor. Based on Table 7.5, the post rotation Eigenvalue of the *fiqh* injunctions factor is 4.244, the economic factor is 4.137, while the social responsibility factor is 3.965.

Another issue that arises in the previous section is the nature of the criteria of 'not be involved in conventional financial services', and to a lesser extent, 'not be involved in entertainment activities which are not permissible in *Shari'ah.* The initial descriptive analysis has shown that the two items were not perceived as important as the other two prohibitions by the respondents and therefore, might be perceived as representing a distinctly different underlying factor. However, the factor analysis has revealed that not only the items were clustered together with the other two *fiqh* injunctions, both the criteria also showed strong loadings of 0.823 and 0.550 respectively. Therefore, despite having relatively lower mean scores, the factor analysis confirms the unidimensionality of the four items, and the respondents perceived these criteria as constituting the same construct.

7.3.2 Comparison between the Three Dimensions

The exploratory factor analysis has provided the support on the existence of three underlying dimensions investors perceived as important in *Shari'ah* based investments. However, it has not been established which of the three extracted dimensions are perceived as more important by the investors of Islamic funds. Given that the unidimensionality of each dimension has been established, this would enable the construction of a reliable scale that represents each of the dimensions. As a rule of thumb, Blaikie (2002) recommends the use of items with loadings of at least 0.40 (and possibly higher), in determining whether an item should be included in a scale. As all the items of the respective factors have loadings greater than 0.5, this indicates that all the items are appropriate to be retained in the scale construction. For additional confirmation, reliability tests using Cronbach's Alpha are also conducted for all the three dimensions. Based on the above, three separate scales were constructed by computing the average of the individual scores of the constituent items of each dimension (as listed in Table 7.5). Table 7.6 presents the overall level of importance respondents attach to the three dimensions based on the mean and median scores as well as the quartile statistics.

Table 7.6: Descriptive Statistics and Cronbach's Alpha for the *Fiqh* Injunctions, Economic and Social Responsibility Dimensions

		Fiqh Injunctions	Economic	Social Responsibility
Mean		4.416	4.306	4.093
Median		4.75	4.33	4.00
Std. Deviation		0.7651	0.6411	0.7693
Percentiles	25	4.00	4.00	3.67
	50	4.75	4.33	4.00
	75	5.00	5.00	5.00
Cronbach's Alpha		.891	.820	.877

The overall results show that the consideration of the *fiqh* injunctions is regarded as the most important dimension, with an overall mean of 4.416. This is followed by the economic and social responsibility dimensions with a mean of 4.306 and 4.093 respectively. This pattern of importance can also be seen from the values of the median and quartiles of the three dimensions. These results confirm the earlier analysis based on the ten individual items (section 7.2) on the hierarchy of importance among the three dimensions. However, it would be interesting to explore whether such a situation is true in different sub-group of the investors. For this purpose, Table 7.7 shows the means for the three scales for all the different socio-demographic groups, and Table 7.8 presents the results for other characteristics of the investors.

Both Table 7.7 and 7.8 illustrate that the hierarchy of importance between the three dimensions seem to be prevalent in almost all of the socio-demographic and other characteristics of the investors. Some important exemptions to this pattern relate to ethnicity and religion (Table 7.7) and cluster membership (Table 7.8). The Chinese investors scored highest for the economic scale, while the *fiqh* injunctions and economic scales are almost the same for the Indian investors. Similar observation can also be seen within the religion sub-groups with the investors from other faiths valued economic scale as the highest followed by the *fiqh* injunctions and social responsibility dimensions. This is in line with the fact that the distribution of religion and ethnicity in Malaysia is highly correlated with the Malays who are predominantly Muslims. This is again consistent with the results of the cluster membership where the non-Muslim investors rate economic dimension higher than other dimensions.

Table 7.7: Comparing the Means of the Three Dimensions between Different Socio-Demographic Variables

Socio-Demography	Sub-Group	Mean for *fiqh* injunctions Scale	Mean for Economic Scale	Mean for Social Responsibility Scale	N
Gender	Male	4.4125	4.3179	4.0651	240; 260; 261
	Female	4.4199	4.2888	4.1312	178; 187; 188
Marital Status	Single	4.2561	4.2100	4.1076	122; 127; 127
	Married	4.4920	4.3564	4.0969	281; 304; 306
Ethnicity	Malay	4.5992	4.4097	4.2674	330; 358; 359
	Chinese	3.6937	3.8873	3.3426	71; 71; 72
	Indian	3.8676	3.8431	3.5490	17; 17; 17
Religion	Islam	4.5994	4.4137	4.2689	332; 361; 362
	Buddhism	3.7143	3.9048	3.3876	42; 42; 43
	Christianity	3.5714	3.6429	3.2857	28; 28; 28
	Hinduism	3.9545	3.9697	3.6061	11; 11; 11
Age	30 and below	4.4148	4.3191	4.2801	88; 94; 94
	31-40	4.4400	4.3046	4.0474	200; 209; 211
	41-50	4.3773	4.2500	3.9889	110; 120; 120
	Above 50	4.3875	4.5417	4.2778	20;24;24
Highest Education	Primary/Secondary School	4.2424	4.2973	4.2162	33; 37; 37
	Certificate/ Diploma/ Matriculation/ A-Level	4.3089	4.2522	4.0768	140; 152; 152
	Bachelor (First Degree)	4.5123	4.3373	4.1345	162; 169; 171
	Professional/ Postgraduate	4.4838	4.3537	3.9675	77; 82; 82
Monthly Income	RM1500 and below	4.5750	4.5051	4.5354	30; 33; 33
	RM 1,501 - RM 3,000	4.4000	4.2889	4.2418	85; 90; 91
	RM 3,001 - RM 5,000	4.3302	4.2494	4.0811	134; 147; 148
	RM 5,001 - RM 10,000	4.5842	4.3900	4.0867	98; 100; 100
	RM 10,001 - RM 20,000	4.2941	4.1852	3.6914	51; 54; 54
	More than RM 20,000	4.2778	4.3492	3.8571	18;21;21
Type of Occupation	Professional/ managerial/ administrative	4.4587	4.3064	4.1099	254; 272; 273
	Others	4.3491	4.3048	4.0663	164; 175; 176
Type of Organisation	Small-medium companies/ others	4.3907	4.3381	4.1197	135; 142; 141
	Large companies	4.3415	4.1963	3.9269	183; 197; 196
	Govt/Govt Linked Companies	4.5765	4.4623	4.3580	98; 106; 108

Table 7.8: Comparing the Means of the Three Dimensions between Different Characteristics of Investors

Characteristics	Sub-Group	Mean for *fiqh* injunctions Scale	Mean for Economic Scale	Mean for Social Responsibility Scale	N
Cluster	Non-Muslim	3.7104	3.8537	3.3976	82; 82; 83
	Pragmatic	4.2913	4.1872	4.0308	115; 130; 130
	Committed	4.7500	4.5611	4.4556	188; 199; 199
Individually Oriented Social Responsibility	Below Average	4.1910	4.1614	3.9400	144; 159; 161
	Average	4.4836	4.3411	4.1214	122; 128; 129
	Above Average	4.5740	4.4208	4.2243	152; 160; 159
Collectively Oriented Social Responsibility	Below Average	4.3756	4.2901	4.0606	225; 239; 242
	Average	4.4484	4.2990	4.0662	126; 136; 136
	Above Average	4.4888	4.3704	4.2535	67; 72; 71
Main Investment Objective	Retirement/Children's Education	4.4529	4.3173	4.1048	191; 208; 210
	Others	4.3816	4.2969	4.0826	226; 238; 238
Risk-return attitude	Low	4.2308	4.2381	3.9524	26; 28; 28
	Average	4.4618	4.2908	4.1738	85; 94; 94
	High	4.4089	4.3063	4.0714	302; 320; 322
Awareness of SRI	Never heard	4.5265	4.3527	3.7857	66; 69; 70
	Have heard	4.5746	4.3391	4.0920	57; 58; 58
	Know a little	4.3178	4.2550	4.0978	166; 183; 184
	Quite familiar	4.4792	4.3598	4.2996	84; 88; 89
	Very familiar	4.2564	4.2764	4.0917	39; 41; 40

7.3.3 Perceived Importance of Social Responsibility Dimension

Since the main concern of this study relates to social responsibility dimension in Islamic investment, an examination of the pattern of social responsibility scale between groups is essential. Based on the mean of the social responsibility scale as shown in Table 7.7, apparent differences in terms of the scores among the socio-demographic variables can be seen among different ethnicity, religion, age groups, level of education, income and types of organisation. However, among these variables, greater variation of the social responsibility scores can be observed between ethnicity, religion and monthly income. For instance, the mean for the social responsibility scale for the Malays is 4.2674, while the value for the Chinese and Indian investors is 3.3426 and 3.5490 respectively. Likewise, the mean score for social responsibility scale for those earning RM1500 and below is 4.5354 compared to 3.6914 for RM10001-RM20000 and 3.8571 for more than RM20000. Sharp differences in the scores of the social responsibility scale can also be observed in the other characteristics of the investors as shown in Table 7.8. The most important examples are with respect to the cluster membership which ranged from 3.3976 for the non-Muslim investors to 4.4556 for the committed investors, and the level of awareness of SRI which ranged from 3.7857 to 4.2996.

Based on these descriptive observations, further analysis are performed to identify whether there are any statistically significant differences between different sub-groups of investors, in the scores of importance they attached to the social responsibility scale. Mann-Whitney U test are employed for variables with only two sub-groups (df=1) while Kruskal-Wallis test are performed on variables with more than two sub-groups (df>1). To assist in the understanding of the differences, especially in terms of the level of importance the sub-group assigned with respect to the social responsibility scale, the mean rank statistics of each sub-group are reproduced along with other results, as shown in Table 7.9 and 7.10.

The results in Table 7.9 present the mean ranks of the social responsibility scale of different socio-demographic sub-groups involved in the study. The mean ranks for different type of marital status and occupation are almost identical, with highly insignificant p values. On the other hand, although there are differences in the mean ranks of various subgroups in terms of gender and education, these differences are not statistically significant as the p-values do not reach the 0.05 level.

Table 7.9: Comparing Social Responsibility Scale between Different Socio-Demographic Sub-groups

Socio-Demography	Sub-Group	N	Mean Rank	Chi-Square (Z-Score)	Df	Asymp. Sig.
Gender	Male	261	219.70	(-1.040)	1	0.299
	Female	188	232.36			
Marital Status	Single	127	218.42	(-0.155)	1	0.877
	Married	306	216.41			
Ethnicity	Malay	359	253.30	93.452	2	0.000
	Chinese	72	103.55			
	Indian	17	128.56			
Religion	Islam	362	250.01	95.148	3	0.000
	Christianity	28	86.23			
	Buddhism	43	100.42			
	Hinduism	11	141.23			
Age	Below 30	94	256.64	10.796	3	0.013
	31-40	211	217.57			
	41-50	120	206.45			
	Above 50	24	259.13			
Highest Education	Primary/Secondary School	37	240.59	2.869	3	0.412
	Certificate/Diploma/Matriculation/A-Level	152	219.71			
	Bachelor (First Degree)	171	227.37			
	Professional/ Postgraduate	82	203.96			
Monthly Income	RM 1,500 and below	33	299.38	30.141	5	0.000
	RM 1,501 - RM 3,000	91	247.55			
	RM 3,001 - RM 5,000	148	221.60			
	RM 5,001 - RM 10,000	100	223.82			
	RM 10,001 - RM 20,000	54	162.80			
	More than RM 20,000	21	178.62			
Type of Occupation	Professional/Administrative/ Managerial	273	227.34	(-0.486)	1	0.627
	Others	176	221.36			
Type of Organisation	Small/Medium/others	142	225.89	21.769	2	0.000
	Large corporations	196	197.31			
	Govt/Govt. Agency/GLCs	108	267.89			

Differences in opinions were more pronounced between respondents of different ethnicity, religion, age, income group and type of organisation with all of these socio-demographic variables reaching statistical significance at the 0.05 level. Table 7.9 shows that respondents who work in the public sector or government linked companies recorded higher mean rank as compared to those working in other types of organisations. In terms of the mean ranks between income groups, it is quite apparent that the perceived importance attached by the lower income groups on social responsibility factor is higher than those in higher income groups. This suggests that lower income earners are more receptive to the idea of having social responsibility dimension in Islamic investment. Perhaps this can be explained by the fact that issues such as poverty eradication and social development are relevant and directly related to them. In contrary, the higher income earners, who are likely to have more funds invested, would have more risk exposure and concern on the economic aspect of the investment. This can be confirmed by referring to the earlier table (Table 7.7) which revealed that investors with higher income rate highly the economic scale.

On the other hand, it appears that the perceived importance of social responsibility dimension in Islamic investment take a curvilinear relationship with respect to age. As shown in Table 7.9, higher mean ranks are observed among younger respondents (below 30) and the elderly (above 50), while those in the middle-age group (31-40 and 41-50) register lower values. The higher mean rank for the younger group of investors are consistent with other studies in the field of SRI that can be explained by the increasing awareness of the younger generation on social, ethical and environmental issues. Finally, as anticipated from the earlier results, ethnicity and religion register the most substantial differences in terms of the mean rank between the Malay-Muslim group and investors from other ethnic and faiths. The mean rank for the committed investors is 261.36 as compared to 192.54 for the pragmatic investors, while it only stands at 96.83 for the non-Muslim investors. It also appears that there is a positive relationship between the mean rank for the social responsibility scale with the level of participation in pro-social activities for both at the individual and collective levels, though only the former is statistically significant. Therefore, it can safely be said that the respondents who have greater participation in socially responsible activities have higher level of perceived importance of social responsibility dimension in Islamic investment.

Table 7.10: Comparing Social Responsibility Scale between Different Characteristics of Investors

Characteristics	Sub-Group	N	Mean Rank	Chi-Square (Z-Score)	Df	Asymp. Sig.
Cluster Membership	Non-Muslim	83	96.83	118.949	2	0.000
	Pragmatic	130	192.54			
	Committed	199	261.36			
Individual Pro-social Activities	Below Average	161	200.11	10.553	2	0.005
	Average	129	230.75			
	Above Average	159	245.53			
Collective Pro-social Activities	Below Average	242	219.74	3.936	2	0.140
	Average	136	220.00			
	Above Average	71	252.50			
Main Investment Objective	Retirement/ Children's Education	210	225.68	(-0.185)	1	0.853
	Others	238	223.46			
Risk-return Attitude	Low	28	197.27	2.232	2	0.328
	Average	94	235.81			
	High	322	220.81			
Awareness of SRI	Never heard	70	177.41	14.714	4	0.005
	Have heard	58	219.66			
	Know a little	184	222.43			
	Quite familiar	89	253.94			
	Very familiar	40	219.34			

Another important grouping factor that contributes significantly to the variation in the social responsibility scale is the level of awareness on investing using SEE issues. As shown in Table 7.10, higher mean ranks can be found in the group of investors with higher level of SRI awareness. Other characteristics of the investors such as their risk-return attitude and main investment objective are not statistically significant.

7.3.4 Perceived Importance of Social Responsibility Dimension vis-à-vis Economic Dimension

The above analysis has highlighted different grouping variables that significantly influence the degree of importance investors attach to social responsibility dimension in the context of *Shari'ah* based investment. However, the above analysis has only looked into the differences in the social responsibility scale scores independently of other scales. Literature in the SRI industry has emphasised the presence of interaction between pecuniary and non-pecuniary returns faced by SRI investors in their investment decision. Therefore, it will be interesting to compare the degree of importance investors attach to social responsibility dimension vis-à-vis the economic dimension in the context of Islamic investment. In doing so, a new variable is computed by subtracting the economic scale from the social responsibility scale. This new variable will provide additional information in the measurement of the importance of the social responsibility dimension in two ways. Since investors often are confronted with two possibly conflicting objectives; economic and social responsibility, it will directly evaluate the differences in the level of importance respondents attached to both of the dimensions, and provide a relative measure of social responsibility in relation to the economic factor. Secondly, based on Table 7.7 and 7.8, it seems that there exist some differences in the manner respondents scored the items. A clear example can be seen from the responses from Muslim investors as compared to investors of other faiths (Table 7.7). The Muslim investors scored all the three dimensions consistently higher than the non-Muslims. This may suggest that different sub-groups may differ in their general attitude in scoring all the items, and therefore using only the social responsibility scale independently of other scale may not be able to capture such differences. By having this new variable, such differences (if present) can be removed by taking into consideration how the investors score the items from the other dimension (economic dimension).

Table 7.11 shows the frequency of this variable. For the sake of simplicity, this newly computed variable is known as 'SR-Econ' scale. It ranges from 1.33 to -4.00 with a mean of -0.209 and a standard deviation of 0.549. Positive values indicate that the scores for the social responsibility scale are greater than the scores for economic scale, and vice versa, negative values imply that the scores for economic scale are greater than the social responsibility scale. It also means that as the scores of the 'SR-Econ' scale increases, the greater will be the perceived importance of the social responsibility dimension in comparison to the economic dimension, and vice versa, as the scores of the 'SR-Econ' scale decreases, the greater will be the perceived importance of the economic factor in relation to the social responsibility factor among the investors.

Table 7.11: Frequency of SR-Econ Scale

Scores	Frequency	Per cent	Cumulative Per cent
1.33	2	0.45	0.45
1.00	1	0.22	0.67
0.67	15	3.36	4.04
0.33	49	10.99	15.02
0.00	210	47.09	62.11
-0.33	76	17.04	79.15
-0.67	37	8.30	87.44
-1.00	27	6.05	93.50
-1.33	22	4.93	98.43
-1.67	2	0.45	98.88
-2.00	2	0.45	99.33
-2.33	1	0.22	99.55
-3.33	1	0.22	99.78
-4.00	1	0.22	100.00
Total	446	100.00	
Mean			-0.209
Standard Deviation			0.549

As can be seen from Table 7.11, around 15 percent of the respondents scored social responsibility scale higher than the economic scale, implying that they prioritise social responsibility dimension over economic dimension. Interestingly, almost half of the respondents (47%) scored equally for the social responsibility and economic scales. Therefore, a total of 62 percent of the respondents perceived social responsibility dimension as more or equally important to economic aspect within Islamic investment. On the other hand, the remaining respondents (around 38 percent) rate economic scale higher than the social responsibility scale, and necessarily indicates the priority of the perceived importance of economic aspect over social responsibility concern.

To analyse whether different demographic groups and other investment characteristics of the respondents have any influence on how they perceive the importance of social responsibility dimension vis-à-vis economic dimension in their Islamic investment, the Mann-Whitney Test (for df=1) and the Kruskall-Wallis Test (for df>1) were conducted. As described in the previous paragraph, the test on this variable will explore whether different sub-groups of the respondents significantly differ in the way they perceive the importance of social responsibility factor in relation to economic factor within the context of Islamic investment. The mean rank of each sub-group is reproduced along with the results of the tests statistics to assist in the understanding of the differences among the sub-groups. These figures are shown in Table 7.12 for the socio-demographic sub-groups and Table 7.13 for other characteristics of the respondents.

Based on Table 7.12, statistically significant differences in the manner the respondents perceived the importance of social responsibility dimension in relation to economic dimension can be found between gender, marital status, ethnicity, religion, age and income groups, while significant difference at 0.05 level were not found among different sub-groups of education, types of occupation and organisation. As the present analysis is an extension to the earlier analysis in section 7.3.4, it is useful to compare these results with the one shown in Table 7.9 and 7.10, which reported the findings based on the social responsibility scale.

Some of the results in Table 7.12 are consistent with the previous analysis (Table 7.9) and therefore, strengthen the earlier findings. For instance, the Malay-Muslim respondents are associated with higher mean ranks for the SR-Econ scale as compared to the other respondents. The lower mean ranks among the respondents from other ethnic and religion also indicate that the importance of economic factor over social responsibility are much greater among these groups as compared to their counterpart from the Malay and Muslim investors.

However, a close inspection to the values of the mean ranks reveal that the variation in the values between Malay and Muslim investors with investors from other ethnicity and religion are not as substantial as what can be found in Table 7.9, when the analysis used only the social responsibility scale. This is also reflected by the relatively lower chi-square statistics for both variables. Therefore, the use of the new scale, i.e. SR-Econ scale, in this analysis has managed to eliminate the potential bias that may exist in the general attitude of different respondents when scoring the Likert scale items in the questionnaire.

Table 7.12: Comparing SR-Econ Scale between Different Socio-Demographic Sub-groups

Socio-Demographic	Sub-group	N	Mean Rank	Chi-Square (Z-score)	df	Asymp. Sig.
Gender	Male	260	210.46	(-2.680)	1	0.007
	Female	186	241.73			
Marital Status	Single	127	244.52	(-3.322)	1	0.001
	Married	303	203.34			
Ethnicity	Malay	357	235.66	21.406	2	0.000
	Chinese	71	163.31			
	Indian	17	206.50			
Religion	Islam	360	232.55	21.466	3	0.000
	Christianity	28	189.93			
	Buddhism	42	146.68			
	Hinduism	11	206.00			
Age	Below 30	94	268.14	16.626	3	0.001
	31-40	208	215.54			
	41-50	120	206.26			
	Above 50	24	203.90			
Highest Education	Primary/Secondary School	37	251.76	7.631	3	0.054
	Certificate/Diploma/ Matriculation/A-Level	151	228.37			
	Bachelor (First Degree)	169	218.82			
	Professional/ Postgraduate	82	192.70			
Monthly Income	RM 1,500 and below	33	284.98	35.091	5	0.000
	RM 1,501 - RM 3,000	90	253.99			
	RM 3,001 - RM 5,000	147	232.14			
	RM 5,001 - RM 10,000	100	200.33			
	RM 10,001 - RM 20,000	53	173.03			
	More than RM 20,000	21	152.29			
Type of Occupation	Professional/Administrative / Managerial	271	227.45	(-0.855)	1	0.393
	Others	175	217.38			
Type of Organisation	Small/Medium/others	141	219.33	4.171	2	0.124
	Large corporations	196	212.95			
	Govt/Govt. Agency/GLCs	106	242.29			

Another similar finding is the income of the respondents. Consistent with the results for social responsibility scale (Table 7.9), lower income groups are associated with higher mean ranks for the SR-Econ scale. It is also observed that the values for the mean ranks decrease with higher income level implying that the higher income groups the respondents belong, the greater will be their perceived importance of the economic factor over the social responsibility factor. While differences between the sub-groups of age remain significant in this analysis, interestingly, the curvilinear relationship between social responsibility scale and age has changed to a linear relationship in the context of the SR-Econ scale. From Table 7.12, the mean rank shows that younger respondents indicate greater importance of social responsibility dimension in relation to economic dimension as compared to those in higher age groups. The difference between those in professional/administrative/managerial level with other types of occupation remains insignificant.

Contrary to the findings based on the social responsibility scale, the analysis with the SR-Econ scale has shown that there exist statistically significant differences at the 0.05 level for gender and marital status, while the differences between different types of organisation has become insignificant. As shown in Table 7.12, the mean ranks for the SR-Econ scale are higher for female and single respondents. Despite the insignificant differences in the way different group within gender and marital status attach to the social responsibility dimension, there are significant differences in the way they perceive the importance of social responsibility concerns in relation to economic aspects. In this context, female and single respondents have greater perceived importance of social responsibility concern in relation to economic factor compare to male and married respondents

As for the other characteristics of the investors, Table 7.13 shows that significant differences between sub-groups on the SR-Econ scale are only found among cluster membership and the level of SRI awareness, with the values of the mean ranks suggest similar findings with the previous analysis in Table 7.10. As compared to the committed and pragmatic investors, non-Muslim investors seemed to attach greater importance of economic dimension over social responsibility dimension. It is also important to note that the variation of the mean ranks of the three clusters for the SR-Econ scale in this analysis is not as substantial as can be found in Table 7.10 when the social responsibility scale was used, and therefore, reinforce the earlier observation on the potential differences in the general attitudes among different sub-groups in scoring the questionnaire items. The insignificant values for other characteristics of the respondents such as pro-social behaviour, risk-return attitude and main investment objective suggest that there were no significant differences among the sub-groups in the way they perceived the importance of social responsibility factor in relation to economic factor in Islamic investment.

Table 7.13: Comparing SR-Econ Scale between Different Characteristics of Investors

Characteristics	Sub-group	N	Mean Rank	Chi-Square (Z-score)	df	Asymp. Sig.
Cluster Membership	Non-Muslim	82	157.70	19.612	2	0.000
	Pragmatic	129	210.32			
	Committed	199	222.08			
Individual Pro-social Activities	Below Average	159	214.83	1.307	2	0.520
	Average	128	226.53			
	Above Average	159	229.73			
Collective Pro-social Activities	Below Average	239	219.77	2.836	2	0.242
	Average	136	218.45			
	Above Average	71	245.73			
Main Investment Objective	Retirement/Children's Education	207	222.19	(-0.132)	1	0.895
	Others	238	223.71			
Risk-return Attitude	Low	28	188.96	5.571	2	0.062
	Average	94	243.37			
	High	319	217.22			
Awareness of SRI	Never heard	69	157.33	29.215	4	0.000
	Have heard	58	203.59			
	Know a little	183	228.84			
	Quite familiar	88	255.87			
	Very familiar	40	227.06			

7.4 PERCEIVED IMPORTANCE OF VARIOUS SOCIAL RESPONSIBILITY ISSUES

The previous analysis as discussed in section 7.2 and 7.3 have shown that there exist some support for the social responsibility dimension to be considered within the domain of Islamic investment. Given that social responsibility issues are very broad and multifaceted, an attempt was made to identify the areas of social responsibility that are perceived as important by investors in their investment. As discussed in Chapter 5, the variables included in the questionnaire were selected from various reports and guidelines related to CSR and SRI, and consistent with the notion of justice and realisation of the objective of the *Shari'ah*.

7.4.1 Ranking of Social Responsibility Issues

Given the wide spectrum of social responsibility issues, a total of 15 items were carefully selected and included in the questionnaire. Table 7.14 shows the frequencies, means and standard deviations of all the items for the overall sample, and they are ranked based on their mean score level of importance (the highest mean to the lowest). A quick look at the range of the mean scores suggests that the criteria can be categorised into three broad levels; top five criteria, middle five and bottom five, with greater differences in mean scores can be seen in the top and bottom five criteria, while there are relatively small differences for the mean scores of the middle five criteria.

The mean scores of the top five criteria ranged from 4.428 to 4.175, which include criteria of 'not be involved in unethical business behaviour' (4.428), 'not using child or forced labour' (4.313), followed by, 'having good system of accountability and transparency in its operation' (4.251), 'promoting ethical values in its operation' (4.213), and ensuring safe and healthy working environment' (4.175).

Interestingly, the mean scores of the criteria which dominate the middle ranking in the table are narrowly ranged between 4.098 and 4.029. These criteria include 'helping the less fortunate groups', 'having good benefit scheme to employees', 'not be involved in environmentally damaging activities', 'treating employees, customers and suppliers fairly', and 'promoting employees competency and career development'. On the other hand, the mean scores for the bottom five criteria slipped under the 4.0 (important) threshold with mean scores ranging from 3.982 to 3.698. These criteria include 'respecting the rights of employees and the freedom of association', 'use environmentally friendly technologies', 'providing facilities to communities', 'adopting good waste management and recycling policy', and 'investing in poor and underdeveloped areas'.

Nevertheless, among the fifteen items asked, a total of ten criteria were regarded as 'important' or 'very important' in the investment decision by more than 75% of the respondents. In fact, even the last item in the ranking ('investing in poor and underdeveloped areas') were considered to be either 'important' or 'very important' by almost 60% of the respondents. This indicates that the investors as a whole, perceive social responsibility issues as important in their investment decision.

It is imperative to understand the nature of the underlying factor that influence the level of importance investors attached to different types of social responsibility issues. Based on Table 7.14, the top two social responsibility issues considered to be most important by the investors in their investment are related to the exclusionary or negative screening criteria concerned with 'unethical business behaviour' and 'using child or forced labour'. The mean score for the two item is 4.428 and 4.313, with 55.2 per cent and 51.7 percent of respondents considered them to be very important, and a further 34.6% and 32.8% considered them to be 'important' to their investment decision. This is consistent with other SRI studies which reported that investors put higher emphasis on avoiding certain activities considered harmful and diametrically opposed to their ethical values and conviction. Similarly, from an Islamic perspective, avoiding, removing and protecting from harm is prioritised over promoting good as discussed in Chapter 3. However, this is not the case for another negative screening criterion namely 'not be involved in environmentally damaging activities' which only came eighth in the ranking of the mean scores.

From this understanding, despite the fact that the criterion of 'not be involved in environmentally damaging activities' share similar characteristic with the top two criteria, it was not perceived as having the same weight in terms of its importance by the respondents.

The results in table 7.14 suggest that the factor that may influence the level of importance the respondents attached to certain criteria may not solely influenced by the superiority of avoiding harm over promoting good. Instead, the nature of the specific criterion may also influence this decision.

Table 7.14: Perceived Importance of Various Social Responsibility Issues in Investment

Items	Not Important At All	Not Important	Neutral	Important	Very Important	Mean	Std. Dev.	n
Not involved in unethical business behaviours	3	4	39	156	249	4.428	0.7430	451
	0.7%	0.9%	8.6%	34.6%	55.2%			
Not using child or forced labour	6	10	54	148	233	4.313	0.8653	451
	1.3%	2.2%	12.0%	32.8%	51.7%			
Having good system of accountability and transparency in its operation	1	4	53	216	177	4.251	0.7098	451
	0.2%	0.9%	11.8%	47.9%	39.2%			
Promoting ethical values in its operation	0	7	55	223	165	4.213	0.7118	450
	0.0%	1.6%	12.2%	49.4%	36.6%			
Ensuring safe and healthy working environment	0	13	60	213	165	4.175	0.7647	451
	0.0%	2.9%	13.3%	47.2%	36.6%			
Helping the less fortunate groups	1	8	77	225	140	4.098	0.7509	451
	0.2%	1.8%	17.1%	49.9%	31.0%			
Having good benefits scheme to employees	1	10	76	230	133	4.076	0.7542	450
	0.2%	2.2%	16.9%	51.0%	29.5%			
Not involved in environmentally damaging activities	8	21	61	201	158	4.069	0.9123	449
	1.8%	4.7%	13.5%	44.6%	35.0%			
Treating employees, customers and suppliers fairly	1	15	83	215	137	4.047	0.8000	451
	0.2%	3.3%	18.4%	47.7%	30.4%			
Promoting employees' competency and career development	0	9	92	225	123	4.029	0.7479	449
	0.0%	2.0%	20.4%	49.9%	27.3%			
Respecting the rights of employees and the freedom of association	1	14	105	202	128	3.982	0.8145	450
	0.2%	3.1%	23.3%	44.8%	28.4%			
Using environmentally friendly technologies	2	25	97	213	113	3.911	0.8501	450
	0.4%	5.5%	21.5%	47.2%	25.1%			
Adopting good waste management and recycling policies	6	26	109	195	113	3.884	0.8582	449
	1.3%	5.8%	24.2%	43.2%	25.1%			
Providing facilities to community	5	19	107	210	108	3.853	0.9092	449
	1.1%	4.2%	23.7%	46.6%	23.9%			
Investing in poor and underdeveloped areas	5	34	148	169	95	3.698	0.9225	451
	1.1%	7.5%	32.8%	37.5%	21.1%			

As previously shown, issues related to environmental concern have not been one of the more important aspect of the investment among the respondents. For instance, when asked on what are the criteria that should be considered in investment based on *Shari'ah* principles, 'care about the impact to the environment' was at the bottom for all the three clusters of investors (Table 7.2). Similarly, from Table 7.14, other criteria related to environment namely 'using environmentally friendly technologies' and 'having good waste and recycling policy', were ranked at the twelfth and thirteenth position. Apart from environment, the criteria associated to community development have also been considered to be less important by the respondents with two of the criteria dominates the bottom two positions in the above table.

7.4.2 Exploring the Underlying Factors - Perceived Importance of Social Responsibility Issues

The above results and discussions have provided us with some useful background on the issues considered important to investors in their investment. Based on the a priori understanding guided on past literature in the field of SRI, issues of importance to socially responsible investors by and large can be categorised into two general concerns. Firstly, the criteria considered important to the investors may be influenced by specific areas such as 'quality of life', 'environment', 'animal exploitation', or other aspects that match closely with their personal values. If this is the case, the responses of the investors will be influenced by these areas of concern, and different groups of investors will perceive a particular area as more important than other groups. On the other hand, investors can just be broadly influenced with the concerns involving avoiding harmful activities vis-à-vis promoting positive impact to the society or the environment. This is consistent with the earlier discussion on the attitude of ethical investors that may focus on avoiding harm or promoting good, in line with the practice of negative and positive screening strategies in SRI.

Therefore, an exploratory factor analysis is employed here in order to understand the underlying factor that influence the respondents' perceived importance of different social responsibility issues. The result of the analysis would ascertain which one of the above competing factor structures is supported by the data collected from this study. Prior to the analysis, the usual statistical tests namely the KMO and Bartlett's Test of Sphericity were conducted and the result is shown in Table 7.15.

Table 7.15: Factor Analysis- KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.947
Bartlett's Test of Sphericity	Approx. Chi-Square	5345.161
	df	105
	Sig.	.000

The KMO measure showed a value of 0.947. This indicates a 'marvellous' sample adequacy according to the Kaiser (1974) scale, and hence is deemed highly favourable for use in further factor analysis. The Bartlett's Test of Sphericity also reached statistical significance (p=0.000), supporting the factorability of the correlation matrix. Subsequently, an exploratory factor analysis was employed to the fifteen items as shown in Table 7.14. Again, following the recommendations by Costello & Osborne (2005), Principal Axis Factoring was employed for the extraction and direct oblimen was chosen as the rotation technique. As previously discussed, the Eigenvalue greater than 1 rule, the scree test, along with the a priori understanding of the factor structure are used here as a basis In running the multiple factor analysis and determining the appropriate number of factors to retain,.

Unlike previously, this time around there is at least two competing factor structures relevant to this analysis. As described in Chapter 5 (Table 5.4), the items were chosen to represent five social responsibility areas as frequently identified in the literature related to CSR and SRI; environment, labour standards, human rights, business practice, and community involvement. If the responses of the investors are influenced by these specific areas of social responsibility, a possible five factors (or a combination between them) could emerge from the factor analysis. On the other hand, if the driving factor that controls the responses is exclusively based on the concern between avoiding harm and promoting good, a two-factor structure would be expected to emerge. Nevertheless, as observed from the descriptive analysis above (section 7.4.1), a combination of the above factor structure would also be possible.

Table 7.16: Factor Analysis- Initial Eigenvalues

Factor	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	9.243	61.622	61.622
2	1.023	6.820	68.442
3	.767	5.113	73.555
4	.588	3.918	77.473
5	.539	3.595	81.068
6	.497	3.313	84.381
7	.404	2.692	87.073
8	.330	2.203	89.276
9	.294	1.959	91.235
10	.290	1.934	93.169
11	.259	1.725	94.895
12	.233	1.555	96.450
13	.207	1.382	97.832
14	.180	1.200	99.031
15	.145	.969	100.000

Figure 7.2: Scree Plot

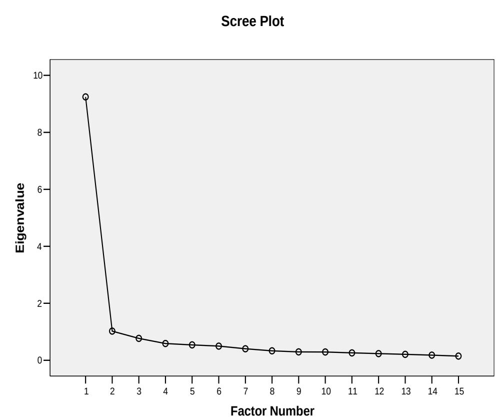


Table 7.16 presents the results of the initial Eigenvalue of the factor analysis. There are two factors with Eigenvalue greater than 1, with a value of 9.243 and 1.023. Alternatively, Figure 7.2 shows the scree plot which illustrates the values of Eigenvalue against the number of factors. As can be seen, the plot slopes steeply downwards from one factor to two factors before moving slowly towards the horizontal line. Based on Catell's (1996) scree test, the clear break after the second factor as shown in the figure suggests a potential two factor solution for the fifteen social responsibility issues.

Given the results of the initial Eigenvalue and the scree test, it is likely that the emerging factor structure will be at the lower bound of the expected number of factors. As anticipated, the pattern matrix of the three factor solution produces a trivial third factor with no items load significantly to the factor and a post rotation Eigenvalue of only 0.574 (Refer to Appendix 7B). Therefore, subsequent factor analysis beyond the three factor solution was not conducted. In the light of the above, two factor solution is chosen as the most appropriate fit to the data. As previously, variables with factor loadings smaller than ±0.3 were suppressed in the table for easy interpretation.

Table 7.17: Factor Analysis- Pattern Matrix and Commonalities

Variable	Factor		Communality
	1	2	
(C3) Providing facilities to community	**.886**		.657
(E3) Using environmentally friendly technologies	**.845**		.724
(L2) Providing good benefits scheme to employees	**.812**		.673
(R3) Respecting the rights of employees and the freedom of association	**.790**		.680
(E2) Adopting good waste management and recycling policies	**.748**		.678
(C2) Investing in poor and underdeveloped areas	**.728**		.433
(C1) Helping the less fortunate groups	**.659**		.551
(L3) Promoting employees' competency and career development	**.622**		.638
(R2) Treating employees, customers and suppliers fairly	**.615**		.686
(E1) Not involved in environmentally damaging activities	**.498**	.382	.676
(B1) Not involved in unethical business behaviours		**.879**	.637
(R1) Not using child or forced labour		**.685**	.644
(B3) Promoting ethical values in its operation		**.634**	.660
(B2) Having good system of accountability and transparency in its operation		**.525**	.581
(L1) Ensuring safe and healthy working environment	.381	**.460**	.617
Post Rotation Eigenvalue	8.434	6.997	
Average Commonalities			.636
Cumulative % of variance explained			63.555

Notes: E= Environment; L= Labour standards; R= Human rights; B= Business practice; C= Community involvement

The pattern matrix shown in Table 7.17 which presents the rotated factor solution reveals two-factor model with all the fifteen items exhibit large factor loadings. Two of the variables, however, have loadings more than 0.3 for both the factors. This would not be a major problem if we only consider loadings above 0.4 or higher as significant as suggested by Field (2009), Blaikie (2002) and others. In brief, the exploratory factor analysis employed reveal the presence of two underlying factors which influence the way investors respond to the variables that are being measured. The first factor consists of ten items with a post-rotation Eigenvalue of 8.434, while the second includes five items with a post-rotation Eigenvalue of 6.997. Table 7.17 also reports the commonality of the variables which range from 0.433 to 0.724 with an average of 0.636. The total variance explained by the two factor model after the extraction process can also be considered satisfactory at around 64%. However, unlike orthogonal rotation, in an oblig rotation method which allow factors to correlate, sums of squared loadings cannot be added to obtain a total variance, and therefore, the total variance exclusively explained by each of the factor after rotation were not available.

7.4.3 Interpreting the Results of the Factor Analysis

Given the relatively greater number of items clustered in each factor, it is necessary to carefully examine the nature of the variables before concluding the factor it represents. It is important to recognise that the items included in this analysis are not only representing different areas of social responsibility issues (as identified in Table 5.4), but the items for each area are also chosen to reflect different level of intensity. For instance, the criteria representing the area of environment includes 'not be involved in environmentally damaging activities', 'adopting good waste and recycling policy' and 'using environmentally friendly technologies', which accordingly represent different level of importance from avoiding harm, preservation of present condition to promotion of better environmental wellbeing. In the light of this, the discussion proceeds to interpret the results of the factor analysis.

As shown in Table 7.17, items grouped in factor one include the following criteria; 'providing facilities to community', 'using environmentally friendly technologies', 'providing good benefits scheme to employees', 'respecting the rights of employees and the freedom of association', 'adopting good waste management and recycling policies', 'investing in poor and underdeveloped areas', 'helping the less fortunate groups', 'promoting employees' competency and career development', 'treating employees, customers and suppliers fairly', and 'not involved in environmentally damaging activities'. On the other hand, the items which load significantly to factor 2 include 'not involved in unethical business behaviours', 'not using child or forced labour', 'promoting ethical values in its operation', 'having good system of accountability and transparency in its operation', and 'ensuring safe and healthy working environment'.

Based on these, two important observations can be made on the characteristics of the factor components. Firstly, the first factor is dominated by the items representing the area of 'community involvement' and 'environment', with all the three items for both area load significantly to this factor. On the other hand, the second factor is dominated by the criteria related to the business practice, again with all the three items load significantly to this factor. This suggests that the nature of issues, particularly between internal business operation and external stakeholders (in the case of community and environment) have played an important role in this distinction.

Secondly, it appears that the items representing human rights and labour standards were separated between the two factors. As shown in the table, an item from each of the area is clustered into factor 2, namely 'not using child or forced labour' and 'ensuring safe and healthy working environment' respectively, while the remaining two items (from each of the area) are clustered in factor 1. It suggests that the two items clustered in factor 2 reflect more basic and essential criteria, associated with avoidance or prevention of harm, as compared to the other four items. This point becomes more apparent when all the items clustered in factor 1 and 2 are evaluated as a whole. Except for 'not be involved in environmentally damaging activities', all other items in factor 1 such as 'providing facilities to community', 'using environmentally friendly technologies', 'providing good benefits scheme to employees' and others can be considered to represent higher level of social responsibility practices which aim to promote a positive development to community, environment and other stakeholders like employees, customers and suppliers. This is compared to issues related to avoiding and preventing harm such as 'not be involved in unethical business behaviour', 'not using child or forced labour', and 'ensuring safe and healthy working environment' which were clustered in factor 2.

In addition to that, amidst the current financial crisis and the escalating corporate scandals, perhaps issues such as accountability, transparency and ethical business conduct are perceived as very critical in preventing the reoccurrence of future corporate and financial collapse with devastating economic and social consequences, that these items are recognised by investors to share the same characteristics with other issues associated with ‘harm prevention’. This recognition perhaps explains why items 'having good system of accountability and transparency' and 'promoting ethical values in its operation' were clustered in factor 2. It is also interesting to observe that these two criteria, together with other components of factor 2 dominate the top position in the table of mean scores (Table 7.14).

In brief, the distinction between the two factors can be summarised as a result of a synthesis between the issues of harm prevention and the promotion of good, and the distinction between internal business practice and external stakeholders. The former would explain why the criteria of 'not using child or forced labour' and 'ensuring safe and healthy working environment' were clustered in factor 2, away from other items related to human rights and labour standards which were clustered in factor 1. The latter on the other hand, would explain why 'not be involved in environmentally damaging activities', despite being associated with harm prevention, load more strongly to the first factor instead of the second factor. In the light of this, the second factor can safely be called 'basic social responsibility practice' while the first factor is named 'supplementary and external social responsibility'. Consistent with the discussions on different levels of social responsibility issues based on their priority and importance in the eye of the *Shari'ah* (as presented in Chapter 3), the second factor is ranked higher by the respondents as compared to the first factor.

7.4.4 Other Screening Issues Popular in the SRI Industry

Apart from the social responsibility criteria concerning the policies and operations of businesses (as listed in Table 7.14 above), respondents were also asked on the importance of avoiding a number of sector-based screening issues popular in the western SRI industry. Table 7.18 shows the frequencies, means and standard deviations of the five criteria. A quick review at the range of the mean scores suggests that all the criteria are perceived as relatively important by the respondents except for criterion related to the avoidance of 'pesticide/chemicals', which have relatively lower mean score from the rest. Based on the table, the avoidance of businesses related to 'animal abuse' register the highest mean score of 3.993, followed by 'nuclear power' and 'arms industry', which have almost similar scores of 3.898 and 3.891 respectively. This is followed by businesses related to 'genetically modified food' (3.807) and 'pesticides/chemicals' (3.685). The top three criteria are considered to be 'very important' by more than 40 percent of the respondents, and showed strong support for the avoidance of such sectors in the investment decision. Another interesting findings is that despite being included as part of the *Shari'ah* non-compliant criteria in some major screening norms, the exclusion of 'arm industry' only came third in the ranking. Likewise, while the manufacture of pesticides and chemicals are considered damaging to human health and has been one of the major concerns in the SRI industry, this has not been perceived as quite important among the respondents.

Table 7.18: Perceived Importance of Other Screening Issues in SRI

Items	Not Important At All	Not Important	Neutral	Important	Very Important	Mean	Std. Deviation	N
Arms industry	23	31	99	115	181	3.891	1.1627	449
	5.1%	6.9%	22.0%	25.5%	40.1%			
Nuclear power	28	25	107	95	195	3.898	1.2025	450
	6.2%	5.5%	23.7%	21.1%	43.2%			
Genetically modified food	23	28	112	138	150	3.807	1.1197	451
	5.1%	6.2%	24.8%	30.6%	33.3%			
Pesticides/Chemicals	24	32	133	130	128	3.685	1.1211	447
	5.3%	7.1%	29.5%	28.8%	28.4%			
Animal abuse	32	24	69	113	210	3.993	1.2179	448
	7.1%	5.3%	15.3%	25.1%	46.6%			

The respondents' favourable attitude towards the importance of social responsibility dimension and its various issues as shown in this chapter can be an important precursor to the incorporation of these concerns into Islamic investment. As proven in the SRI industry, the development of such sector can be strongly influenced by the demand side of the market. Therefore, the next component to the empirical analysis of this research seeks to investigate the extent of such demand by examining the willingness of the respondents to incorporate these social responsibility issues in their actual investment decision.

7.5 SUMMARY AND CONCLUSION

The overall result reveals that generally, the investors put a hierarchy in the elements considered important for investment which are based on *Shari'ah* principles. As expected, the compliance of *fiqh* injunctions is considered to be the most important consideration, followed by economic and social responsibility dimensions. Despite being consistently overpowered by the economic dimension in all of the sub-groups of the investors, social responsibility criteria is perceived as important by the majority of the investors, and therefore, the empirical evidence of this chapter suggests that investors of Islamic funds recognise the social responsibility dimension as part of an important component in *Shari'ah*-based investment. It has been shown that ethnicity, religion, income, age, complying to *Shari'ah* principles in investment, and the level of SRI awareness are among the important factors influencing the level of perceived importance of social responsibility dimension, with the Malay-Muslim, committed, young, and lower income investors as well as those having higher level of SRI awareness show greater scores for both the social responsibility scale and SR-Econ scales as compared to other sub-groups. Additionally, greater participation in individual pro-social behaviour and working in the public sector or government linked corporations (GLCs) are also found to have positive impact on such attitude (based on the social responsibility scale), as well as for female and single respondents (based on SR-Econ scale).

Based on the exploratory factor analysis on the social responsibility issues considered important to the investors in their investment decision, it was revealed that the underlying factor that influenced the way investors respond to the issues are based on the synthesis between the idea of the prevention of harm and the promotion of good, and between internal business operation and external stakeholders. Subsequently, the factors that shaped this attitude can be identified as 'basic social responsibility practice' and 'supplementary and external social responsibility' factors, with the former is shown to be highly ranked by the investors as compared to the latter. This result is consistent with the theoretical discussions on the levels of social responsibility issues from the Islamic perspective as presented in Chapter 3. Additionally, it has been shown that some of the sector screening popular in the SRI industry, such as in the area of animal exploitation, arms industry and nuclear power have also received favourable responses by the investors as part of the potential consideration in the investment process. In the light of these encouraging results, the ensuing empirical analysis in Chapter 8 will further explore the willingness among the respondents to translate their support of social responsibility dimension and its various issues into actual investment behaviour.

CHAPTER 8

INVESTORS' SOCIAL RESPONSIBILITY COMMITMENT IN ISLAMIC INVESTMENT

8.1 INTRODUCTION

While the analysis in Chapter 7 explored how the respondents perceive the importance of social responsibility dimension and its various issues in their investment decision, Chapter 8 further investigates whether investors of Islamic funds are willing to incorporate such criteria in their actual investment behaviour. In particular, the major objectives of this chapter are to examine the investors' willingness to incorporate social responsibility criteria in their present and potential future investment; to evaluate the level of financial sacrifice they are willing to accept for such commitments; as well as to identify the main factors influencing these decisions. In this context, various components of explanatory variables are included in the estimation of ordinal regression procedures; financial motive, normative judgement, habitual element, investment related characteristics and socio-demographic profile. These variables seek to understand the multi-dimensional nature of individual decision making process, consistent with the extant literature in the field of SRI and Islamic finance.

8.2 PERCEPTIONS OF RISKS AND RETURNS ON THE INCORPORATION OF SOCIAL RESPONSIBILITY CRITERIA IN ISLAMIC INVESTMENT

Traditional risk and return theory suggests that risk and return are the most important component in determining the desirability of any investment. Even in the field of SRI, it has been established that financial consideration remains an important element in the decision of SRI investors. This section proceeds to examine various aspects of the perceived risk and return associated with the incorporation of social responsibility dimension in Islamic investment as obtained from the questionnaire data.

8.2.1 Implications of Incorporating Social Responsibility Criteria in the Investment Decision of Islamic Funds

In order to understand how the perceptions of financial risk and returns of investing based on social responsibility criteria are formed by the investors, four statements which explore their views towards different aspects of such an investment were included in the questionnaire. Table 8.1 provides the frequencies, means and standard deviations of the statements.

Table 8.1: General Views on the Implications of Applying Additional Social Responsibility Criteria in Islamic Investment

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.	N
By adding social responsibility criteria, the scope of profitable investment will be reduced.	17	130	138	134	30	3.067	1.002	449
	3.8%	28.8%	30.7%	29.7%	6.7%			
By applying social responsibility criteria, Islamic funds will avoid investing in potentially problematic companies.	8	35	85	244	76	3.770	0.884	448
	1.8%	7.8%	19.0%	54.1%	16.9%			
By applying social responsibility criteria, Islamic funds will invest in sustainable businesses.	3	18	75	252	100	3.955	0.782	448
	0.7%	4.0%	16.7%	55.9%	22.2%			
By adding social responsibility criteria, Islamic funds will have limited opportunity to diversify investment risks.	13	95	128	157	53	3.318	1.029	446
	2.9%	21.1%	28.7%	34.8 %	11.8%			

The result shows that the respondents were divided with respect to Statement 1 and 4 with a mean score of 3.066 and 3.318 respectively. Statement 1, which states "By adding the social responsibility criteria, the scope of profitable investment will be reduced", examines the opinions of the respondents towards the effect of applying additional social responsibility criteria on the pool of securities available for investment. Based on the results, it is quite apparent that the respondents displayed mixed views on the issue. Around 36 percent of the respondents agreed with the statement, 33 percent disagreed while another 31 percent were indifferent. The concern over the constraints that additional social responsibility criteria may place on Islamic funds is quite reasonable. Islamic funds have already restricted their investment universe by screening out companies with activities that are prohibited in *Shari'ah*. By applying additional social responsibility criteria, this will result in a 'double screening' process that further reduces the universe of investible securities. This may not only limit the scope of profitable investment opportunities, but also potentially reduces the ability of Islamic funds to diversify investment risks. Such concerns can be seen by the respondents' opinion to Statement 4, "by adding social responsibility criteria, Islamic funds will have limited opportunity to diversify investment risks". Consistent with the result of Statement 1, approximately 47 percent of the respondents agreed with the statement, 28percent were indifferent while only 24 percent expressed their disagreement.

Nevertheless, in the context of the Malaysian stock exchange, more than 80 percent of the securities listed in the bourse are approved as *Shari'ah* compliant. While the integration of social responsibility criteria would necessarily reduce further the investment universe, the significantly large *Shari'ah* approved counters available for investment can still provide sufficient pool of profitable investment and diversification opportunities across different types of industries. In fact, when Islamic funds were initially introduced in the market, similar concerns had also been raised and to date, it has been shown that Islamic funds, despite complying with the *Shari'ah* screening criteria, have experienced tremendous growth and performed as good as their conventional counterpart.

On the other hand, a majority of the respondents seemed to agree with Statement 2 and 3 with a mean score of 3.77 and 3.955 respectively. Statement 2 states that "By applying social responsibility criteria, Islamic funds will avoid investing in potentially problematic companies". A substantial proportion of the respondents (71 percent) expressed their agreement; approximately 20 percent were indifferent while only around 10 percent disagreed with the statement. A similar pattern of responses was identified with Statement 3: "By applying 'social responsibility' criteria, Islamic funds will invest in sustainable businesses". Almost 80 percent of the respondents agreed, around 17 percent were indifferent while only a mere 5 percent expressed their disagreement on the statement.

The above findings suggest that the investors recognise the merits of applying social responsibility criteria in Islamic investment in terms of the reduced risks and sustainable long term returns that such a portfolio could provide. This is in line with the arguments put forward by the proponents of SRI, and can be clearly exemplified by the characteristics of the 'value-seeking' investors. However, despite the acknowledgement of the advantages of applying social responsibility criteria, some investors were still concerned about the potential constraints that the additional criteria would bring to the investment portfolio.

8.2.2 Perceived Risk and Return on Islamic Funds that Apply Additional Social Responsibility Criteria

In addition to the general views on the implications of applying additional social responsibility criteria, the respondents were also asked about their specific perceptions on the level of expected risks and returns associated with such funds in comparison to ordinary Islamic funds.

Table 8.2: Perceived Risks and Returns of Islamic Funds that Apply Additional Social Responsibility Criteria in Their Investment Decision

	Much Lower	Somewhat Lower	Similar	Somewhat Higher	Much Higher	Mean	Std. Dev.	N
Perceived Risks	15	90	192	135	15	3.101	0.874	447
	3.3%	20.0%	42.6%	29.9%	3.3%			
Perceived Returns	1	64	173	176	32	3.390	0.827	446
	0.2%	14.2%	38.4%	39.0%	7.1%			

Based on Table 8.2, the respondents seemed to have diverse perceptions regarding the level of risk associated with such funds. A majority of them (43%) believed that the application of social responsibility criteria has no implication on the level of expected risk. On the other hand, around 30 percent perceived the risk to be 'somewhat higher' while another 20 percent considered it to be 'somewhat lower' in comparison to the regular Islamic funds. The percentage of investors who perceived the level of risk to be 'much higher' or 'much lower' were very small (3.3 percent each). This result, to some extent, resembles previous findings in the field of SRI. Based on the studies done by Lewis and Mackenzie (2000) and Nilsson (2007), around 60 percent and 63 percent of their respondents respectively perceived that SRI funds have similar risk in comparison to the regular mutual funds.

Diverse views can also be seen on the level of perceived returns associated with Islamic funds which apply additional social responsibility criteria. In this case however, a majority of the respondents (46 percent) believed that the expected return of the fund would be higher, approximately 38 percent of them believed that the expected return to be the same, while less than 15 percent perceived the expected return to be lower. This finding differs from the results of Lewis and Mackenzie (2000) and Nilsson (2007) where in both studies considerably more investors had the perception that SRI investment would have lower performance than the regular mutual funds in the long run.

It is important to understand how such diverse perception on the expected risk and return are formed by the respondents. It is likely that the general opinions on the implication of applying social responsibility criteria in the investment decision of Islamic funds may potentially shape such perceptions. Alternatively, differences in the characteristics of the respondents, such as their socio-demographic profile, level of pro-social behaviour and investment related characteristics may also explain the mixed views. In the light of this, the following two sections proceed to examine these suppositions.

8.2.3 Relationship between General Views on the Implications of Applying Social Responsibility Criteria and Perceived Risk and Return of the Islamic Funds

In analysing the potential influence of the general views on the implications of applying social responsibility criteria on the investors' perceived risk and return of the funds, correlation analysis (Spearman's Rho) of relevant items are employed and the results are shown in Table 8.3.

Table 8.3: Correlation Analysis between General Views on the Implications of Applying Social Responsibility Criteria and Perceived Risk and Return

Statements	Perceived Risk		Perceived Return	
	Correlation	Sig. (2-tailed)	Correlation	Sig. (2-tailed)
By adding social responsibility criteria, the scope of profitable investment will be reduced.	0.191	0.000	0.030	0.522
By applying social responsibility criteria, Islamic funds will avoid investing in potentially problematic companies.	0.111	0.019	0.157	0.001
By applying social responsibility criteria, Islamic funds will invest in sustainable businesses.	0.147	0.002	0.224	0.000
By adding social responsibility criteria, Islamic funds will have limited opportunity to diversify investment risks.	0.187	0.000	0.033	0.484
Perceived Risk	1.000		0.380	0.000
Perceived Return	0.380	0.000	1.000	

The results reveal that all the general views on the implication of applying social responsibility criteria have significant positive correlation with the perception on the expected risk of the fund. However, the coefficients are fairly weak with values ranges from just 0.111 to 0.191 for all the four statements. The two statements with the highest correlation coefficients are the first and the fourth which states "By adding the social responsibility criteria, the scope of profitable investment will be reduced" and "By adding social responsibility criteria, Islamic funds will have limited opportunity to diversify investment risks" with a coefficient of 0.191 and 0.187 respectively. It appears that the concerns on the constraints that the additional social responsibility criteria can bring to the investment have some influence on the respondents' perceived risk of the fund. However, the positively significant correlation between the second and the third statements with perceived risk are somewhat puzzling. For instance, a favourable response on the second statement which states "By applying social responsibility criteria, Islamic funds will avoid investing in potentially problematic companies" would logically have negative correlation with the perceived risk. Such confusing outcomes can perhaps be due to the uncertain views of the respondents on the appropriate level of expected risk associated with such funds.

On the other hand, the results of the correlation analysis on the perceived returns are more sensible. Out of the four statements included in the analysis, only the second and third statements are found to have significant correlations. The statement which states "By applying social responsibility criteria, Islamic funds will invest in sustainable businesses" has a significantly positive coefficient of 0.224, while the other statement which states "By applying social responsibility criteria, Islamic funds will avoid investing in potentially problematic companies" has a significantly positive coefficient of 0.157. These results indicate that there exist some positive correlation between the recognition on the benefits of applying social responsibility criteria in terms of the reduced risks and sustainable long term returns of the funds and the perception of expected returns. On the contrary, the insignificant results of the other two statements (statement 1 and 4) show that the perceived return have no relationship with the concerns over the constraints of applying the additional social responsibility criteria. Finally, the correlation analysis reveals a positive relationship between perceived risk and perceived return with a fairly moderate coefficient of 0.380. In other words, there is a general tendency among the respondents who perceived the risk to be higher to have greater expectation on the level of return of such funds, in line with the traditional risk and return theory in finance.

8.2.4 Comparing Perceived Risks and Returns between Different Sub-groups of Investors

The analysis further examines whether there are important differences between various sub-groups of the respondents on their perceptions of expected risk and return for the Islamic funds that apply additional social responsibility criteria. Mann-Whitney test (for df=1) and Kruskall-Wallis tests (for df>1) are used in the analysis. Table 8.4 below summarises the results of the tests for a number of grouping variables on the perceived risk and return (refer to Appendix 8A for the full results). Of all the variables included in the analysis, only a single sub-grouping (religion) emerged as significant at the 0.05 level for perceive risk. The result suggests that there exist some differences among respondents with different religion in their perception of risk associated with such funds in comparison to the regular Islamic funds. Based on the mean rank statistics, the results indicate that Buddhists are more likely to attach a lower level of perceived risk while the highest mean rank registered by the Hindus imply that they are likely to attach higher level of perceived risk.

Table 8.4: Comparing Perceived Risk and Return of Islamic Funds that Apply Additional Social Responsibility Criteria between Different Sub-groups of Investors

Variable	Perceive Risk			Perceive Return		
	Chi-square/ Z-score	Sig.	Remarks	Chi-square/ Z-score	Sig.	Remarks
Gender (df=1)	-0.031	0.975		-0.035	0.972	
Marital Status (df=1)	-1.081	0.280		-1.739	0.082	
Ethnicity (df=2)	2.545	0.280		5.073	0.079	
Religion (df=3)	**8.159**	**0.043**	Buddhists have the lowest mean rank, Hindus have the highest.	3.198	0.362	
Age (df=3)	1.832	0.608		7.596	0.055	Those above 50 have higher mean rank as compared to other age groups
Highest Education (df=3)	5.420	0.143		1.418	0.701	
Income (df=5)	4.345	0.501		6.835	0.233	
Type of Occupation (df=1)	-0.191	0.848		-0.155	0.876	
Type of Organisation (df=2)	0.021	0.989		1.903	0.386	
Cluster Membership (df=2)	1.274	0.529		0.523	0.770	
Individual pro-social behaviour (df=2)	2.336	0.311		**7.021**	**0.030**	Those with higher SR participation have higher mean rank
Collective pro-social behaviour (df=2)	0.025	0.987		0.213	0.899	
Main Investment Objective (df=1)	-0.082	0.935		-0.191	0.849	
Risk-return Attitude (df=2)	1.555	0.460		**10.066**	**0.007**	Those having high risk-return attitude have higher mean rank than others
SRI Awareness (df=4)	7.750	0.101		**17.940**	**0.001**	Those having average SRI awareness have low mean rank as compared to others

On the other hand, important differences between the sub-groups can be found in several variables in the case of perceived return. As shown in Table 8.4, statistically significant differences at the 0.05 level are found among respondents with different level of individual pro-social behaviour, risk-return attitude and awareness of SRI, while the differences between different categories of age is only significant at the 0.10 level (p=0.055). Inspection of the mean rank statistics reveals that those with higher individual pro-social activities, higher risk-return appetite and older respondents (above 50) are likely to assign higher perception of return on the Islamic funds that apply social responsibility criteria as compared to other sub-groups. Interestingly, the mean ranks suggest a Curvilinear relationship between the level of SRI awareness and the level of perceived return of the fund. Those having average level of SRI awareness are likely to attach a lower perception of return of the fund as compared to the respondents with below and above average level of awareness.

As revealed by the preceding analysis (section 8.2.3 and 8.2.4), the investors' general views and several characteristics of the respondents provide some understanding on the way they perceive the level of risk and return of Islamic funds that apply additional social responsibility criteria. While it is clear that the recognition on the potential benefits of applying social responsibility criteria influence the level of perceived return among the respondents, the results between the general views and the perceived risk are mixed. In the context of the respondents' characteristics, variables that have been found to be important in the analysis on social responsibility issues in Chapter 7, particularly individual pro-social behaviour and SRI awareness also emerge as significant variables in this analysis. Nevertheless, except for religion, the findings suggest that the various sub-groups of the respondents have equal attitudes towards the level of perceived risk of the fund in comparison to the ordinary Islamic funds.

8.3 CONSTRUCTS OF MORAL NORMS

Attitude towards a certain behaviour which is shaped by the consideration of utility and disutility of the action represents the self-interested component of individual decision making. In most cases if not all, a decision to perform certain behaviour is not entirely influenced by self-interested motive. In this context, self-interested element ought to be complemented with other components like moral norms, social objectives or other potentially altruistic motives. It is quite apparent that the issue at hand which relates to the consideration of social responsibility criteria to be incorporated in the investment decision constitutes a decision involving moral and normative judgement. Therefore, it is natural to include psychological constructs reflecting the normative judgement of individual respondents as part of the process in understanding their decision whether to incorporate social responsibility concerns in their Islamic investment.

8.3.1 Awareness of Consequence and Ascribed Responsibility

As described earlier in Chapter 5, six statements related to the constructs of moral norms were included in the questionnaire with three statements each representing the 'awareness of consequence' and 'ascribed responsibility'. While these statements were listed at random in the questionnaire, they are listed below based on their individual constructs. Table 8.5 provides the frequencies, mean and standard deviation of the items.

The first three statements in Table 8.5 represent the construct of awareness of consequence (AC). The second item (AC2) which states "I can help to improve the society's quality of life by investing using 'social responsibility' criteria" recorded a highly favourable response with almost three quarter of the respondents agreed to the proposition. Considering the relatively high mean of 3.908 and low standard deviation of 0.662, it can be said that a near consensus has been reached among the respondents on their belief that investing using social responsibility criteria can positively contribute to the development of the society.

However, the respondents seemed to be divided on the other two items of the construct. The first statement (AC1), which states "I might support irresponsible business behaviours if I ignore 'social responsibility' issues in my investment" has an overall mean of 3.150, with approximately 45 percent agreed; about one-third disagreed while another 19 percent of the respondents were indifferent in the issue. Similarly, the last statement (AC3) which states "I do not believe that my investment decision can have any adverse effects on the wellbeing of the society" recorded a mean of 3.117, with 39 percent of the respondents expressed their agreement to the proposition, around 27 percent of them were against it, while almost a third chose to be indifferent. In brief, the above findings suggest that while the majority of the respondents are aware of the positive effects of investing using social responsibility criteria on the society's quality of life, they have diverse views on the contrary, that is, there are consequences by not investing using social responsibility criteria.

Table 8.5: Statements Representing Constructs of Moral Norms- Awareness of Consequence and Ascribed Responsibility

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.	N
(AC1) I might support irresponsible business behaviours if I ignore 'social responsibility' issues in my investment.	37	118	86	151	54	3.150	1.183	446
	8.2%	26.2%	19.1%	33.5%	12.0%			
(AC2) I can help to improve the society's quality of life by investing using 'social responsibility' criteria.	0	4	108	259	75	3.908	0.662	446
	0.0%	0.9%	23.9%	57.4%	16.6%			
(AC3) I do not believe that my investment decision can have any adverse effects on the wellbeing of the society.*	30	93	145	149	28	3.117	1.027	445
	6.7%	20.6%	32.2%	33.0 %	6.2%			
(AR1) I am not concerned about 'social responsibility' issues in my investment.*	51	177	129	70	20	2.622	1.023	447
	11.3%	39.2%	28.6%	15.5%	4.4%			
(AR2) 'Social responsibility' issues should be addressed by the government and social organisations, and not by investors.*	23	86	137	142	60	3.290	1.081	448
	5.1%	19.1%	30.4%	31.5%	13.3%			
(AR3) Every investor must take responsibility on the effects of his or her investment.	11	24	98	223	89	3.798	0.905	445
	2.4%	5.3%	21.7%	49.4 %	19.7%			

Notes: * Reverse coded statements

AC= Awareness of consequence; AR= Ascribed responsibility.

On the other hand, the next three statements are associated with the construct of ascribed responsibility (AR). Based on the Norm-Activation Model, personal or moral norms will only be activated if the consequences of the behaviour are recognised and the individual acknowledge the personal responsibility to act on the issue. From Table 8.5, approximately 70 percent of the respondents agreed to the statement that "Every investor must take responsibility on the effects of his or her investment" (AR3), with another 22 percent were indifferent, and only around 8 percent disagreed. This implies a general recognition on the part of the investors to assume responsibility on the potential effects of their investment decision.

However, the responses on the acceptance of personal responsibility of social issues involving the other two statements have been mixed. The statement which states "I am not concerned about 'social responsibility' issues in my investment" (AR1) has a mean of 2.622 with slightly more than half of the respondents disagreed on this statement, almost 30 percent chose to be indifferent on the issue, while the remaining 20 percent expressed their agreement. This shows that while there are some indications that most of the respondents disagreed with the statement and accepted the social responsibility commitment in their investment, the opinion of the remaining investors were divided in this issue. Perhaps this can be explained by the responses to the second statement (AR2), which states that 'social responsibility' issues should be addressed by the government and social organisations and not by investors". As it is evident from Table 8.5, approximately 45 percent of the respondents agreed with the statement, around 30 percent were indifferent while the remaining 24 percent disagreed. This result highlights a tendency among some of the respondents to show some pattern of responsibility denial, and shift such personal responsibilities to others.

Therefore, while there seems to be a strong recognition on the fact that all investors need to take responsibility on the potential effects of their investment decision, they were divided in accepting such responsibilities at the personal level. This is corroborated by the fact that close to half (45 percent) believed that social responsibility issues would be best addressed by the government and social organisations. This specific issue can also be located in the debate on social responsibility commitment in the field of Islamic banking. On one hand, Islamic financial institutions which are based on the principles of *Shari'ah* are considered to be the operational arm of the Islamic economics movement which aspire the realisation of human wellbeing and social justice. On the other hand, some view Islamic banks as a normal commercial entity where the main responsibility lies with the interest of the shareholders and depositors, while social welfare objectives are to be fulfilled by other bodies such as the government and other social organisations.

8.3.2 Constructing Awareness of Consequence and Ascribed Responsibility Scales

Given that the items as shown in Table 8.5 will be used for further analysis in representing the normative component of individual behaviour, this section proceeds to construct the appropriate metric scales for both variables; awareness of consequence and ascribed responsibility. Based on the recommendation of Blaikie (2002), it is important to establish the unidimensionality of the constructs in order to ensure the validity and reliability of the scales. Therefore, exploratory factor analysis is performed on the six items, and the procedures as explain in chapter 5 (section 5.5.3) are followed. The result of the pattern matrix of the 6 items (Appendix 8B) shows a two-factor solution with significant loadings. However, an inspection of the results indicates that one item from each construct; AC3 and AR3, loaded significantly to a different factor from the anticipated factor structure as listed in Table 8.5. Therefore, it was decided that the two 'problematic' items (AC3 and AR3) be excluded in the scale construction. For confirmation, another factor analysis is performed on the remaining items and the pattern matrix of the four items show significant loadings to the appropriate factor structure (two items each for AC and AR). The result of this is shown in Table 8.6.

The reliability of the two scales are further analysed using the Cronbach's alpha test. Prior to that, the items with negative statements were recoded to ensure the consistency of the scoring. The Cronbach's alpha measure for awareness of consequence (represented by AC1 and AC2) and ascribed responsibility (represented by AR1 and AR2) are 0.508 and 0.507 respectively (Table 8.6). Despite the general acceptance on the value of 0.7 as the cut-off point of reliability measure, Kline (1999) highlighted that "when dealing with psychological constructs, values below even 0.7 can realistically be expected because of the diversity of the constructs being measured" (cited by Field, 2009: 675). Additionally, the satisfactory level of reliability also depends on how a measure is being used. "In the early stages of research on predictor tests or hypothesised measures of a construct, one saves time and energy by working with instruments that have only modest reliability, for which purpose reliabilities of 0.60 or 0.50 will suffice" (Sekaran, 2003: 226). In this situation as well, Blaikie (2002) recognises the dilemma between choosing a scale with low alpha value and the alternative of using individual items in the analysis. Given the exploratory nature of the scale measurements, the psychological nature of the constructs, the fact that the unidimensionality of both constructs has been established by the factor analysis, and for the purpose of model parsimony, it is decided that the above scales will be adopted and used for further analysis in this study.

Table 8.6: Factor Analysis- Items Representing the Awareness of Consequence and Ascribed Responsibility (Pattern Matrix) and Cronbach's Alpha Measure

Pattern Matrix		
	Factor	
	1 (Ascribed responsibility)	2 (Awareness of Consequence)
(AR1) I am not concerned about 'social responsibility' issues in my investment.	0.940	
(AR2) 'Social responsibility' issues should be addressed by the government and social organisations, and not by investors.	0.362	
(AC2) I can help to improve the society's quality of life by investing using 'social responsibility' criteria.		0.819
(AC1) I might support irresponsible business behaviours if I ignore 'social responsibility' issues in my investment.		0.521
Cronbach's Alpha	0.507	0.508

Notes: AR= Ascribed responsibility; AC= Awareness of consequence.

8.3.3 Relationship between Various Measures of Social Responsibility Dimension in Islamic Investment and Awareness of Consequence and Ascribed Responsibility

In previous empirical chapters, various items and scales have been used to reflect and measure the respondents' perceptions and attitudes towards social responsibility dimension in Islamic investment. It is interesting to explore the relationship of these variables to the specific normative constructs as discussed above. For this purpose, correlation analysis of these variables with the newly constructed awareness of consequence scale and ascribed responsibility scale are employed. As shown in Table 8.7, all relevant measures of social responsibility dimension correlate highly significantly with the awareness of consequence scale. The social responsibility scale and the responses to 'I want to invest in economic activities that have positive impact to the society' register higher correlation coefficients with a value of 0.412 and 0.339 respectively. The results shows that those who put greater emphasis on social responsibility dimension in Islamic investment have higher recognition on the awareness of the consequences of their investment decision related to social responsibility issues. These findings provide further reassurance on the consistency of previous and present measure of support for the incorporation of social responsibility dimension in Islamic investment among the respondents.

Table 8.7: Correlation Analysis between Various Measures of Social Responsibility Dimension with Awareness of Consequence and Ascribed Responsibility

Variable	Awareness of Consequence		Ascribed Responsibility	
	Correlation	Sig.	Correlation	Sig.
I want to earn *halal* returns from my investment	**0.228**	**0.000**	0.070	0.075
I want to invest in economic activities that have positive impact to the society	**0.339**	**0.000**	-0.045	0.178
I am prepared to accept lower returns from my investment as long as it is based on Islamic principles	**0.204**	**0.000**	0.033	0.246
Social Responsibility scale	**0.412**	**0.000**	**0.116**	**0.008**
SR-Econ scale	**0.224**	**0.000**	0.052	0.143
Awareness of Consequence	1.000		**-0.090**	**0.031**
Ascribed Responsibility	**-0.090**	**0.031**	1.000	

However, the relationships between the above variables are mixed in the context of ascribed responsibility scale. Among all the variables, only social responsibility scale has a significant correlation at the 0.05 level with a relatively weak coefficient of 0.116. In fact, there is a negative correlation between the responses of 'I want to invest in economic activities that have positive impact to the society' with the ascribed responsibility scale although the coefficient is not significant. Therefore, it appears that respondents have mixed attitude on the issue. While they may have favourable attitude towards social responsibility aspect of Islamic investment, this has not translated into a straight forward acceptance of personal responsibility to incorporate such criteria in the actual investment decision. This phenomenon can be seen clearly on the results of the correlation analysis between awareness of consequence scale and ascribed responsibility scale. The correlation coefficient is -0.090 and it is significant at the 0.05 level. Despite the weak magnitude of negative correlation, the significant result has established the tendency that some investors having greater awareness of consequence to have lower level of ascribed responsibility. The findings corroborate the earlier contention on the existence of a pattern of responsibility denial among some of the respondents.

8.3.4 Comparing Awareness of Consequence and Ascribed Responsibility Scales between Different Sub-Groups of Investors

Presumably, the level of awareness of consequence and ascribed responsibility among the respondents may vary between different sub-groups. It is interesting to discover such differences if they exist and provide some understanding on the grouping factors that may influence the variation in both of the constructs. Therefore, Mann-Whitney test (for df=1) and Kruskall-Wallis test (for df>1) are again employed, and the results are summarised in Table 8.8 (refer to Appendix 8A for the full results).

Table 8.8 reveals that differences in the level of awareness of consequence are statistically significant among respondents with different ethnicity, religion, income groups, types of occupation and organisation, cluster membership and the level of SRI awareness. Many of the findings here are consistent with the previous analysis performed on other measures of social responsibility dimension in Chapter 7 such as the social responsibility scale and the SR-Econ scale. For instance, in terms of ethnicity and religion, Malay and Muslim respondents have a higher level of awareness of consequence as compared to the respondents from other ethnicity and religion. This is also reflected by the fact that committed investors registered the highest level of awareness of consequence, followed by the pragmatic investors, while non-Muslim investors have the lowest mean rank. Similar findings also include income categories and the level of SRI awareness, with those in lower income groups are found to have higher mean ranks as compared to the respondents in higher income groups, and higher level of SRI awareness are associated with higher scores for awareness of consequence. Other results show that those who work in the professional/administrative/managerial level have higher mean rank than others; while those working in the public sector and government linked corporations (GLCs) are shown to register highest mean rank, as compared to the respondents working in large companies who have the lowest score.

Table 8.8: Comparing Awareness of Consequence and Ascribed Responsibility Scales between Different Sub-Groups of Investors

Variable	Awareness of Consequence			Ascribed Responsibility		
	Chi-square/ *Z-score*	Sig.	Remarks	Chi-square/ *Z-score*	Sig.	Remarks
Gender (df=1)	*-0.392*	0.695		-0.392	0.695	
Marital Status (df=1)	*-1.606*	0.108		*-1.606*	0.108	
Ethnicity (df=2)	**15.353**	**0.000**	Malay respondents have the highest mean rank, while Chinese and Indian have almost the same values of mean rank.	0.013	0.994	The three ethnic group have almost the same mean ranks
Religion (df=3)	**15.222**	**0.002**	Muslims have the highest mean rank.	3.407	0.333	
Age (df=3)	1.774	0.621		5.683	0.128	
Highest Education (df=3)	2.740	0.433		**7.952**	**0.047**	Those having professional/post-graduate degrees have higher mean rank than other groups
Income (df=5)	**13.922**	**0.016**	Those in lower income groups have higher mean ranks	10.957	0.052	Those in higher income groups have higher mean ranks
Type of Occupation (df=1)	***-2.070***	**0.038**	Those working in Professional/managerial level have higher mean rank	***-0.980***	**0.327**	
Type of Organisation (df=2)	**28.719**	**0.000**	Those working in the public sector and GLCs have the highest mean rank	0.669	0.716	
Cluster Membership (df=2)	**17.063**	**0.000**	Committed investors have highest mean rank, followed by pragmatic and non-Muslim investors	0.925	0.630	
Individual pro-social behaviour (df=2)	0.120	0.942		**14.273**	**0.001**	Those with higher SR participation have higher mean rank
Collective pro-social behaviour (df=2)	2.275	0.321		2.215	0.330	
Main Investment Objective (df=1)	*-0.574*	0.566		*-0.574*	0.566	
Risk-return Attitude (df=2)	1.909	0.385		5.540	0.063	
SRI Awareness (df=4)	**9.525**	**0.049**	Those with higher level of SRI awareness have higher mean rank	2.182	0.702	

The consistency of the above results with previous findings in Chapter 7 can be explained by the positive correlation between the awareness of consequence with other measures of support for social responsibility as shown in Table 8.7. All these findings so far have provided a useful insight on the important characteristics of the respondents that may form a profile of investors with favourable attitudes towards incorporating social responsibility dimension in Islamic investment.

However, the results for ascribed responsibility provide a different picture from our earlier understanding of the respondents' profile. As shown in Table 8.8, variables such as ethnicity, religion, cluster membership and awareness of SRI, which previously have been found to be important factors in explaining the differences in various measures of social responsibility concerns including the awareness of consequence scale, have not been found to have significant influence in the variation of the ascribed responsibility scale. In this case, statistically significant differences at the 0.05 level can only be observed among respondents with different level of education and individually oriented pro-social behaviour, while differences among respondents with different level of income groups is only significant at the 0.10 level (p=0.52). Based on the mean ranks, those having professional/post-graduate degrees have higher level of ascribed responsibility as compared to other respondents. At least in the context of individual pro-social behaviour, the significant result previously observed for most of the other social responsibility measures remain in this case, with respondents with higher level of individual pro-social activities have higher level of ascribed responsibility. Interestingly, previous analysis has shown that those in lower income groups have more favourable attitude towards social responsibility. In this case however, those earning RM5001-RM10000 and RM10001-RM20000 recorded the highest mean ranks as compared to other groups. Perhaps this can be explained by the exertion that those with higher income have greater ability to absorb any potential losses due to the incorporation of additional social responsibility criteria in investment (Tippet and Leung, 2001), and therefore, are more willing to accept such a responsibility. Given the interesting findings observed here, it will be interesting to see the results of the ensuing analysis on the influence of these normative constructs on the respondents' willingness to incorporate social responsibility criteria in their investment decision.

8.4 COMMITMENT TO INCORPORATE SOCIAL RESPONSIBILITY CRITERIA IN ISLAMIC INVESTMENT

One of the main aims of the chapter is to investigate the behavioural commitment of the respondents to incorporate social responsibility criteria in their actual Islamic investment and to understand the factors that influence this decision. In doing so, several items have been included in the questionnaire to measure such a commitment. This include the willingness to support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds and the willingness to invest in Islamic funds that apply social responsibility criteria if this is offered to them. Apart from that, the respondents were also asked on their willingness to invest in such funds in a context of a scenario where the expected returns for alternative investments are assumed to be known. The discussion in this section provides the descriptive analysis of these variables before being later used as dependent variables in multivariate analysis towards the end of the chapter.

8.4.1 Investors' Willingness to Apply Social Responsibility Criteria in Islamic Investment

This section provides some descriptive analysis on the willingness of the respondents to apply social responsibility criteria in their current and future potential investment. The respondents were first asked; "If your current Islamic unit trust fund would like to apply 'social responsibility' criteria in its investment decision, will you support this initiative?" Based on Table 8.9, around 55 percent of the respondents answered 'I will support', 32 percent answered 'probably I will support' while another 10 percent were not sure about their decision. A very small percentage of the investors responded either 'I will not support' or 'probably I will not support'. The fact that more than half of the respondents are willing to support such initiative shows a strong commitment among the respondents to incorporate social responsibility criteria in their investment decision.

Table 8.9: Investors' Willingness to Apply Social Responsibility Criteria in Islamic Investment

		Frequency	%	Cumulative %	Mean	Std. Dev.	N
If your current Islamic unit trust fund would like to apply 'social responsibility' criteria in its investment decision, will you support this initiative?	I Will Not Support	2	0.4	0.4	4.385	0.811	449
	Probably I Will Not Support	13	2.9	3.3			
	I Am Not Sure	43	9.6	12.9			
	Probably I Will Support	143	31.8	44.8			
	I Will Support	248	55.2	100.0			
If an Islamic unit trust fund which applies 'social responsibility' criteria is offered to you today for your investment, will you invest in this fund?	I Will Not Invest	2	0.4	0.4	4.247	0.784	449
	Probably I Will Not	8	1.8	2.2			
	I Am Not Sure	60	13.4	15.6			
	Probably I Will Invest	186	41.4	57.0			
	I Will Invest	193	43.0	100.0			

In addition to the above, the respondents were also asked; "If an Islamic unit trust fund which applies 'social responsibility' criteria is offered to you today for your investment, will you invest in this fund?" As shown in Table 8.9, 43 percent of the respondents expressed their willingness to invest while about the same percentage (41.4%) indicated that they would consider investing. Approximately 13 percent of the respondents were not sure about the decision, while only a mere 2.8 percent answered either 'I will not invest' or 'probably I will not invest'. Despite the fact that the level of willingness to invest in the fund is relatively lower in comparison to the response received for the first question above, the results is quite encouraging given the circumstances surrounding the issue. Investors in general are more comfortable to invest in funds that have been in operation for some time and use the performance records as guidance in making any investment decisions. In addition, amidst the lingering effects of the sub-prime crisis, it is understandable that the investors are cautious of venturing into new investment products.

However, it is important to note that these measures are self-reported answers. Given the nature of the subject matter, there is always a tendency of socially desirable response bias. Respondents professing their willingness to support the use of social responsibility criteria or invest in such fund may not actually do so in reality. Therefore, as noted by Getsner (2005: 266), "when interpreting survey results "willingness to behave" should be used as an index of consumers' preferences rather than a literal prediction of behaviour". Nevertheless, from the findings so far, there are some evidence that show social desirability bias, if at all present, has not been too prevalent. For instance, the cluster analysis in Chapter 6 managed to distinguish between the committed and pragmatic investors in the manner they commit to the principles of *Shari'ah* in their investment, and the further profiling seemed to provide consistent findings in terms of their characteristics. It has also been shown in this chapter that the respondents have expressed some patterns of responsibility denial in the answers related to the ascribed responsibility statements, which are inconsistent with the social desirability response bias. Hence, while being cautious in the interpretation of the 'willingness' measure is a prudent assumption, the actual level of the willingness measure should not be totally discounted.

8.4.2 Investors' Willingness to Sacrifice Financial Return for Social Responsibility Commitment in Islamic Investment

In addition to a direct question on whether the respondents would be willing to incorporate social responsibility criteria in their current and potential investment, the respondents were also asked on their willingness to invest in such fund in a context of a scenario where the expected returns for alternative investments are assumed to be known. The statement reads; "If your current Islamic unit trust fund provides a 10 percent return, will you invest in the Islamic fund that applies 'social responsibility' criteria if its return is …", with six possible scenarios; more than 10%, 10%, 9%, 8%, 7% and 6% and below. For each of the scenario, the respondents were asked to indicate their level of willingness to invest in the fund measured on a five-point Likert scale range from 1 = 'I will not invest' to 5 = 'I will invest'. The frequencies, means and standard deviations of the six items are shown in Table 8.10.

Table 8.10 reveals some interesting observations. It appears that when the financial performance of alternative investment is known, there seemed to have some changes to the respondents' willingness to invest in Islamic funds that apply social responsibility criteria. For instance, when the return of the funds is expected to be higher than the regular Islamic funds, more than 70 percent of the respondents expressed their willingness to invest in them. Similarly, when the returns of the two alternative investments are expected to be similar at 10 percent, the percentage of respondents willing to invest in the fund is also considerably greater at around 57 percent, as compared to only 41 percent as shown previously in Table 8.9. These findings suggest that the respondents are very concern about the expected return of the funds. Therefore, in the situation where the alternative investment return is assumed to be known, they are more comfortable making investment decisions based on the information. Secondly, there were some respondents who did not express any willingness to invest in the fund even in the situation where the return is higher than the regular Islamic funds. Perhaps, these respondents have sceptic views on the use of social responsibility criteria, or they might consider the rate of return given in the scenario not very appealing and they can choose to invest in other funds (conventional or Islamic) that may provide greater return.

Table 8.10: Investors' Willingness to Invest and Sacrifice Financial Return for Social Responsibility Commitment in Islamic Investment

If your current Islamic unit trust fund provides a 10 percent return, will you invest in the Islamic fund that applies 'social responsibility' criteria if its return is ...

	I will not invest	Probably I will not invest	I am not sure	Probably I will invest	I will invest	Mean	Std. Dev.	N
More than 10 percent	7	4	32	84	320	4.579	0.794	447
	1.6%	0.9%	7.1%	18.6%	71.0%			
10 percent	6	8	36	127	259	4.433	0.829	436
	1.3%	1.8%	8.0%	28.2%	57.4%			
9 percent	10	18	78	143	184	4.092	0.986	433
	2.2%	4.0%	17.3%	31.7%	40.8%			
8 percent	17	38	97	164	116	3.75	1.067	432
	3.8%	8.4%	21.5%	36.4%	25.7%			
7 percent	42	63	114	134	81	3.343	1.214	434
	9.3%	14.0%	25.3%	29.7%	18.0%			
6 percent and below	77	76	131	101	45	2.909	1.242	430
	17.1%	16.9%	29.0%	22.4%	10.0%			

An important observation can also be made on the changes in the level of willingness to invest in the fund among the respondents as the expected rate of returns drops below the rate of the alternative investment. In general, it shows that respondents reacted to the lower rate of returns with a decline in the level of willingness to invest in the fund. However, the results also show that some of the respondents remain interested and are willing to invest in the fund in spite of the lower return as compared to the regular Islamic funds. Such an attitude reflects their willingness to sacrifice financial return for social responsibility commitment. It is interesting to understand such behaviour and therefore, it will be a subject of further analysis at the end of this chapter.

8.5 ORDINAL REGRESSION ANALYSIS- INVESTORS' WILLINGNESS TO APPLY SOCIAL RESPONSIBILITY CRITERIA IN ISLAMIC INVESTMENT

The forgoing descriptive analysis has explored the extent of the respondents' commitment for the application of social responsibility criteria in the investment decision of Islamic funds. In order to understand the factors that influence the respondents' willingness to apply social responsibility criteria in their actual investment, ordinal regression procedure is employed in this analysis.

8.5.1 Dependent Variables

In line with the two measurement of the investors' willingness to apply social responsibility criteria in their investment (section 8.4.1), two separate ordinal regression models were employed in this analysis. The models were used to explain the probability of the individual investors being;

Dependent variable 1 = Willing to support the application of additional 'social responsibility' criteria in the investment decision of currently held Islamic funds.
Dependent variable 2 = Willing to invest in an Islamic fund that applies additional 'social responsibility' criteria in its investment decision.

Originally, both variables consist of five point Likert scale with 'I will not support=1' to 'I will support=5' (dependent variable 1) and 'I will not invest=1' to 'I will invest=5' (dependent variable 2). However, due to small count of cases in the lower categories, the response scales were collapse from five to three scales. All responses which showed no expression of willingness to support or invest in such funds were combined into one category, while the responses which state 'Probably I will support/invest' and 'I will support/invest' were retained as separate categories.

Therefore, the dependent variable for the first ordinal regression model takes the following ordered categories;

1 = Do not express any willingness to support (I am not sure, probably I will not support and I will not support)

2 = Probably I will support

3 = I will support

Similarly, the ordered categories for the second dependent variable are as follows;

1 = Do not express any willingness to invest (I am not sure, probably I will not invest and I will not invest)

2 = Probably I will invest

3 = I will invest

As described earlier in chapter 5 (section 5.5.4), the probability of the dependent variables taking the ordered value is estimated by means of ordered logit model. Nevertheless, regressions using the probit function are also performed and presented separately in the appendix. The use of both functions in the regression model provides assurance on the reliability of the findings.

8.5.2 Explanatory Variables and Hypothesis Development- Model 1 and 2

Based on the two dependent variables as described in section 8.5.1, two ordinal regression models are performed; the first being the estimation of the investors' 'willingness to support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'; and the second, the estimation on the investors' 'willingness to invest in an Islamic fund that applies additional social responsibility criteria'. For easy reference, the models are called 'model 1' and 'model 2' respectively. In this analysis, the explanatory variables comprise of five distinct components, and they are common for both models. These components relate to the investors' financial motive, normative judgement, habitual element, investment related characteristics, and socio-demographic profile. The hypothesised relationships between these predictor variables and the two dependent variables are formally specified at the end of each sub-sections describing the component, and later summarised in Figure 8.1. Hypotheses 1 to 5 represent the relationships for model 1, while hypotheses 6 through 10 are for model 2.

(i) Component 1- Financial Motive

Financial motive is considered to be the most important factor in any investment decision, including in the field of SRI. In this context, the perceived risks and returns of an Islamic fund that applies social responsibility criteria are used here as explanatory variables on the willingness of the respondents to incorporate social responsibility issues in their investment decision. Such approach has also been used by other researchers in the field of SRI (Lewis and Mackenzie, 2000; Nilsson, 2008). Even in the case where actual risks and returns measure can be obtained in the context of SRI, it is argued that the decision to invest in SRI funds are mainly determined by the perceptions of risks and returns of the funds (Nilsson, 2008). As traditionally suggested by the investment theory, there is a direct relationship between risk and return; the higher the anticipated risk, the higher the expected return. Individually however, risks are negatively related to investment and vice versa, returns are positively related to investment. In the context of this analysis, it is hypothesised that perceived risks is negatively associated with the willingness to apply social responsibility criteria in Islamic funds while perceived returns is positively associated with it.

Model 1:

Hypothesis 1a: The perception that Islamic fund which uses additional social responsibility criteria as having higher financial risk than the ordinary Islamic fund among the respondents will contribute negatively to their level of willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'.

Hypothesis 1b: The perception that Islamic fund which uses additional social responsibility criteria as having higher financial return than the ordinary Islamic fund among the respondents will contribute positively to their level of willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'.

Model 2:

Hypothesis 6a: The perception that Islamic fund which uses additional social responsibility criteria as having higher financial risk than the ordinary Islamic fund among the respondents will contribute negatively to their level of willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision'.

Hypothesis 6b: The perception that Islamic fund which uses additional social responsibility criteria as having higher financial return than the ordinary Islamic fund among the respondents will contribute positively to their level of willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision'.

(ii) Component 2- Normative Judgement

As previously shown, the metric scale was constructed for the 'awareness of consequence' and 'ascribed responsibility'. Based on the theoretical model as described in Chapter 5 (section 5.3.4), personal or moral norms is activated when individuals recognise the consequence of the behaviour (and non behaviour for that matter) and the acknowledgement of the personal responsibility of the individual to act on the issue. Therefore, in the context of this analysis, the level of awareness of the consequence and ascribed responsibility are hypothesised to have positive influence on their willingness to apply social responsibility criteria in Islamic investment. Additionally, relevant to this study, commitment to comply with *Shari'ah* principles is hypothesised to contribute positively to the decision to incorporate social responsibility criteria in Islamic investment. Several variables can be used to represent this. For instance, religion, the percentage invested in Islamic funds and the underlying motivations when investing in Islamic funds are some possible measures. However, it is decided that the best variable to represent the commitment to *Shari'ah* principles in Islamic investment is the cluster membership. The cluster membership represents a combination of multiple variables which contribute to a more parsimonious model. In addition, it also differentiates between the two types of Muslim investors; committed and pragmatic investors, which variable such as 'religion' could not capture.

Model 1:

Hypothesis 2a: The level of awareness of consequence on investing using social responsibility criteria among the respondents will contribute positively to their level of willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'.

Hypothesis 2b: The level of ascribed responsibility on investing using social responsibility criteria among the respondents will contribute positively to their level of willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'.

Hypothesis 2c: The level of commitment to comply with *Shari'ah* principles in investment (as represented by the cluster membership; committed-pragmatic-non-Muslim investors) among the respondents will contribute positively to their level of willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'.

Model 2

Hypothesis 7a: The level of awareness of consequence on investing using social responsibility criteria among the respondents will contribute positively to their level of willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision'.

Hypothesis 7b: The level of ascribed responsibility on investing using social responsibility criteria among the respondents will contribute positively to their level of willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision'.

Hypothesis 7c: The level of commitment to comply with *Shari'ah* principles in investment (as represented by the cluster membership; committed-pragmatic-non-Muslim investors) among the respondents will contribute positively to their level of willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision'.

(iii) Component 3- Habitual Element

Numerous studies have highlighted the role of habitual element and past behaviour as part of a strong influencing factor on socially and environmentally responsible behaviours (Knussen et al., 2004; Cheung et al., 1999). Research in the field of SRI has also shown that investing ethically is a part of an overall socially responsible lifestyle of ethical investors (Lewis and Mackenzie, 2000; Rosen et al., 1991), and participation in pro-social activities was also employed to understand differences in the attitudes and investment behaviour among SRI investors (Woodward, 2000). Following Woodward (2000), pro-social activities at the individual and collective level are used as an index measure to reflect the respondents' level of pro-social commitment. It is hypothesised that greater participation in pro-social activities will have a positive impact on the willingness to incorporate social responsibility criteria in Islamic investment.

Model 1

Hypothesis 3a: Participation in pro-social activities at the individual level among the respondents will contribute positively to their level of willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'.

Hypothesis 3b: Participation in pro-social activities at the collective level among the respondents will contribute positively to their level of willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'.

Model 2

Hypothesis 8a: Participation in pro-social activities at the individual level among the respondents will contribute positively to their level of willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision'.

Hypothesis 8b: Participation in pro-social activities at the collective level among the respondents will contribute positively to their level of willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision'.

(iv) Component 4- Investment Related Characteristics

It is also shown in the literature that knowledge about social responsibility issues can contribute to favourable attitudes towards socially responsible behaviour (Schahn & Holzer, 1990; Cheung et al., 1999; Frick et al., 2004). In this context, knowledge about social responsibility issues in investment is measured by using the self-reported level of SRI awareness among the respondents. Apart from incorporating various social, ethical and environmental concerns in investment, the SRI movement has also highlighted the importance of long term commitment in investment (as opposed to the emphasis on short-term returns) (Dembinski et al., 2003). Such longer time horizon in investment is believed to be more accommodative towards the adoption of socially responsible business behaviours, and perhaps more importantly, ensures stable and sustainable investment growth and returns (UNPRI, 2006; Sethi, 2005). The main investment objective of the investors is used to reflect their investment horizon, with those having long term objective, such as investing for retirement and children's education, is assumed as having long term investment horizon. In addition to the above two investment characteristics, the general risk-return attitude of the respondents is included here as one of the potential influencing factors. Even though the variable has not been a common factor in explaining or predicting SRI related behaviours, risk-return profile of investors has been widely acknowledged as one of the most important characteristics that influences investment decision (Williams, 2007). It is anticipated that those with higher level of risk-return appetite are more open towards new investment style and opportunities, including in the application of social responsibility issues in investment. Therefore, it is hypothesised that those with higher level of SRI awareness, longer time horizon in investment, and higher risk-return attitude have greater willingness to apply social responsibility criteria in their investment decision.

Model 1

Hypothesis 4a: The level of SRI awareness among the respondents will contribute positively to their level of willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'.

Hypothesis 4b: Respondents with longer investment horizon (represented by their main investment objective)will have greater willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds' than those with shorter investment horizon.

Hypothesis 4c: Respondents with higher risk-return attitude will have greater willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds' than those with lower risk-return attitude.

Model 2

Hypothesis 9a: The level of SRI awareness among the respondents will contribute positively to their level of willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision'.

Hypothesis 9b: Respondents with longer investment horizon (represented by their main investment objective)will have greater willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision' than those with shorter investment horizon.

Hypothesis 9c: Respondents with higher risk-return attitude will have greater willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision' than those with lower risk-return attitude.

(v) Component 5- Socio-Demographic Profile

Socio-demographic variables are commonly used as part of the determinants to profile socially responsible behaviours (Diamantopoulos et al., 2003). In this context, five different socio-demographic variables are included in the model along with the other variables as described above. These socio-demographic variables have been used in previous studies and in some way are connected with SRI. Gender and education have been included in numerous studies as women and the better educated are shown to have more investment in SRI (Nilsson, 2008; Schueth, 2003). Studies have also found that ethical investors are more likely to be younger (Nilsson, 2008; Tippet and Leung, 2001; Rosen et al., 1991), and working in the managerial and professional occupation (Woodward, 2000; Rosen et al., 1991). Given the potential 'ethical penalty' which may arise from lower returns or less diversification in ethically screened portfolios, Tippet and Leung (2001) argue that ethical investors are likely to be wealthier and so are more able to bear such financial cost. Therefore, it is hypothesised that investors who are female, young, better educated, earning higher income and working in the professional/managerial level of occupation to have greater willingness to apply social responsibility criteria in their investment decision.

Model 1

Hypothesis 5a: Female respondents will have greater willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds' than male respondents.

Hypothesis 5b: Younger respondents will have greater willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds' than older respondents.

Hypothesis 5c: Respondents with a higher income will have greater willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds' than respondents with lower income.

Hypothesis 5d: Better educated respondents will have greater willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds' than less educated respondents.
Hypothesis 5e: Respondents who work at the professional/administrative/managerial level will have greater willingness to 'support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds' than respondents in other occupational level.

Model 2
Hypothesis 10a: Female respondents will have greater willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision' than male respondents.

Hypothesis 10b: Younger respondents will have greater willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision' than older respondents.

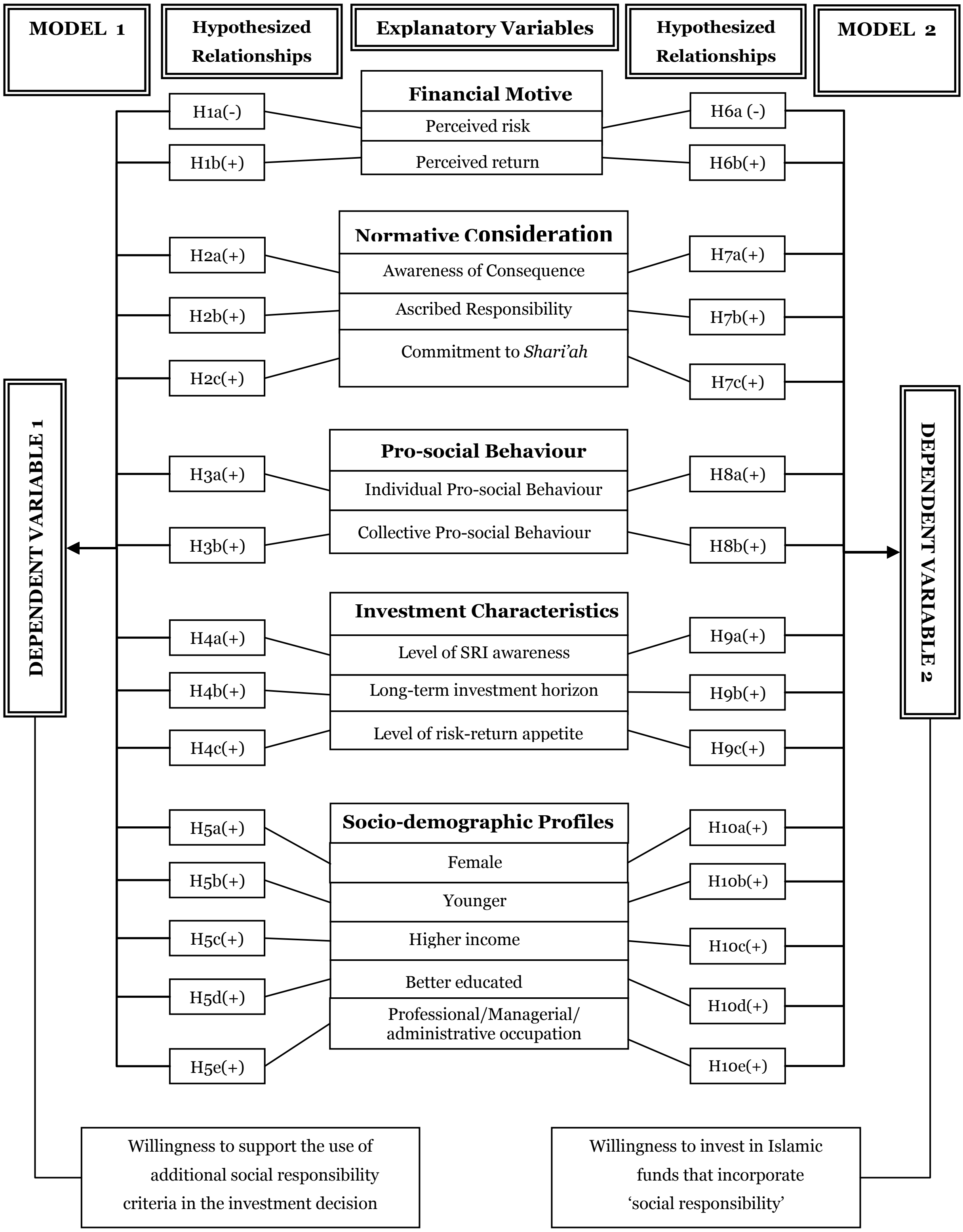
Hypothesis 10c: Respondents with a higher income will have greater willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision' than respondents with lower income.

Hypothesis 10d: Better educated respondents will have greater willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision' than less educated respondents.

Hypothesis 10e: Respondents who work at the professional/administrative/managerial level will have greater willingness to 'invest in an Islamic fund that applies additional social responsibility criteria in its investment decision' than respondents in other occupational level.

As a summary, the hypothesised relationships between these explanatory variables and the two dependent variables for Model 1 and 2 are shown in Figure 8.1. Hypotheses 1 to 5 represent the relationships for model 1, while hypotheses 6 through 10 are for model 2.

Figure 8.1: The Hypothesised Relationships between Explanatory and Dependent Variables for Model 1 and 2



8.5.3 Model Specification

Before proceeding with the regression analysis, it is important to ensure that the data used, especially the categorical variables are properly prepared. Given that some variables have large number of groupings, and certain grouping categories consist of small number of cases, some categories of the explanatory variables are collapsed into fewer groupings. Apart from ensuring the reliability of the analysis, the smaller number of sub-groupings will also contribute to model parsimony. For example, the responses for perceived risk and perceived return of an Islamic fund that uses additional social responsibility criteria in comparison to the ordinary Islamic fund are collapsed from five scales (Much Lower-Somewhat Lower-Similar-Somewhat Higher-Much Higher) into three scales, with responses for 'Much Lower' and 'Somewhat Lower', and 'Much Higher' and 'Somewhat Higher' are combined into 'Lower' and 'Higher' respectively, while the response of 'Similar' perceived risk/return is retained. Other variables previously used to profile respondents are also affected by this procedure. These include individual and collective pro-social behaviour (from 3 to 2 categories), SRI awareness (from 5 to 3 categories), risk-return attitude (from 3 to 2 categories), age (from 5 to 3 categories), income (from 6 to 3 categories), and education (from 4 to 2 categories).

Other variables such as the two metric scale constructs; i.e. awareness of consequence and ascribed responsibility, are not affected by this procedure, so as other dichotomous variables such as gender, main investment objective and types of occupation. Similarly, the three groups of cluster membership are also retained. The descriptions of all the explanatory and the dependent variables included in the model are specified in Table 8.11.

Table 8.11: Econometric Estimation on the Investors' Willingness to Apply Social Responsibility Criteria in Islamic Investment with an Ordinal Regression Procedure- Model 1 and 2

Dependent Variable		
	Variables	Measurement
Willingness to apply social responsibility criteria in Islamic investment	Model 1: Willingness to support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds	Dependent variable 1; Ordered dependent categories 1 Express no willingness to support 2 Probably I will support 3 I will support
	Model 2: Willingness to invest in an Islamic fund that applies additional 'social responsibility' criteria	Dependent variable 2; Ordered dependent categories 1 Express no willingness to invest 2 Probably I will invest 3 I will invest
Explanatory Variables		
Variable	Description	Measurement
Perceived risk	Perceived Risk of an Islamic fund that applies additional social responsibility criteria in comparison to ordinary Islamic funds.	1 Higher 2 Similar 3 Lower
Perceived return	Perceived return of an Islamic fund that apply additional social responsibility criteria in comparison to ordinary Islamic funds.	1 Higher 2 Similar 3 Lower
Awareness of Consequence	Represented by two items	Metric scale
Ascribed Responsibility	Represented by two items	Metric scale
Commitment to *Shari'ah* principles in investment	Represented by the cluster membership	1 Committed investors 2 Pragmatic investors 3 Non-Muslim investors
Individual Pro-social Behaviour	Pro-social activities at the individual level consistently practiced in the past 6 months	1 High 2 Low
Collective Pro-social Behaviour	Pro-social activities at the collective level consistently practiced in the past 6 months	1 High 2 Low
SRI awareness	Level of awareness on the practice of investing using social, ethical and environmental issues.	1 Above average 2 Average 3 Below average
Main Investment Objective	Proxy for the length of investment horizon.	1 For retirement/children education 2 Others
Risk-return Attitude		1 High 2 Low
Gender		1 Female 2 Male
Age		1 30 and below 2 31-40 3 Above 40
Monthly income		1 Above RM10,000 2 RM3,001-RM10,000 3 Below RM3,000
Highest Education		1 With University degree/Professional qualification 2 Otherwise
Occupation		1 Professional/Administrative/Managerial level 2 Otherwise

Table 8.11 presents the model specification for the two ordinal regressions together with the notes of the dependent and explanatory variables. In this analysis, two ordinal regression models are performed; the first being the estimation of the

investors' 'willingness to support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds'; and the second, the estimation on the investors' 'willingness to invest in an Islamic fund that applies additional social responsibility criteria'. For easy reference, the models are called 'model 1' and 'model 2' respectively. The explanatory variables comprise of five distinct components, and they are common for both models.

As a final step at the data preparation level, cross-tabulation for all the dichotomous and categorical variables (as shown in Table 8.11) with the ordered categories of the two dependent variables are carefully examined to ensure that no particular cell has small count of cases. Subsequently, the analysis proceeds with the ordinal regression procedure and the results for 'Model 1 and 'Model 2' are discussed in section 8.5.4 and 8.5.5 respectively.

8.5.4 Results of the Ordinal Regression Analysis - Model 1

Following the model specification as shown in Table 8.11, the ordinal regression analysis is performed using the analytical procedure available in SPSS version 13. As described earlier, the analysis focuses on the results of the ordered logit model, and they are presented in Table 8.12 and 8.13. Nevertheless, an analysis using the probit function is also conducted. Upon inspection, both functions provide almost identical results in terms of its goodness of fit, pseudo R-square and variables with significant findings (the results of the regression using the probit function are shown in Appendix 8C).

Before discussing the results of the ordinal regression, some important statistical diagnostic tests need to be examined to ensure the validity of the model. The model displayed a good overall fit as it was significant ($p=0.000<0.05$) and displayed good goodness of fit Pearson ($p=0.559>0.05$). One important assumption underlying the procedure of ordinal regression is the assumption of parallel line. This assumption states that the location parameters (slope coefficients) of the model are the same across the ordered categories of the dependent variable. A significant result of the parallel line test ($p<0.05$) would indicate that there exist differences in the slope coefficients between the ordered categories of the dependent variable and therefore parallel line assumption is violated. The test of parallel line is found to be non-significant (p=0.124>0.05), and therefore, the assumption is not violated.

Table 8.12 also provides few measures on the ability of the model to explain the variability of the dependent variable. The pseudo R-square measures include Cox and Snell (0.282), Nagelkerke (0.329) and McFadden (0.171). The values for pseudo R-square measures indicate that the model explains a relatively modest amount of the variation in the dependent variable. Nevertheless, given the nature of the analysis (ordinal regression), the result can be considered quite satisfactory. To put it into a perspective, when compared to previous studies adopting a similar procedure, the pseudo r-square measures of this model is substantially higher (e.g. Nilsson 2008) recorded a McFadden R-square of 0.078).

Table 8.12: Diagnostic Tests and Pseudo R-square- Model 1

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	738.775			
Final	612.398	126.377	21	.000
Goodness-of-Fit				
		Chi-Square	df	Sig.
Pearson		732.610	739	.559
Deviance		612.398	739	1.000
Test of Parallel Lines				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	612.398			
General	583.817	28.580	21	.124
Pseudo R-square				
Cox and Snell		.282		
Nagelkerke		.329		
McFadden		.171		

On the other hand, Table 8.13 presents the results of the ordinal regression for Model 1 (ordered logit function). As a default, for dichotomous and categorical variables, SPSS will automatically use the category with the highest coded value as the reference category where other category is compared to in relation to the dependent variable. Therefore, these reference categories will carry the dummy values of 0 in the regression. As can be seen from the table, both the coefficients of the ordinal regression thresholds are found to be significant. The thresholds can be said to be comparable to the intercept value in standard linear regression. However, the main focus of this analysis is the results of the location parameters; i.e. the explanatory variables included in the analysis to explain the level of investors' willingness to support the use of additional social responsibility criteria in the investment decision of their currently held Islamic funds.

Table 8.13: Results of Ordinal Regression- Model 1

	Variable	Description	Estimate	Sig.	Odds Ratio
Threshold	Support additional SR criteria in currently held Islamic funds	=1	**3.204**	**.002**	
		=2	**5.355**	**.000**	
Location	Awareness of Consequence	Metric	**.417**	**.010**	**1.517**
	Ascribed Responsibility	Metric	**.533**	**.000**	**1.704**
	Perceived Risk	Higher (1)	-.409	.223	0.664
		Similar (2)	-.403	.204	0.668
		Lower (3)	0(a)	.	
	Perceived Return	Higher (1)	**1.153**	**.002**	**3.168**
		Similar (2)	.351	.329	1.420
		Lower (3)	0(a)	.	
	Cluster Membership	Committed Investor (1)	**1.368**	**.000**	**3.927**
		Pragmatic Investor (2)	.587	.068	1.799
		Non-Muslim Investor (3)	0(a)	.	
	Individual Pro-social Activities	High (1)	**.565**	**.019**	1.759
		Low (2)	0(a)	.	
	Collective Pro-social Activities	High (1)	.097	.682	2.637
		Low (2)	0(a)	.	
	SRI Awareness	Above average (1)	**1.546**	**.000**	**4.693**
		Average (2)	**.804**	**.003**	**2.234**
		Below average (3)	0(a)	.	
	Main Investment Objective	Retirement/Children's Education (1)	.147	.521	1.158
		Others (2)	0(a)	.	
	Risk-return Attitude	High (1)	-.106	.693	0.899
		Low (2)	0(a)	.	
	Gender	Female (1)	-.322	.158	0.724
		Male)2)	0(a)	.	
	Age	30 and below (1)	-.095	.786	0.909
		31-40 (2)	-.098	.720	0.906
		Above 40 (3)	0(a)	.	
	Monthly Income	Above RM10000 (1)	-.293	.492	0.746
		RM3001-RM10000 (2)	-.372	.210	0.689
		RM3000 and below (3)	0(a)	.	
	Highest Education	University/Professional degree (1)	**.722**	**.005**	**2.059**
		Without degree (2)	0(a)	.	
	Occupation	Professional/Administrative/Managerial (1)	.261	.258	1.298
		Others (2)	0(a)	.	

Link function: Logit.

a. This parameter is set to zero because it is redundant.

It is also important to note that the explanatory variables in an ordinal regression model estimate the probability of the dependent variable taking the next higher value of the ordered category (level of willingness), and not the actual value of the dependent variable as in the case of a standard linear regression. Therefore, the parameter estimates, which constitute the coefficient of the explanatory variables, reflect the contribution of these variables to the expected log odds of the ordered categories of the dependent variables, while keeping the effects of other variables constant. A more intuitive way to interpret the results of the regression (logit models) is to exponentiate the parameter estimates to odds ratios. This can be done by raising the natural log base *e* to the power of the parameter estimate. Apart from providing a more understandable language to the interpretation of the results, the odds ratios also provide a standardised measure that allows a comparison of the relative importance and strength of the independent variables as a predictor in the model, as frequently done with beta coefficients in linear regressions.

The first group of explanatory variables examines the influence of the attitudes on the perceived financial expectation of the Islamic funds that apply additional social responsibility criteria in their investment. Based on Table 8.13, from the two variables included in the model, statistically significant result can only be found for perceived return. The positively significant coefficient for 'Perceived return = Higher' suggests that respondents who perceived the expected return of an Islamic fund that applies social responsibility criteria to provide higher return than regular Islamic funds are likely to have greater willingness to support the use of additional social responsibility criteria in the investment decision of their currently held Islamic funds as compared to those who perceived the return to be lower. However, no significant result can be found on the level of willingness between those who perceived the return to be similar and those perceived the return to be lower. On the other hand, despite showing the right sign (negative value) for the coefficients related to perceived risk, the relationship has not been significant. Therefore, the study finds no support for Hypothesis 1b.

Turning to the interpretation of the parameter estimate, as shown in Table 8.13, the expected ordered log odds of moving to the next higher level of the dependent variable (level of willingness to support the use of additional social responsibility criteria) increases by 1.153 for those who perceived the return to be higher as compared to the reference group (perceived return=lower). Alternatively, based on the odds ratio, the probability that those who perceived the return to be higher as compared to those in the reference category (Perceived return=Lower) to be at a higher level of willingness (e.g. being at level3='I will support' as compared to level 2='Probably I will support') increases by 3.168 times.

The next group of variables included in the model are the variables representing normative consideration which constitute two constructs of moral norms and the commitment to *Shari'ah* principles in investment. As shown in Table 8.14, both the constructs of moral norms show significant influence in the level of respondents' willingness to support the use of social responsibility criteria in their currently held Islamic funds. As shown by the positive coefficients, the higher the level of awareness of consequence and ascribed responsibility on applying social responsibility criteria, the higher the probabilities of the respondents to support the use of such criteria in their Islamic funds. It can also be said that for every one point increase in the awareness of consequence and ascribed responsibility scale, the odds of being at a higher level of willingness to support the use of additional social responsibility criteria in currently held Islamic funds by the respondents increase by a factor of 1.517 and 1.704 respectively.

On the other hand, while a strong and highly significant relationship is found for committed investors, the result for pragmatic investors in reference to the non-Muslim investors is shown to be insignificant at the .05 level. This result may suggest that despite being Muslims, the pragmatic investors may share the 'rational' attitude towards investment decision of the non-Muslim investors. Even if the significant level is stretched to the 0.10 level and accept it significant result, the odds ratio revealed a huge difference in terms of the influence to the level of willingness between the committed and the pragmatic investors in reference to the non-Muslim investors. For instance, the probability of being at a higher level of willingness to support the use of additional social responsibility criteria in the investment decision of currently held Islamic fund increases by almost 4 times for committed investors as compare to the non-Muslim investors, while it is only by a factor of 1.799 for the pragmatic investors. Taken together, the highly significant results for the two constructs of moral norms and the strong coefficient of the committed investors provide the evidence that individual decision making in the context of social responsibility can be strongly influenced by normative judgement.

Apart from the above two components; the calculation of risk and return in one hand and the consideration of normative issues on the other, habitual elements have been shown in the literature to have important influence on individuals' decision to behave in a socially desirable manner. According to Table 8.13, from the two variables included in the analysis, only individual pro-social activities participated consistently by the respondents proves to be a significant factor in explaining the probability of their willingness to support the use of social responsibility criteria in the investment decision of currently held Islamic funds. The insignificant result of the collective pro-social behaviour suggests that Hypothesis 3b is not supported by this study. Though not entirely, this result provides further support on the role of habitual element and socially responsible lifestyle in the investment decision of investors as previously identified in SRI literature.

The next set of variables involved the respondents' characteristics related to their investment. It appears that the main investment objective which represents the investment horizon of the investors, and their risk-return attitude do not significantly influence the dependent variable. However, the level of SRI awareness demonstrates a strong significant result. Higher level of awareness of investing using social, ethical and environmental issues has a positive impact on the respondents' willingness to support social responsibility criteria in the investment decision of their Islamic funds. As compared to those who have below average level of SRI awareness, the likelihood for those who have above average level of SRI awareness being at a higher ordered category of the dependent variable (level of willingness) increase by a factor of 4.693, while it is by a factor of 2.234 for those having average level of SRI awareness. Such a high magnitude of influence on the dependent variable necessarily suggests that the level of awareness on investing using social, ethical and environmental criteria is the most important determinant in this model.

Demographic variables have been traditionally important variables in profiling socially responsible behaviours. However, the results shown in Table 8.13 indicate that socio-demographic variables have not been found as important factors in explaining the probabilities of respondents' willingness to support the use of social responsibility criteria in the investment decision of their currently held Islamic funds. Except for education, all other socio-demographic variables such as gender, age, income and type of occupation are found to be insignificant predictors. As hypothesised, education has a positive contribution on the dependent variable, with the odds of those having university degree or professional qualification being at a higher level of willingness to support social responsibility criteria is approximately twice as much as compared to other respondents. On the contrary, there are some factors which exhibit a wrong sign of relationship than hypothesised such as gender, age and income, but these relationships could not be ascertained as the coefficients are not statistically significant.

8.5.5 Results of the Ordinal Regression Analysis- Model 2

While the earlier analysis (Model 1) examined the factors that explain the willingness of the respondents to support the use of additional social responsibility criteria in their present Islamic funds, this section discusses the results of the ordinal regression on the investors' willingness to invest in an Islamic fund that applies additional social responsibility criteria if it is offered to them. The regression analysis for this model (Model 2) follows similar procedure as employed in Model 1. Here again, both the results of the logit and probit link function provide almost identical results in terms of its goodness of fit, pseudo R-square and variables with significant findings (the results of the ordinal regression using the probit function are provided in Appendix 8D). Table 8.14 and 8.15 present the results of the ordered logit regression for model 2. The model satisfies all the relevant diagnostic tests. As shown in Table 8.14, it displays a good overall fit ($p=0.000<0.05$) and shows good goodness of fit Pearson ($p=0.428>0.05$). The test of parallel line also indicates that the parallelism assumption is not violated as the test is found to be non-significant ($p=0.407>0.05$). The figures for the pseudo R-square measures also show slightly better explanatory power as compared to Model 1 with the values for Cox and Snell, Nagelkerke and McFadden are 0.306, 0.352 and 0.179 respectively.

Table 8.14: Diagnostic Tests and Pseudo R-square - Model 2

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	782.413			
Final	642.683	139.730	21	.000
Goodness-of-Fit				
		Chi-Square	df	Sig.
Pearson		745.289	739	.428
Deviance		642.683	739	.995
Test of Parallel Lines				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	642.683			
General	620.813	21.870	21	.407
Pseudo R-square				
Cox and Snell		.306		
Nagelkerke		.352		
McFadden		.179		

Regarding the results of the regression, Table 8.15 shows that both the coefficients of the ordinal regression threshold are found to be significant. A quick view on the overall results also suggest that the factors found to be significant in Model 1 have also emerged as significant predictors in this model. Additionally, consistent with the slight increase in the pseudo R-square measures, some of the variables experienced an improvement in their strength of influence on the dependent variable, while few other variables, which were non-significant predictors in Model 1, emerged as significant predictors in this model.

Table 8.15: Results of Ordinal Regression- Model 2

	Variable	Description	Estimate	Sig.	Odds Ratio
Threshold	Invest in Islamic fund that apply additional SR criteria	=1	**5.162**	**.000**	
		=2	**7.752**	**.000**	
Location	Awareness of Consequence	Metric	**.519**	**.001**	**1.680**
	Ascribed Responsibility	Metric	**.563**	**.000**	**1.756**
	Perceived Risk	Higher (1)	.403	.200	1.496
		Similar (2)	-.117	.696	0.889
		Lower (3)	0(a)	.	
	Perceived Return	Higher (1)	**.790**	**.023**	**2.203**
		Similar (2)	.533	.131	1.704
		Lower (3)	0(a)	.	
	Cluster Membership	Committed Investor (1)	**1.359**	**.000**	**3.892**
		Pragmatic Investor (2)	**.839**	**.009**	**2.314**
		Non-Muslim Investor (3)	0(a)	.	
	Individual Pro-social Activities	High (1)	**.700**	**.003**	**2.014**
		Low (2)	0(a)	.	
	Collective Pro-social Activities	High (1)	.344	.131	1.411
		Low (2)	0(a)	.	
	SRI Awareness	Above average (1)	**1.147**	**.000**	**3.149**
		Average (2)	**.528**	**.047**	**1.696**
		Below average (3)	0(a)	.	
	Main Investment Objective	Retirement/Children's Education (1)	.206	.352	1.229
		Others (2)	0(a)	.	
	Risk-return Attitude	High (1)	.498	.055	1.645
		Low (2)	0(a)	.	
	Gender	Female (1)	.294	.185	1.342
		Male (2)	0(a)	.	
	Age	30 and below (1)	-.155	.650	0.856
		31-40 (2)	-.258	.327	0.773
		Above 40 (3)	0(a)	.	
	Monthly Income	Above RM10000 (1)	-.148	.721	0.862
		RM3001-RM10000 (2)	-.486	.090	0.615
		RM3000 and below (3)	0(a)	.	
	Highest Education	University/Professional degree (1)	**.888**	**.000**	2.43
		Without degree (2)	0(a)	.	
	Occupation	Professional/Administrative /Managerial (1)	**.615**	**.007**	1.849
		Others (2)	0(a)	.	

Link function: Logit.

a. This parameter is set to zero because it is redundant.

With respect to the variables representing the component of financial motive, only perceived return is found to have any significant influence on the level of the respondents' willingness to invest in an Islamic fund that applies additional social responsibility criteria, while perceived risk remains as an insignificant predictor. Yet again, the significant finding only applies to the respondents who perceived the return of such funds to be higher than ordinary Islamic funds as compared to the reference group (those who perceived the return to be lower). However, no significant result is found between those who perceived the return to be similar and those who perceived the return to be lower. Additionally, the strength of the relationship in this case appears to be fairly reduced, with the odds ratio between 'Perceived return=Higher' and the reference category (Perceived return=Lower) is just 2.203 as compared to 3.168 as found in Model 1. In other words, while a favourable financial expectation has been shown to play a significant role in influencing the level of willingness to invest in an Islamic fund that applies additional social responsibility criteria, the magnitude is not as strong as in the case of predicting the investors' willingness to support the use of additional social responsibility criteria in the investment decision of currently held Islamic funds.

On the other hand, the contribution of the group of variables representing normative consideration remains to be strong and important explanatory factors in this model. As shown in Table 8.15, both the constructs of personal norms show significant influence in the level of respondents' willingness to invest in an Islamic fund that applies additional social responsibility criteria when it is offered to them. A slightly higher positive coefficients (and therefore odds ratios) of the two constructs in this model (as compared to Model 1) suggest that the two variables have stronger impact on the dependent variable in this case. Commitment to *Shari'ah* principles as represented by the cluster membership of the respondents has also shown an improvement in its contribution to the explanatory power of the model with both committed and pragmatic investors display highly significant results (in reference to the non-Muslim investors). Not only that, pragmatic investors exhibit a much stronger influence to the dependent variable in this case, with the probability of the pragmatic investors being at a higher level of willingness increases by a factor of 2.314 as compared to the non-Muslim investors. Nevertheless, the huge difference in terms of the influence on the level of willingness between committed and pragmatic investors in reference to the non-Muslim investors as reflected by the odds ratio remains (3.892 against 2.314) suggest that the level of commitment to *Shari'ah* principles among the Muslim investors still plays an important role in this model.

Similar findings are also found for the variables related to pro-social behaviour. As shown in Table 8.15, individual pro-social activities participated consistently by the respondents proves to be a significant factor. It can also be observed that the strength of the parameter estimate of the factor have increased in this model, with the likelihood of being at a higher level of willingness doubles for those with higher participation in individual pro-social activities. However, the pro-social behaviour at the collective level remains to be an insignificant predictor in this model.

The level of SRI awareness continues to show strong significant results. Higher level of awareness of investing using social, ethical and environmental issues has positive impact on the probability of the respondents' willingness to invest in an Islamic fund that applies additional social responsibility criteria. While the variable related to the main investment objective of the respondents remains insignificant, interestingly, risk-return attitude shows a significant result at the 0.10 level ($p = 0.055$). This provides some support to the earlier hypothesis that investors with high risk-return appetite are more acceptable to new investment opportunities and investment style, including the idea of investing using social responsibility criteria.

The explanatory role of socio-demographic variables slightly increases in this model. Apart from education which remains to be significant with relatively strong coefficient, occupation has also appeared to be a significant predictor with those working at the professional/administrative/managerial level are more likely to have a greater level of willingness to invest in Islamic fund that applies additional social responsibility criteria. In spite of not being significant, the sign for gender returns to a positive value for the female respondents as hypothesised. However, the relationship between age and income remains inconsistent with the hypothesis with the results suggesting that older and lower income investors may have greater willingness to invest in the fund. If the significant level is stretched to the 0.10 level, it can be seen that there is a significant result with those earning RM3000 and below are more likely to be at a higher level of willingness to invest than those earning between RM3001 to RM10000. Although this finding is relatively weak, the notion that respondents from lower income groups show greater support for social responsibility can be corroborated from previous analysis in this study.

8.6 ORDINAL REGRESSION ANALYSIS - INVESTORS' WILLINGNESS TO SACRIFICE FINANCIAL RETURN FOR SOCIAL RESPONSIBILITY COMMITMENT

In this section, the analysis further examines the respondents' potential sacrificial behaviour in relation to the application of social responsibility criteria in Islamic investment. The descriptive analysis shown in section 8.4.2 revealed that the willingness to invest in Islamic funds that apply social responsibility criteria in general declined with lower expected returns. This is anticipated as the lower return in comparison to the alternative investment would cost the investors potential losses. However, the gradual decline in the level of willingness to invest as the rate of returns drop indicates that some investors are more responsive than others to the lower expected returns. The fact that some of the respondents have shown their willingness to invest in such funds even at a comparatively lower rate of returns reflect their willingness to accept financial sacrifice for social responsibility commitment. Therefore, the ensuing analysis explores this behaviour and its determinants.

8.6.1 Constructing Financial Sacrifice Scale

In order to capture the degree of the financial sacrifice that the respondents are willing to accept for social responsibility commitment in Islamic investment, a new scale is constructed based on the responses to six items shown previously in Table 8.10 and reproduced for the illustration of the computation of the scores in Table 8.16 below.

Table 8.16: Illustration of the Computation of the Financial Sacrifice Scale

If your current Islamic unit trust fund provides a 10 percent return, will you invest in the Islamic fund that applies 'social responsibility' criteria if its return is ...		Score
More than 10%	I will invest	5
10%	Probably I will invest	4
9%	I will not invest	1
8%	I will not invest	1
7%	I will not invest	1
6% and below	I will not invest	1
Total Score of Financial Sacrifice Scale		13

Since the objective is to analyse the level of financial sacrifice the investors willing to accept, respondents who never showed any willingness to invest in the Islamic fund that applies social responsibility criteria are excluded from the analysis. Therefore, it is natural to review the responses for the first item where the fund is said to provide return higher than the regular Islamic funds. In this context, only those who answered 'I will invest' for this item will be included in the analysis, while those who answered 'I will not invest', 'probably I will not invest', 'I am not sure' and 'Probably I will invest' are excluded.[78] Next, the scores for all the six items are summed to generate the scale, which is referred here as the 'financial sacrifice scale'.[79] As illustrated by Table 8.16, a respondent who selected 'I will invest' for 'more than 10%', 'Probably I will invest' for '10%', and 'I will not invest' for all the other scenarios will have a total financial sacrifice scale of 13 (5+4+1+1+1+1). The lowest possible score for the scale is 10 (scoring 5 for the first item and 1 for the other five) while the highest possible score is 30 (scoring 5 for all the six scenarios).

8.6.2 Descriptive Analysis of the Financial Sacrifice Scale

Based on the above description, Table 8.17 presents the frequencies and descriptive statistics of the financial sacrifice scale. Out of the total sample in the study, the computation of the scale could only be made for 305 respondents who have satisfied the condition (who expressed the willingness to invest in such fund) and responded to all the six items relevant to the scale construction. As can be seen from the table, the scores of the financial sacrifice scale range from 13 up to the maximum of 30 with a mean score of 24.711, and a mode and median of 25. Looking at the distribution of the scores, it can be observed that the scale slowly increases from its lowest value of 13 up to the mode score of 25 and again gradually declines before having a final jump right at the end of the scale (37 respondents or 12.13% have a score of 30).

[78] This procedure reduces the sample size to 320 respondents.
[79] This procedure reduces the sample size further to 305 respondents; with 15 respondents have missing values for at least one of the six items used in the scale construction.

Table 8.17: Frequencies and Descriptive Statistics for the Financial Sacrifice Scale

Scale	Frequency	%	Cumm. %	Descriptive Statistics		
13	1	0.33	0.33	N		305
15	4	1.31	1.64	Mean		24.711
16	5	1.64	3.28	Median		25
17	7	2.30	5.57	Mode		25
18	15	4.92	10.49	Std. Deviation		3.976
19	9	2.95	13.44			
20	10	3.28	16.72			
21	14	4.59	21.31	Percentiles	25	22
22	16	5.25	26.56		50	25
23	19	6.23	32.79		75	28
24	22	7.21	40.00			
25	39	12.79	52.79			
26	31	10.16	62.95			
27	30	9.84	72.79			
28	22	7.21	80.00			
29	24	7.87	87.87			
30	37	12.13	100.00			
Total	305	100.00				

The scores spread widely from one end to the other across the possible values of the financial sacrifice scale. On one end of the scale, respondents with low scores can be said to be driven by purely profit motives, where the decision to invest in the fund that applies social responsibility criteria is made only in the context where the return is expected to be higher, or at least similar than alternative investment. This reflects their unwillingness to sacrifice financial returns for social responsibility commitment.[80] On the other extreme, it can be observed that the respondents who scored highly in the scale expressed their commitment for social responsibility almost at all cost and were willing to substantially sacrifice financial return. For instance, 37 respondents or 12.13% have a score of 30. In between the two groups, there exists a group of investors that expresses some commitment for social responsibility but maintains a rational financial judgement in making investment decision. In other

[80] For instance, based on the sequence of scale construction (as shown in Table 8.16), the typical pattern for those scoring 15 for the scale is 5+4+3+1+1+1, where willingness to invest is only firmly present when the return is assumed to be higher. Even for those who have a score of 20 for the scale, only one out of ten respondents expresses a firm willingness (5=I will invest) at 9% level of return. (This is observed from the questionnaire data).

words, they may be willing to sacrifice some financial return, but this is kept to the minimal.

8.6.3 Dependent Variable, Explanatory Variables, Hypothesis Development and Model Specification - Model 3

This section proceeds to examine the factors that can influence the investors' willingness to sacrifice financial return for social responsibility commitment in Islamic investment. Based on the earlier description of the investors, the scores for the financial sacrifice scale are collapse into three ordered categories; low, average and high. Respondents with the scores of 23 and below are grouped in the 'low' category; those with scores between 24 and 26 are grouped in the 'medium' category; and those with scores of 27 and above are in the 'high' category. This ordered category is then used as the dependent variable for an ordinal regression analysis.

Consistent with previous discussions in section 8.5.2, it is hypothesised that variables which have been used in the literature and have some connection with SRI are assumed to have a potential influence to the level of financial sacrifice the respondents are willing to accept for social responsibility. Almost all of the explanatory variables used in previous ordinal regressions (Model 1 and 2) are included as potential determinants. Since the expected return of the fund and its alternative investment are assumed to be known in the context of the scenario analysis (refer to section 8.6.1), the model does not include the perceptions of risk and return of the fund. However, the descriptive analysis (section 8.6.2) suggests that financial consideration may potentially be a strong factor in influencing the investors' level of financial sacrifice. Therefore, it is important that a variable that can represent the interaction between financial and social responsibility considerations of the respondents is included as part of the explanatory variables in the analysis. In chapter 7, the SR-Econ scale was developed to examine how the respondents perceived the importance of social responsibility dimension in relation to the economic dimension. As a result, it revealed at least three groups of investors; quite a number of the respondents perceived the economic factor as more important than social responsibility factor, a majority of the respondents perceived the two components as equally important, while a small percentage of the respondents perceived social responsibility dimension as more important. Based on the suitability of the above grouping in this analysis, it is used here to represent the component of financial motive in the model. Given the small count of cases in the third group, it is combined with the second group. Therefore, the first group will comprise of investors who consider economic dimension as more important than social responsibility dimension, while the other group consist of respondents who perceived social responsibility component as more or equally important to the economic component. It is hypothesised that higher importance placed on the economic dimension over social responsibility dimension in Islamic investment will have a negative impact on the investors' willingness to sacrifice financial return for social responsibility commitment.

The impacts of the other explanatory variables on the dependent variable in this model are assumed to be similar as previously hypothesised in Model 1 and 2. For instance, the constructs of moral norms (awareness of consequence and ascribed responsibility) are hypothesised to have a positive impact to the financial sacrifice scale. The higher the awareness of the consequence of applying social responsibility criteria and the more such awareness is recognised as part of personal responsibility, the greater will be the level of financial sacrifice that the respondents are willing to accept. Similarly, the commitment to comply with *Shari'ah* principles represented by the cluster membership is hypothesised to have a positive influence in the willingness of respondents to sacrifice financial returns for social responsibility commitment in investment. Other explanatory variables from the habitual element, investment related characteristics and socio-demographic profile are also included in the analysis.

As described in section 8.5.2 and in the preceding paragraphs, the hypothesised relationships between these predictor variables and the dependent variable for Model 3 are formalised below and later summarised in Figure 8.2. The explanatory variables represent five major components, and cover Hypothesis 11 through 15.

Component 1- Financial Motive

Hypothesis 11: The perceived importance of economic consideration over social responsibility dimension among the respondents (derived from the SR-Econ scale) will contribute negatively to their level of willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment'.

Component 2- Normative Judgement

Hypothesis 12a: The level of awareness of consequence on investing using social responsibility criteria among the respondents will contribute positively to their level of willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment'.

Hypothesis 12b: The level of ascribed responsibility on investing using social responsibility criteria among the respondents will contribute positively to their level of willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment'.

Hypothesis 12c: The level of commitment to comply with *Shari'ah* principles in investment (as represented by the cluster membership; committed-pragmatic-non-Muslim investors) among the respondents will contribute positively to their level of willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment'.

Component 3- Habitual Element

Hypothesis 13a: Participation in pro-social activities at the individual level among the respondents will contribute positively to their level of willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment'.

Hypothesis 13b: Participation in pro-social activities at the collective level among the respondents will contribute positively to their level of willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment'.

Component 4- Investment Related Characteristics

Hypothesis 14a: The level of SRI awareness among the respondents will contribute positively to their level of willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment'.

Hypothesis 14b: Respondents with longer investment horizon (represented by their main investment objective)will have greater willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment' than those with shorter investment horizon.

Hypothesis 14c: Respondents with higher risk-return attitude will have greater willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment' than those with lower risk-return attitude.

Component 5- Socio-demographic Profile

Hypothesis 15a: Female respondents will have greater willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment' than male respondents.

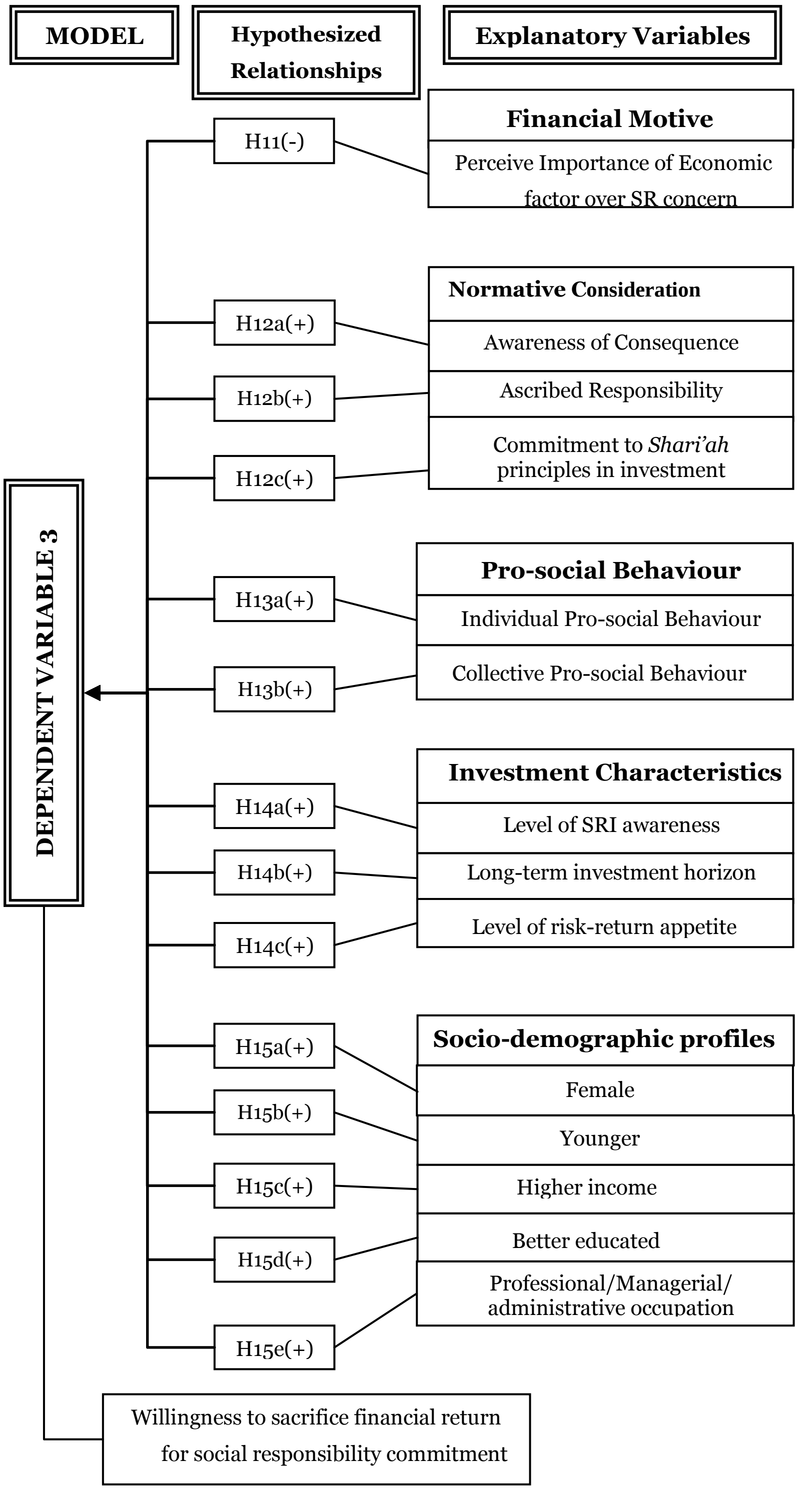
Hypothesis 15b: Younger respondents will have greater willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment' than older respondents.

Hypothesis 15c: Respondents with a higher income will have greater willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment' than respondents with lower income.

Hypothesis 15d: Better educated respondents will have greater willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment' than less educated respondents.

Hypothesis 15e: Respondents who work at the professional/administrative/managerial level will have greater willingness to 'sacrifice financial return for social responsibility commitment in Islamic investment' than respondents in other occupational level.

Figure 8.2: The Hypothesised Relationships between Explanatory Variables and Dependent Variable for Model 3



Based on the description in this section, Table 8.18 presents the model specification for the ordinal regression (Model 3) together with the notes of the dependent and explanatory variables.

Table 8.18: Econometric Estimation on the Investors' Willingness to Sacrifice Financial Return for Social Responsibility Commitment in Islamic Investment with an Ordinal Regression Procedure - Model 3

Dependent Variable		
Variable	Description	Measurement
Willingness to sacrifice financial return for social responsibility commitment in Islamic investment	Based on the scores of the financial sacrifice scale; collapsed into 3 ordered categories.	Ordered dependent categories; 1 Low 2 Medium 3 High
Explanatory Variables		
Variable	Description	Measurement
Perceived Importance of Economic dimension over SR dimension in Islamic investment	Derived from the SR-Econ scale.	1 Economic dimension is higher than SR dimension (SR scale score < Econ scale score) 2 SR dimension is at least equal to Economic dimension (SR scale score > or = Econ scale score)
Awareness of Consequence	Represented by two items	Metric scale
Ascribed Responsibility	Represented by two items	Metric scale
Commitment to *Shari'ah* principles in investment	Represented by the cluster membership	1 Committed investors 2 Pragmatic investors 3 Non-Muslim investors
Individual Pro-social Behaviour	Pro-social activities at the individual level consistently practiced in the past 6 months	1 High 2 Low
Collective Pro-social Behaviour	Pro-social activities at the collective level consistently practiced in the past 6 months	1 High 2 Low
SRI awareness	Level of awareness on the practice of investing using social, ethical and environmental issues.	1 Above average 2 Average 3 Below average
Main Investment Objective	Proxy for the length of investment horizon.	1 For retirement/children education 2 Others
Risk-return Attitude		1 High 2 Low
Gender		1 Female 2 Male
Age		1 30 and below 2 31-40 3 Above 40
Monthly income		1 Above RM10,000 2 RM3,001-RM10,000 3 Below RM3,000
Highest Education		1 With University degree/Professional qualification 2 Otherwise
Occupation		1 Professional/Administrative/Managerial level; 2 Otherwise

8.6.4 Results of the Ordinal Regression Analysis- Model 3

Following a similar procedure as before, the ordinal regression is performed by using both the logit and probit link in the analytical procedure of SPSS. The results of the ordered logit regression are presented in Table 8.19 and 8.20, while the results of the ordered probit regression are shown in Appendix 8E. All the diagnostic tests as shown in Table 8.19 exhibit favourable results with a significant overall fit ($p=0.000<0.05$) and a good goodness of fit Pearson ($p=0.176>0.05$). Similarly, the test of parallel line indicates that the parallelism assumption is not violated as the test is non-significant ($p=0.360>0.05$).

Table 8.19: Diagnostic Tests and Pseudo R-square- Model 3

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	573.800			
Final	522.438	51.362	18	.000
Goodness-of-Fit				
		Chi-Square	df	Sig.
Pearson		533.389	504	.176
Deviance		522.438	504	.276
Test of Parallel Lines				
Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Null Hypothesis	522.438			
General	502.911	19.527	18	.360
Pseudo R-square				
Cox and Snell		.178		
Nagelkerke		.200		
McFadden		.090		

Table 8.19 also provides few measures on the ability of the model to explain the variability of the dependent variable. The pseudo R-square measures include Cox and Snell (0.178), Nagelkerke (0.200) and McFadden (0.090). The values for pseudo R-square measures indicate that the model explains a fairly small part of the dependent variable. This can be reflected by the small number of the explanatory variables that are found to be significant predictors in the model (Table 8.20).

Table 8.20: Results of Ordinal Regression- Model 3

	Variable	Description	Estimate	Sig.	Odds Ratio
Threshold	Willingness to accept financial sacrifice for social responsibility commitment	=1	**2.720**	**.005**	
		=2	**4.162**	**.000**	
Location	Awareness of Consequence	Metric	.281	.089	1.324
	Ascribed Responsibility	Metric	.296	.041	1.344
	Perceived Importance of Economic Dimension	Higher(1)	**-.672**	**.012**	**0.511**
		Similar/Lower(2)	0(a)	.	
	Cluster Membership	Committed Investor (1)	.567	.131	1.763
		Pragmatic Investor (2)	.257	.530	1.293
		Non-Muslim Investor (3)	0(a)	.	
	Individual Pro-social Activities	High (1)	.135	.610	1.145
		Low (2)	0(a)	.	
	Collective Pro-social Activities	High (1)	.199	.445	1.220
		Low (2)	0(a)	.	
	SRI Awareness	Above average (1)	**.900**	**.008**	**2.459**
		Average (2)	**1.146**	**.000**	**3.146**
		Below average (3)	0(a)	.	
	Main Investment Objective	Retirement/Children's Education (1)	.277	.267	1.319
		Others (2)	0(a)	.	
	Risk-return Attitude	High (1)	.348	.241	1.416
		Low (2)	0(a)	.	
	Gender	Female (1)	-.126	.614	0.881
		Male)2)	0(a)	.	
	Age	30 and below (1)	-.283	.464	0.754
		31-40 (2)	-.333	.275	0.717
		Above 40 (3)	0(a)	.	
	Monthly Income	Above RM10000 (1)	.521	.274	1.684
		RM3001-RM10000 (2)	.598	.063	1.818
		RM3000 and below (3)	0(a)	.	
	Highest Education	University/Professional degree (1)	.197	.486	1.218
		Without degree (2)	0(a)	.	
	Occupation	Professional/Administrative/Managerial (1)	-.096	.713	0.908
		Others (2)	0(a)	.	

Link function: Logit.

a. This parameter is set to zero because it is redundant.

The first component of the explanatory variables is the item representing the financial motive of the respondents in the investment decision. As can be seen from Table 8.20, there is a negatively significant relationship between the perceived importance of economic dimension over social responsibility dimension in Islamic investment and the level of willingness to sacrifice financial return for social responsibility commitment. For instance, the odds of those having higher perceived importance of economic factor over social responsibility factor being at a higher level of financial sacrifice declines by a factor of 0.511.

Despite being consistently strong and significant factors in previous regression analysis, the component representing normative judgement suffers some lost of explanatory power in this model. While the construct of ascribed responsibility remains significant at the 0.05 level, awareness of consequence is only found to be significant at the 0.10 level (p=0.089). Apart from that, based on the odds ratios, the strength of the two constructs in influencing the dependent variable in this case have also slightly diminished. Subsequently, cluster membership which reflects the respondents' commitment to comply to *Shari'ah* principles in investment has not been a significant factor in this case. In other words, there is no evidence to suggest that there exists differences between committed, pragmatic and non-Muslim investors in their willingness to accept financial sacrifice for social responsibility commitment. Therefore, this indicates that despite complying with the principles of *Shari'ah* in investment and shows greater willingness to support and invest in Islamic funds that apply social responsibility criteria (Model 1 and 2), such a commitment may not necessarily inclusive of the willingness to sacrifice financial return for social responsibility.

Habitual component in the form of participation in pro-social activities both at the individual and collective level are also shown to be non-significant determinants of such sacrificial behaviour. Interestingly, the level of SRI awareness continues to be a very important factor in this analysis. Other investment related characteristics of the respondents which include the main investment objective and the risk-return attitude do not significantly influence the dependent variable. Similarly, all the socio-demographic variables included in the analysis display non-significant results at the

0.05 level. If the significance level is stretched to the 0.10 level, respondents whose income are between RM3001-RM10000 show some evidence of greater willingness to accept financial sacrifice for social responsibility commitment in investment as compared to those in the reference income category (RM3000 and below).

As a whole, it can be concluded that the investors' willingness to sacrifice financial return for social responsibility is distinct from the previous commitments related to the willingness to apply social responsibility criteria in Islamic investment (Model 1 and 2). It necessary demands a much stronger commitment as it involves financial sacrifice. This can be reflected by the fact that the commitment to *Shari'ah* principles in investment, which has been an important factor in influencing various measures of support for social responsibility in previous analyses, has not been a significant predictor in this model. In this context, financial motive (in a negative manner), normative judgement as well as the level of awareness of investing using social, ethical and environmental issues emerged as the main determinants of this sacrificial behaviour.

8.7 SUMMARY AND CONCLUSION

This chapter has examined various aspects of the respondents' commitment to incorporate social responsibility criteria in Islamic investment. In general, the findings have showed favourable support among the respondents in applying additional social responsibility criteria in their actual investment behaviour. In order to reflect the multi-dimensional nature of individual's decision, a number of sources of behavioural motivations were included in this analysis. In addition to the financial motive and normative consideration, the analysis on the determinants of investors' willingness to incorporate social responsibility dimension in Islamic investment has also included habitual element, investment related characteristics and the traditional socio-demographic variables. As revealed by Model 1 and 2, all the five components contributed different degrees of influence on the willingness to incorporate social responsibility criteria in their present and potential future investment. While the variables related to the normative component displayed strong results, financial motive in the form of perceived return remains as an important factor in the investment decision. This confirms the idea that investing based on social responsibility is not entirely driven by normative judgement, but also motivated by financial reason. Habitual component, particularly on the participation in pro-social behaviour at the individual level, and the level of awareness of investing using social, ethical and environmental concerns have also been found to be important predictors in the model. Despite being traditionally an important set of variable in explaining and profiling socially responsible behaviours, socio-demographic variables which are found to be significant predictors in the regression analysis are limited to level of education, occupation and to a certain extent, income.

The analysis in this chapter further investigates the extent of which investors are willing to sacrifice financial return for social responsibility commitment. Despite the fact that some investors showed strong commitment for the cause through their willingness to accept financial sacrifice, financial motive remains an important element on the acceptability of such investment style, and this is reflected in the regression results (Model 3). Additionally, the commitment to comply with *Shari'ah* principles has not been a significant factor in the analysis, and therefore strengthened the findings on the prominence of financial consideration in the investment decision of the investors. Nevertheless, the level of SRI awareness can be said to be one of the most important determinant in this study as it continues to be an important factor in this model as well.

CHAPTER 9

AN INTERPRETIVE DISCUSSION AND CONTEXTUALISATION

9.1 INTRODUCTION

As delineated in chapter 1, the present research has been outlined to address six main research questions, and this has been reflected in the structure of this thesis. The discussions in the conceptual component of this study were shaped by the first three research questions, while the empirical analysis focussed on answering the remaining three research questions. This chapter seeks to bring together all the findings and synthesise the empirical results with the theoretical framework of the research. This provides a comprehensive understanding of the overall findings. The discussion is then supplemented with an interpretive approach, where it seeks to identify useful patterns emerged from the findings to be incorporated to the existing body of knowledge, and potentially provides a better description and understanding of the area under study.

9.2 THE CONCEPTUAL DISCUSSIONS

The conceptual discussions of the research are aimed to address three research questions, and they are specified as follows;

RQ1. What are the issues, approaches and theoretical underpinnings of SRI as being practiced in the west?

RQ2. What is the Islamic perspective of social responsibility and its implications on Islamic investment practices?

RQ3. How can Islamic investment incorporate social responsibility criteria in the light of the experience of the SRI funds?

The examination on the theory and practice of the SRI industry has resulted in a detail understanding of the movement. Despite the influence of its faith heritage in the earlier phase of its development, the western SRI industry has evolved dramatically and been shaped by diverse movements and various geo-political events. As a result, modern SRI practices have addressed broader social, ethical and environmental issues beyond the traditional exclusion of the so-called 'sin' activities (e.g. gambling, weapon and pornography). This wide spectrum of social responsibility issues ranges from human rights, labour standards, business practices, community involvement as well as the environment (See Figure 2.1 and 2.2). Similarly, the strategies adopted by SRI investors have also evolved, ranging from traditional exclusion to positive screening, integration approach, as well as complex engagement and advocacy initiatives (See Figure 2.3). Parallel with its increasing size, the industry comprises diverse groups with different underlying motivations, issues of concerns and strategies used in the investment process. While the normative principle underpins the value-based investors, the value-seeking and value-enhancing investors are driven by financial motives, with the former uses social, ethical and environmental (SEE) criteria as 'extra-financial' indicators to seek superior performance, while the latter is pre-dominantly concerned with corporate governance issues in securing and enhancing long-term returns (See Table 2.2). The apparent heterogeneity in the types of investors in the industry complicates the conceptualisation of the theoretical foundation underlying the movement. Nevertheless, at least from the perspective of the value-based investors, the theoretical foundation for SRI can be framed within the principle of consistency between conviction and action. The framework identifies four important elements which are integrated with each other in providing the ethical grounding and practical aspects to the industry. The core to this understanding is the ethical values or conviction subscribed by the investors which influence the issues of concern and its level of intensity in the investment process. On the other hand, the actual SRI investment, including the different types of strategies adopted, will then depend on the investors' level of commitment to SRI (See Figure 2.4). This general framework of SRI provides useful insights in understanding the process and practices of SRI investors, and also can be an important guideline in understanding the Islamic investors.

In the light of the experience of the SRI industry, the discussion proceeds to examine the Islamic perspective of social responsibility. As framed within the Islamic worldview, the discussions focus on the normative foundations frequently referred to in the literature of Islamic economics; the *Shari'ah* and its underlying objectives (*maqasid al-Shari'ah*), the precepts of justice (*'adl*) and beneficence (*ihsan*), and the notion of ultimate happiness (*falah*). While the traditional scope of *maqasid* is said to be limited to the level of protection and preservation of the five essentials, contemporary discussions in the field have emphasised the idea of promotion and enrichment of these elements (See Table 3.1), and broader spectrum of areas such as human rights, environment, and just economic development have been argued to be prime areas of concerns. These issues are consistent with the precepts of justice, which is considered to be the most comprehensive operational axiom in the realisation of overall economic and social wellbeing. As elaborately discussed, the notion of economic justice in Islam consists of various aspects which include, among others, equitable exchange, equal opportunity to participate in economic activities, equitable distribution of wealth, and an overall balanced and sustainable development, which take into consideration the various segments of the society as well as the future generations (See Figure 3.1). On the other hand, the examination on the behavioural perspective of social responsibility commitment is based on the notion of *falah*, which has been widely accepted as the most appropriate concept to represent the objective of *homo Islamicus*- the economic agents in an Islamic economy. These foundations provide the necessary justifications for the appropriate consideration of social responsibility dimension in the form of *Shari'ah* imperative, principles of a moral economy, and the normative behavioural framework.

It has also been observed that the three areas discussed have common and overlapping themes concerning the social responsibility issues and commitment. While the preservation of the essentials (*maslahah dharuriyyat*) and the prevention of injustice (*dzulm*) have been shown to be the necessary elements in providing the core and minimum level of commitment to social responsibility, the discussions have highlighted that a comprehensive realisation of *maslahah* and justice necessitate a dual approach, where the negative and positive aspects of the two need to be concurrently addressed. The presence of the latter will facilitate and sustain the overall human wellbeing and economic justice, while the absence of the former will result in downright prevalent of corruption and injustice in the society. Additionally, Islam always exhort its followers to pursue a higher level of social responsibility commitment as it is considered to be a part of the process of a spiritual development and the key to eternal salvation in the life to come. Therefore, going beyond the level of justice in promoting the interest of the society, in line with the spirit of *ihsan*, will facilitate one's upliftment to the state of *falah*. In this context, the realisation of *falah* necessitates individuals to exercise more than just the obedient behaviour, but also altruistic behaviour towards others, and potentially in the process, involves in some degree of sacrificial behaviour. The overlapping themes in all of these principles have enabled them to be synthesised, resulting in a unified behavioural framework of social responsibility issues and commitment (See Figure 3.2).

The normative framework of social responsibility issues and commitment provides some important implications on the practice of the Islamic investment. While *Islamic principles* encompass a holistic outlook towards all areas of life, it is apparent that the screening norms practiced by the industry is mainly prohibition driven and concerns with the *fiqh* dimension of the *Shari'ah*. Despite a clear consensus among the jurists on the general objective of the *Shari'ah*, particularly on the imperative of harm prevention towards the society and the environment, the focus of the screening norms remains in the area of product or sector oriented screen (See Table 4.1). It has been shown that *Shari'ah* injunctions, which have implications on economic activities are also applicable on the operations and policies in conducting business activities. These may include irresponsible business practices (e.g. fraud and misrepresentation, price manipulation, hoarding and bribery), exploitative policies and violation of rights (e.g. unfair compensation, unsafe working environment, forced labour, and discriminatory practices), and excessive exploitation and destruction of resources and the natural environment (e.g. pollution, destruction of forestry, crops and animals.). Therefore, it is essential that these issues are properly considered in the determination for *Shari'ah* compliance. Additionally, despite being a necessary step in ensuring the permissibility status of the investment and that all possible elements of harm is avoided, many scholars and commentators of Islamic finance have argued that the negative or exclusionary approach in Islamic investment as currently practiced is insufficient in realising the underlying objective of the *Shari'ah* and the normative goals of Islamic economics. Consistent with the dual approach to *maslahah* and justice, it is imperative that the Islamic investment practices move to a new phase of development, where the positive aspects of the social responsibility dimension are also incorporated into the investment process.

In terms of integrating the social responsibility dimension, Islamic investment can benefit from the vast literature and experiences of the SRI industry. Nevertheless, despite sharing similar aims, Islamic investment practices are regulated by religious principles and injunctions, and these need to be fully observed in the investment process. The comprehensive approach for exclusionary screening necessarily means that selective screening, whether negative or positive in nature cannot be implemented on its own in an Islamic investment (See Table 4.2). Therefore, the incorporation of social responsibility criteria in Islamic investment requires a 'double screening' process; initial screening for permissibility status and additional screening for broader social responsibility criteria. The screening for permissibility or *Shari'ah*-compliant must not only include the present sector and financial screens, but also other elements of harm to the society and environment, particularly on the policies or operations of the companies concerned. This second component to the qualitative filter for the investment provides the assurance that the *Shari'ah* compliant investment will avoid all forms of harm to the society and the environment, and the returns will not be tainted with impure income from exploitative and unethical business policies (See Figure 4.1). Additionally, other forms of positive screening, such as the ones practiced by the SRI movement, can be adopted by the Islamic investment practices in addressing broader social responsibility issues in line with the dual approach towards realising social justice and overall wellbeing of the society. In this context, the range of issues and the intensity level of social, ethical and environmental screens can vary among the offerings of the Islamic investment products to accommodate different types of investors with different degree of ethical commitment and financial expectation. Based on the behavioural framework synthesised in chapter 3, the level of social responsibility commitment is seen as an important component in the ongoing process of spiritual development and this can be reflected in the investment choice among the investors.

Negative and positive screenings are not the only means that can be used in Islamic investment. Shareholder activism through the engagement and advocacy strategy can be effectively exercised to influence management of corporations to adopt more humanly and environmentally friendly policies in their operation. This is consistent with the notion of 'moral purification' in investment in the spirit of 'enjoining right and forbidding evil' in Islam. With such an approach, Islamic investment as a sub-culture of Islamic finance will be more constructive and explicitly address the issues emphasised by the normative goals of Islamic economics and the overall objectives of the *Shari'ah*.

Despite the ongoing debate on the social responsibility role of Islamic financial institutions, recent developments have shown an increasing acceptance of such commitment among the industry players. While many studies have explored the social responsibility performance of Islamic financial institutions, study on the perception, attitude and behaviour on social responsibility issues and commitment among individual economic agents are still embryonic. Few available studies on the support for social responsibility issues among the stakeholders of Islamic banks have showed encouraging findings. Nevertheless, the survey of the literature concerning the multiple aspects to individual's decision, particularly the underlying motivation for the support towards Islamic finance revealed mixed results. While religious aspect proved to be a primary concern in most studies, economic consideration remains an essential component in such a decision. In fact, in some studies the former aspect has been overpowered by the latter.

In the context of investment, recent developments in the area have created a favourable atmosphere in which social, ethical, and environmental issues can be introduced in the investment criteria, and therefore, Islamic investment may potentially play an important role in promoting socially responsible behaviours among businesses as well as the public (See Figure 4.3). Nevertheless, the viability of such investment approach ultimately depends on the support from investors. Therefore, the empirical component of this research examines various aspects of social responsibility issues and commitment among investors of Islamic funds. Given the leading position of Malaysia in the Islamic finance and investment industry, as well as the favourable business environment in the field of social responsibility practices and disclosures, the empirical analysis has focussed on Malaysian investors of Islamic funds.

9.3 THE EMPIRICAL DISCUSSIONS

The conceptual discussions have explored various aspects of the theory and practice of the SRI and Islamic investment industry, and provided essential input and in which the study has evolved. Apart from providing the theoretical framework of the study, the discussions have identified several important aspects in the incorporation of social responsibility dimension in the investment process, particularly in the multitude and intensity of social responsibility issues among the investors as well as their levels of commitment to pursue these concerns in the investment decision. Therefore, the empirical component of the research has focussed on investigating the investors' perceptions, attitudes and behaviours related to various aspects of social responsibility issues and commitment in Islamic investment. The empirical analysis is based on a purposive survey involving investors of Islamic funds from 3 fund management companies in Malaysia; Public Mutual Bhd (215 respondents), CIMB-Principal Asset Management Bhd (141 respondents) and Prudential Fund Management Bhd (95 respondents), with a total of 451 respondents. In brief, the analysis aims to answer the following three research questions;

RQ4: What are the investors' underlying motivations when investing in Islamic funds?

RQ5: How do the investors perceive the importance of social responsibility dimension and its various issues in Islamic investment?

RQ6: Are the investors of Islamic funds willing to incorporate social responsibility criteria in their investment, and what are the factors that influence this commitment?

9.3.1 Profile of the Investors and Their Underlying Motivation

The empirical analysis starts by providing an elaborate description on the profiles of the participants involved in the survey. In general, the sample reflects a wide representation of various groups in terms of its socio-demographic variables such as gender, ethnicity, religion, age, marital status, income, educational level and occupation (See Table 6.1 and 6.2). Specifically, a majority of the respondents represented in the sample were middle-aged group, middle and high income earners, and highly educated individuals- which are consistent with the segment of the market subscribing to such investment products. In terms of investment characteristics, a majority of the investors has relatively high risk-return attitude with a long or medium term investment horizon (See Table 6.3 and 6.4). A considerable number of the respondents further diversify their unit trust investment by investing in more than one type of funds that represent different asset classes and risk exposure (See Table 6.5 and 6.6).

Interestingly, despite the fact that a majority of the Muslim respondents invest only in *Shari'ah* compliant investment, more than a third of them held different proportion of their unit trust investment in conventional funds (See Table 6.7). The result also shows a favourable finding on the respondents' level of awareness on investing based on social, ethical and environmental concerns (See Table 6.8). While the practice of socially responsible behaviours among the respondents at the individual level such as donating money, recycling household wastes and purchasing environmentally friendly products is quite encouraging, the same could not be said to the participation at the collective level. It is apparent from the responses that participation in these activities is consistently low except for the involvement in the activities of the local communities (See Table 6.9 and 6.10).

Another aspect to the respondents' profile analysis relates to the underlying motivation with respect to their decision to invest in Islamic funds. Among the basic motivations listed in the survey, it seems that most of the respondents agreed on the importance of earning high return as the main motivation when investing. Other aspects of behavioural motivation such as earning *halal* return from investment and benefitting from the diversification with conventional funds received mixed responses from the investors (See Table 6.11). In fact, despite expressing the importance of earning *halal* returns from investment, a considerable number of Muslim respondents holds varying proportions of non-*Shari'ah*-compliant funds (See Table 6.12), and recognises the importance of diversification benefit between Islamic and conventional funds.

Consistent with the literature in SRI, the descriptive analysis has shown that investors of Islamic funds can also constitute diverse groups that may have differing motives. Subsequently, a cluster analysis is employed to provide additional insight in the potential segmentation of the investors. Based on the items representing the underlying motivations when investing in Islamic funds and two categorical variables (religion and percentage invested in Islamic funds), the cluster algorithm has identified three appropriate clusters; with Muslim investors were clustered into two different groups (See Table 6.13). Subsequent discussions and profiling analysis in Chapter 6 have later labelled these groups as committed, pragmatic and non-Muslim investors. The findings revealed that Muslim investors, in general, consider earning *halal* return from investment as the most important motivation when investing in Islamic funds and are willing to sacrifice financial returns to comply with the *Shari'ah* principles in investment. While a majority of them reflects such a commitment by having all their investment in *Shari'ah*-compliant funds (committed investors), quite a sizeable number of them holds different proportion of their investment in conventional funds (pragmatic investors). In fact, some of the pragmatic investors acknowledge the importance of the diversification benefits between Islamic and conventional funds. On the other hand, investors from other faiths invest in Islamic funds to seek high returns and benefit from diversification; and most of them believe that such funds are more resilient against market volatility (See Table 6.14, 6.15, 6.16 and 6.17).

The profile analysis has provided an enhanced picture of the respondents and enabled a better understanding of their perceptions, attitude and behaviour on various aspects of social responsibility dimension in Islamic investment. In the light of the theoretical foundations of SRI and the normative framework of social responsibility from the Islamic perspective, the empirical discussions proceed to examine two important aspects relevant to the research; the support for social responsibility dimension and its various issues among the investors and the commitment to incorporate these issues in their actual investment.

9.3.2 Support for Social Responsibility Dimension and Its Various Issues in Islamic Investment

The support for social responsibility in Islamic investment among the respondents are examined at two levels. Firstly, the analysis focuses on the perceived importance of addressing social responsibility dimension in comparison to other dimensions such as observing the *fiqh* injunctions and realising economic objectives among the investors. Secondly, given the multi faceted nature of the social responsibility dimension, the investors' perceptions of the importance of various issues of social responsibility of businesses are also explored.

(i) Perceived Importance of Social Responsibility Dimension vis-a-vis Other Dimensions in Islamic Investment

The overall result reveals that the investors in general place a hierarchy in the elements they considered important, with the observance of *fiqh* injunctions is ranked as the most important dimension, followed by the economic and social responsibility dimensions. The findings are based on both the descriptive analysis of the individual items (See Table 7.1 and 7.2) and the composite scale constructed as a result of an exploratory factor analysis (See Table 7.6), which among others provide statistical evidence on the nature of social responsibility dimension being acknowledged by the respondents as part of an important underlying factor in their investment decision. Despite being consistently overpowered by the economic aspect (See Table 7.7 and 7.8), descriptive analysis on the questionnaire responses suggests that the social responsibility criteria are perceived as important by a majority of the investors, and substantial proportion of the respondents (62%) consider social responsibility dimension to be more or equally important to the economic dimension (See Table 7.11). These results provide the empirical evidence that social responsibility is recognised by the investors as part of an important component in *Shari'ah* based investment.

The analysis has also explored various variables that can potentially explain the level of importance the respondents attach to the social responsibility dimension vis-a-vis other dimensions in *Shari'ah* based investment. In this respect, two scales were constructed for such a measurement, namely the social responsibility scale and the SR-Econ scale. The findings for both scales show that ethnicity/religion are among the important factors influencing the level of perceived importance of social responsibility, with Malay/Muslim investors exhibiting higher scores as compared to other groups (See Table 7.9 and 7.12). In this context, it has to be acknowledged that complying with *Shari'ah* principles should not be expected as a strong motivating factor for all Muslim investors when making investment choices. The results have shown that those who strictly comply with *Shari'ah* principles in their investment, i.e. the committed investors, put greater importance on social responsibility dimension in Islamic investment as compared to the 'pragmatic' investors and the non-Muslim investors (See Table 7.10 and 7.13).

Additionally, income and age have been found to be important factors with lower income earners and younger investors showing more favourable attitude towards social responsibility in both of the scales used in the analysis (See Table 7.9 and 7.12). Similar result is also found for the level of SRI awareness with those having higher level of awareness showed greater scores (See Table 7.10 and 7.13). On the other hand, other variables such as pro-social behaviour, gender, and marital status, are only found to be as statistically significant in one of the scale. Those who have higher participation in the individually oriented pro-social behaviour tend to have higher scores for the 'social responsibility' scale (See Table 7.10), while being female and single are linked with higher scores for the 'SR-Econ' scale (See Table 7.12).

(ii) Perceived Importance of Various Social Responsibility Issues among Investors

Given the multifaceted nature of social responsibility dimension, the analysis further seeks to identify which issues are perceived as important by the respondents. As described in Chapter 5, the items included in the survey are carefully selected to represent different areas of social responsibility concerns (i.e. environment, labour standards, business practices, human rights, and community involvement), and the issues for each of the respective areas represents different level of intensity (See Table 5.4). The overall results suggest that the respondents have favourable attitude towards the importance of social responsibility issues of businesses when investing. For instance, among the 15 items asked, a total of ten criteria were regarded as being 'important' or 'very important' to the investment decision by more than 75% of the respondents (See Table 7.14).

However, the descriptive analysis of the scores of the items has not provided a clear indication on the pattern that can explain the ranking of importance of the items. While the top two items are related to exclusionary criteria (i.e. 'not be involved in unethical business behaviour' and 'not using child or forced labour', which can be explained by the emphasis on avoiding activities considered harmful, other item with similar nature (i.e. 'not be involved in environmentally damaging activities’) only came eighth in the list. Likewise, the perceived importance of the issues is also not entirely being influenced by the specific areas of social responsibility concerns (e.g. labour standards and human rights). In other words, neither the intensity level of the issue nor the specific areas of social responsibility can clearly explain the respondents’ overall attitude concerning the issues.

In further investigation, the exploratory factor analysis revealed that there are two underlying factors that influence the way investors responded to the issues. Based on the constituents of the factors, two important observations are considered to be essential to the interpretation. Firstly, the first factor is dominated by the social responsibility issues concerning the external stakeholders of the business (i.e. criteria related to 'community involvement' and 'environment'), while the second factor is dominated by the criteria related to the internal operations of the business. Secondly, the items clustered in factor 2 reflect more basic and essential social responsibility criteria, associated with avoidance or prevention of harm, as compared to the items grouped in factor 1, which are generally concerned with supplementary or positive aspect of social responsibility issues (See Table 7.17). In brief, the dimensionality of the two distinct factors can be summarised as a result of a synthesis between the issues of harm prevention and the promotion of good, and the distinction between internal business practice and external stakeholders. Subsequently, the underlying factors that shaped this attitude have been identified as ‘basic social responsibility practice’ and ‘supplementary and external social responsibility’ factors, with the former is shown to be highly ranked by the investors as compared to the latter.

Additionally, it has been shown that some of the sector screening popular in the SRI industry, such as in the area of animal exploitation, arms industry and nuclear power have also received favourable responses by the investors as part of the potential consideration in the investment process (See Table 7.18). In summary, the favourable attitude of the respondents on the importance of social responsibility dimension and its various issues can be an encouraging precursor to the incorporation of these criteria into Islamic investment. As proven in the SRI industry, the development of such sector can be strongly influenced by the demand side of the market. Therefore, the empirical analysis further investigates the commitment among the respondents to translate their support of social responsibility dimension and its various issues into actual investment behaviour.

9.3.3 Commitment to Incorporate Social Responsibility Issues in Islamic Investment

The next important aspect to the empirical investigation of investors’ commitment for social responsibility in Islamic investment relates to their willingness to incorporate the dimension in their actual investment. In this context, the commitment among the investors are examined at two levels; their willingness to apply social responsibility criteria in their current or potential future investment, and the level of sacrifice they are willing to accept for such a commitment.

(i) Investors’ Willingness to Apply Social Responsibility Criteria in Islamic Investment

Based on the theoretical framework and the extant literature in SRI and Islamic finance, the analysis on the respondents’ behavioural commitment to incorporate social responsibility criteria in their actual Islamic investment starts by examining two important aspects to such a decision; financial motive and normative judgement. Firstly, their general views on the implication of applying additional social responsibility criteria in the investment decision of Islamic funds are explored. The results suggest that investors recognise the financial merits of applying social responsibility criteria in Islamic investment in terms of the reduced risks and sustainable long term returns that such a portfolio could provide. However, despite the acknowledgement of the advantages of applying the social responsibility criteria, some investors were still concern about the potential constraints that the additional criteria would impose on the Islamic investment portfolio. The respondents were also divided on their opinion whether the application of such additional criteria would result in changes to the level of risk and return characteristics of such funds in comparison to regular Islamic funds (See Table 8.1). Nevertheless, the bulk of the investors (43 percent) believed that the application of additional social responsibility criteria has no implication on the level of risk of the fund, which is to some extent resembles previous findings in the field of SRI. On the other hand, a substantial number of the respondents (46 percent) believed that the perceived return of the fund would be higher in comparison to the regular Islamic funds (See Table 8.2).

The normative aspect of individual decision, on the other hand, is represented by the constructs of awareness of consequence and ascribed responsibility. These constructs were adopted from the Norm-Activation Model or the Theory of Altruistic Behaviour in psychology, which has been widely used in examining pro-social and pro-environmental behaviours. The results of the two constructs of moral norms revealed interesting patterns among the investors. While most respondents recognised the positive impact of investing using social responsibility criteria on the society's quality of life, some rejected the idea that there are possible negative consequences by not investing responsibly (construct of awareness of consequence). Similarly, despite a strong general recognition of the fact that all investors needed to take responsibility on the potential effects of their investment decision, they were divided in accepting such a responsibility at the personal level (construct of ascribed responsibility). In other words, their overall pattern of the responses, particularly with respect to the construct of ascribed responsibility; suggest some tendency of responsibility denial among the respondents on the issue of addressing social responsibility dimension in Islamic investment. This is corroborated by the fact that close to half (45 percent) of the respondents believed that social responsibility commitment should be borne by the government and social organisations (See Table 8.5). This dilemma can also be located in the debate on social responsibility commitment in the field of Islamic banking. On one hand, Islamic financial institutions are considered to be the operational arm of the Islamic economics movement and are expected to assist in the realisation of the overall human wellbeing and socio-economic justice. On the other hand, some view Islamic banks as a normal commercial entity where the main responsibility lies within the interest of the shareholders and depositors, while social welfare objectives should be fulfilled by other bodies such as the government and other social organisations.

The analysis continues by examining the investors' commitment to apply social responsibility criteria in their present and potential future Islamic investment. It is apparent from the results that there exists favourable attitude among the respondents in incorporating social responsibility criteria in their actual investment decision. For instance, around 55% of the respondents were willing to support the use of additional social responsibility criteria in their currently held Islamic funds, with another 32% indicated that they would probably support such initiative. On the other hand, around 43% of the respondents expressed their willingness to invest in an Islamic fund that applies additional social responsibility criteria if it is offered to them, while another 41.4% indicated that they would consider doing so (See Table 8.9). In analysing the factors that can influence these decisions, five components of explanatory variables are included in the ordinal regression analysis for Model 1 and 2 (See Table 8.13 and 8.15),and reproduced here in Table 9.1. These variables seek to understand the multi-dimensional nature of individual decision making process, as shown by the extant literature in SRI and Islamic finance.

As revealed by the results of the ordered logit regressions Model 1 and 2 (Refer to Table 9.1), all the five components contributed different degrees of influence on the willingness to incorporate social responsibility criteria in their present and potential future investment.

Table 9.1: Summary of Overall Results of Ordinal Regressions (Model 1, 2 and 3)

Independent variables	Model1	Model2	Model 3
Financial motive			
Perceived risk	(-)	(-)	na
Perceived return	(+)*	(+)**	na
Perceived importance of economic factor over SR factor	na	na	(-)**
Normative Judgement			
Awareness of consequence	(+)**	(+)*	(+)***
Ascribed responsibility	(+)*	(+)*	(+)**
Commitment to *Shari'ah* principles	(+)*	(+)*	(+)
Habitual Element			
Individual pro-social behaviour	(+)**	(+)*	(+)
Collective pro-social behaviour	(+)	(+)	(+)
Investment Characteristics			
SRI awareness	(+)*	(+)*	(+)*
Main investment objective	(+)	(+)	(+)
Risk-return attitude	(-)	(+)***	(+)
Socio-demographic profiles			
Female	(-)	(+)	(-)
Younger	(-)	(-)	(-)
Higher income earners	(-)	(-)***	(+)***
Better educated	(+)*	(+)*	(+)
Professional/managerial/administrative occupation	(+)	(+)*	(-)

Notes: * sig. at .01; ** sig. at .05; *** sig. at .10.

Dependent variables

Model 1-Willingness to support the use of social responsibility criteria in currently held Islamic funds

Model 2- Willingness to invest in an Islamic fund that applies social responsibility criteria

Model 3- Willingness to accept financial sacrifice for social responsibility commitment in Islamic investment

While the variables related to the normative component (i.e. awareness of consequence, ascribed responsibility and cluster membership) displayed strong results, financial motive in the form of perceived return remained as an important factor in the investment decision. Habitual component, particularly on the participation in pro-social behaviour at the individual level, as well as the level of awareness of investing using social, ethical and environmental concerns were also found to be important determinants in both models, while risk-return attitude was only found to be significant predictor (p=0.055) in the context of Model 2. On the other hand, significant results from the socio-demographic component for both models was limited to level of education, while occupation and income (p=0.090) only emerged as significant in Model 2.

(ii) Investors' Willingness to Sacrifice Financial Return for Social Responsibility Commitment

The analysis on the social responsibility commitment among the investors is further explored by examining their willingness to sacrifice financial return in addressing social responsibility dimension in investment. It evaluates their willingness to invest in an Islamic fund that applies additional social responsibility criteria where the expected returns for alternative investment (ordinary Islamic funds) are assumed to be known. The findings suggest that the decision to invest based on social responsibility criteria considerably increase if the financial return is expected to be higher, or at least similar to alternative investments. On the other hand, as the expected rate of return dropped below the rate of the alternative investment, some respondents remained interested and were willing to invest in the fund despite the relatively lower return (See Table 8.10). This reflects their willingness to sacrifice financial return for social responsibility issues, and a scale was constructed to measure this commitment.

On one hand, respondents with low scores of the financial sacrifice scale can be said to be driven by purely profit motive, where the decision to invest in the fund that applies additional social responsibility criteria was only made in the context where the return was expected to be higher, or at least similar to alternative investment. On the other hand, there was a sizeable numbers of respondents who scored highly in the scale which reflected their strong commitment for social responsibility and willingness to substantially sacrifice financial return for this purpose. In between the two groups, there are a group of investors who expressed some commitment for social responsibility but maintained a rational financial judgement in making investment decision with limited acceptance of the financial sacrifice (See Table 8.17). For further analysis, the scores for the financial sacrifice scale were categorised into 3 levels; low, medium and high, and an ordinal regression analysis (Model 3) is employed to identify the important factors influencing the variations in the scores.

In this analysis as well, five components of explanatory variables are included as in Model 1 and 2 (See Table 8.20), and the results are reproduced here in Table 9.1. Yet again, financial motive as represented by the respondents' perceived importance of social responsibility dimension in comparison to economic dimension (as reflected by the SR-Econ scale) and the constructs of moral norms played an important role in influencing the level of financial sacrifice the investors were willing to accept for social responsibility commitment (Refer to Table 9.1). However, the commitment to comply with *Shari'ah* principles was not a significant factor in this analysis, which implied that economic and financial motive remained an important factor in the investment decision across all types of investors, including the committed investors. Interestingly, awareness of investing using social, ethical and environmental concerns remained an important factor in this model.

9.4 A SYNTHESIS OF THE OVERALL FINDINGS

The forgoing discussions have summarised the findings of this study in line with the research questions as previously specified. This section seeks to synthesise the overall findings by highlighting the main themes and emerging patterns from the various analyses employed in this research. Additionally, the findings are also reviewed in the light of the theoretical framework as discussed in the conceptual component of this study in providing a comprehensive understanding of the research area.

9.4.1 Perceived Importance of Social Responsibility Dimension and Its Various Issues

The discussions on the objectives of the *Shari'ah* and the precepts of justice have laid down a comprehensive understanding and outlook of Islam on the issue of social responsibility, where the goals of realising overall wellbeing and socio-economic justice must not be limited to the observance of the legal aspects of the *Shari'ah*. The investigation on the level of importance investors attach to social responsibility dimension in comparison to other dimensions, such as the concerns on fulfilling the *fiqh* injunctions and economic aspects of such investment was aimed to locate the position of social responsibility in the hierarchy of dimensions considered as important by the investors. The findings is in line with the holistic understanding of the *Shari'ah* where respondents recognised that social responsibility dimension is an important element of the *Shari'ah* and should be considered in any investment based on such principles. Nevertheless, the criteria related to economic dimension were consistently ranked higher from the criteria representing the social responsibility dimension. While the importance of economic aspect is also being recognised in the *Shari'ah* through the imperative of the 'preservation' of one's wealth, the greater importance put on 'wealth enhancement' (e.g. maximise returns from investment) over social responsibility criteria (e.g. contribute to poverty eradication) reflects the predominant role of economic dimension in the investment decision. On the other hand, the criteria related to the observance of the *fiqh* injunctions are considered to be the most important aspect, and signify its paramount importance in *Shari'ah* compliant investment among the investors.

The result on the perceived importance of various social responsibility issues is also consistent with the theoretical discussions on the levels of social responsibility issues from the Islamic perspective. The normative foundations have clearly emphasised the imperative of avoiding and eliminating all sources of harm and injustice in the society as the core to the social responsibility dimension. Similarly, the distinction between the importance of internal business operation and external stakeholders as revealed here also resembles the discussions on social responsibility issues relevant to the different level of *maslahah* as argued by Dusuki and Abdullah (2007a) (Refer to Table 3.2). Nevertheless, one important observation from the survey responses related to criteria linked to environmental concerns which had been scored consistently low in the analyses. Similar findings are also observed among the practice of Islamic financial institutions with the social responsibility policies and initiatives related to environmental aspect have been found to be limited (CSR-IFI, 2010). Perhaps this can be explained by the greater emphasis given by Islamic economics and finance on the social aspect, as compared to the prominence of environmental concerns in the SRI industry (Hayat, 2010). Nevertheless, the overall results suggest a favourable support by the respondents on the importance of social responsibility dimension and its various issues in the investment process (including the issues related to environmental concerns), and therefore, create a promising prospect for these issues to be applied in the actual investment.

9.4.2 Behavioural Tendencies of Social Responsibility Commitment

As theorised earlier, the behavioural framework of social responsibility is discussed in view of realising *falah*, where individuals are expected to exercise more than just the obedient behaviour, but also altruistic behaviour towards others, and potentially in the process, involve some degree of sacrificial behaviour. In this context, the examination on the investors' underlying motivation when investing in Islamic funds and their level of commitment to comply with *Shari'ah* principles in investment can be used to reflect the first component of the behavioural framework, i.e. the obedient behaviour of individuals. As revealed by the cluster analysis, obedient behaviour is not entirely prevalent among the Muslim investors as exemplified by the characteristics of the pragmatic investors. Their recognition on the importance of earning *halal* return from investment has not been evident in their investment choices. The acknowledgment given by some of the pragmatic investors on the importance of diversification benefits between Islamic and conventional funds further suggest that the financial motive has overpowered the religious or moral conviction in their investment decision. On the other hand, the recognition by the committed investors on the importance of earning *halal* return and their willingness to sacrifice return to comply with *Shari'ah* principles in investment is consistent with their investment decision (i.e. all funds are invested Islamicly). Nevertheless, it is important to highlight that such a commitment is strongly linked with the financial motive, where they are also found to rate highly the importance of earning high returns from Islamic funds and the strong expectation that Islamic funds provide similar return as the conventional funds.

Turning to the second component to the behavioural expectation, the investors' willingness to incorporate social responsibility criteria in their present and potential future Islamic investment can be used to reflect their socially altruistic behaviour. From the responses, it can be said that there exists a favourable attitude among the respondents towards the willingness to support the application of additional social responsibility criteria in their currently held Islamic funds, while it is slightly lower for the willingness to invest in such fund if it is offered to them. While such a favourable behavioural intention could be explained by the component of normative judgement in the decision making process (awareness of consequence, ascribed responsibility and commitment to *Shari'ah* principles in investment), the results of both regressions (Model 1 and 2) also affirmed the influence of financial motive on such decisions. Finally, the element of sacrificial behaviour was examined by analysing the investors' willingness to sacrifice financial returns for social responsibility commitment. The distribution of the financial sacrifice scale is consistent with the various studies in SRI. While some investors showed a strong commitment for social responsibility in investment through their willingness to sacrifice financial returns, most of the respondents maintained the importance of the financial returns of the investment in comparison to alternative investment. The results of the ordinal regression (Model 3) also supported this observation as the variable representing the financial motive was found to be an important determinant to this decision. Additionally, the influence of the component of normative judgement was also shown to be relatively weak as compared to previous results (Model 1 and 2).

From the analyses of all the three types of the behavioural tendencies, i.e. obedient, altruistic and sacrificial behaviours, it can be concluded that both of the components of behavioural motivation; financial motive and normative judgement, have played important role in shaping the investment choices and behavioural intention of the respondents. While it has been shown that individual decision making in the context of social responsibility issues can be highly influenced by normative judgement, favourable financial expectation remains a strong driving factor in the investment decision. These findings offer important insights in understanding the investors' decision frame in the face of social responsibility commitment in investment.

9.4.3 The Prevalent of Economic Dimension

The empirical findings of this research have provided elaborate evidence on the importance of economic dimension in the decision of individuals. This has been shown to be consistent in all of the analysis; the fact that the economic dimension is second in the hierarchy of importance for *Shari'ah* based investment and the significant role played by financial motive in all of the behaviours examined, i.e. obedient, altruistic and sacrificial behaviours. The strong influence of the economic aspect is best exemplified in the context of sacrificial behaviour, where commitment to *Shari'ah* principle in investment was found to be insignificant factor in explaining the willingness to sacrifice returns for social responsibility commitment. This can be explained by the analysis of the obedient behaviour where committed investors rated highly the relevant items reflecting the importance of financial consideration. Consistent with the significant findings on the role of financial motive in all of the behavioural tendencies(ordinal regressions Model 1, 2 and 3), the favourable support for the incorporation of social responsibility criteria among the investors might well be largely influenced by the favourable expectation of the financial return. Therefore, these findings are consistent with most of the extant literature in the context of the behavioural motivation in Islamic finance (see section 4.4.2). While normative consideration is important as the core to the support for social responsibility, in most cases, this has to be accompanied by favourable financial results, or at least, neutral or minimum financial implications.

On the other hand, the findings also revealed that the predominant nature of financial motive among some of the investors could subdue the commitment for religious or moral principles, as shown by the characteristics of the pragmatic investors. Despite acknowledging the importance of *halal* returns in investment, the pragmatic investors held some proportion of their investment in conventional funds and recognised the importance of diversification benefits between Islamic and conventional funds. This result resembles some of the findings in previous studies (e.g. Haron et al., 1994; Gerrard and Cunningham, 1997; Awan and Bukhari, 2011; Mansour et al., 2010). As also emphasised by Asutay (2007a), the behavioural norms prevalent in the field of Islamic finance has demonstrated the pre-dominant nature of profit motive which has frustrated the aspiration of social justice and developmental agenda of Islamic finance industry, and reflect the overpowering of *homo economicus* over *homo Islamicus*. Perhaps, it cannot be simply assumed that *homo Islamicus* will necessarily always act in the Islamicly ideal behaviours, and positively responding to the religious incentive (in the form of the promised rewards and punishments in the hereafter).

9.4.4 Profile of the Socially Responsible Investors

Beyond the domain of financial motive and normative consideration, the results of this study also provide important findings with respect to the respondents' characteristics. In terms of their pro-social behaviour, it has been shown that participation in individually oriented behaviour (e.g. donating money and recycling household wastes) is more prevalent as compared to collectively oriented behaviour (e.g. involvement in the activities of the local communities). While ethical investing is considered a part of an overall socially responsible lifestyle in SRI literature, this study can only provide partial evidence in the context of Islamic investment industry. Participation in individually oriented pro-social behaviours is found to be significant factor in influencing the social responsibility scale, awareness of consequence scale, ascribed responsibility scale, and the willingness to support the incorporation of additional social responsibility criteria in currently held Islamic funds (Model 1), while similar participation at the collective level has not been an important factor in all of the analyses.

Like many other studies in the field of socially and environmentally desirable behaviours, socio-demographic profiling has been one of the important areas of interest. From the overall findings, the variables shown to be important in the analyses include ethnicity, religion, age, income, education, types of occupation and organisation. Respondents who are Malay-Muslim, young, working at the professional/managerial/administrative level and in the public sector (including with the government linked corporations) showed more favourable perceptions and attitudes on the importance of incorporating social responsibility dimension in Islamic investment. However, the relationship between income and various measures of perceptions and attitudes related to social responsibility dimension has been mixed. While a majority of the analysis such as on the social responsibility scale, SR-Econ scale, and awareness of consequence scale showed that those in lower income groups have more favourable attitude towards social responsibility concerns, this has not been the case in the context of the ascribed responsibility scale, where those in higher income groups (earning RM5001-RM10000 and RM10001-RM20000) recorded higher mean ranks as compared to other groups. On the other hand, despite not being an important factor in other measure of perceptions and attitudes, education is found to be a significant variable with respect to the ascribed responsibility scale.

On the other hand, socio-demographic variables have not been as important in explaining social responsibility commitment among the respondents. Nevertheless, educational and occupational level emerged as significant determinants, with the better educated groups and those working at the professional / managerial administrative level showing greater willingness to incorporate additional social responsibility criteria in their Islamic investment. Similar to the measure of perception and attitude of social responsibility, mixed result is also found for income in this context. While the lower income earners (earning RM3000 and below) showed greater willingness to invest in Islamic funds that use additional social responsibility criteria (Model 2), those with higher income are likely to have higher level of willingness to accept financial sacrifice for social responsibility commitment (Model 3). Perhaps the varied nature of the effects of income on different measures of social responsibility perceptions and behavioural commitment can be corroborated by the exertion by Tippet and Leung (2001) who suggest that those with higher income would have greater ability to absorb any potential losses due to the additional ethical criteria in investment. Therefore, while the lower income earners may have more favourable support towards social responsibility, it is the higher income earners that have the ability to take up such duty and potentially sacrifice for social responsibility issues.

In terms of the investment characteristics of the investors, it appears that the main investment objective which represents the investment horizon of the investors, and their risk-return attitude have not been an important factor in most of the analyses. Nonetheless, risk-return attitude shows a significant result at the .10 level ($p = .055$) as revealed in Model 2. This provides some support to the earlier hypothesis that investors with higher risk-return appetite are more acceptable to new investment opportunities and investment styles, including the idea of investing using social responsibility criteria. Nevertheless, one factor that has consistently emerged as a strong and important variable in all the analysis is the level of awareness of investing using social, ethical and environmental concerns. This result can prove to be promising as such awareness may well increase overtime, and the favourable attitude among investors towards the importance of social responsibility dimension in Islamic investment will likely to be stronger in the future.

These findings have provided us with a useful insight on the important characteristics of the respondents that may form a profile of investors with favourable attitudes towards the incorporation of social responsibility dimension in Islamic investment. Apart from the instrumental role of marketing and segmenting potential investors, the significant contribution of the level of education along with the level of SRI awareness provide another positive aspect to this issue. While the nature of behavioural motivation such as financial motive and normative judgement of individuals are somewhat entrenched and therefore, relatively more difficult to change, the efforts to improve the support for social responsibility dimension among the investors can focus on the programs to educate and increase the level of public awareness on the need to address this aspect as a means to promote the development of the society and the environment.

9.5 CONTEXTUALISING THE OVERALL FINDINGS

The forgoing discussions have summarised and synthesised the results of the present research. Consistent with the interpretive approach adopted in this discussion, the relevant aspects of the present literature of Islamic economics and finance are reviewed here in the light of the overall findings.

9.5.1 The Behavioural Expectation of *Homo Islamicus* and the Process of Transformation

In developing Islamic economics as a new paradigm, its proponents have emphasised on religious and ethical postulations of its economic agents as an essential micro-foundation in the realisation of its normative goals. On the other hand, critics argue that religious norms are insufficient and not as strong as economic incentive in influencing economic actions (Kuran, 1983). While the findings of this study provide support for the former supposition, as the component of normative judgement which includes awareness of consequence, ascribed responsibility as well as the level of commitment to comply with *Shari'ah* principles in investment are important determinants in the behavioural commitment, the merit of the latter's critique should not be discarded. This study has also shown strong influence of economic factor in such decision. Given the strong and sometimes dominating influence of economic incentive in shaping the behaviour of economic agents, perhaps it is wise to reflect the applicability of Islamic economic theory in the context of the contemporary reality (Ahmad, 2002).

In the domain of mainstream economics, the discourse of economics are generally divided into the realms of inquiry of 'what it is' and 'what is ought to be', or commonly known as the positive and normative aspects of economics. The positive inquisition of the economic realities constitutes the predominant approach of the discipline, while the normative aspects are left at the periphery of policy options. On the contrary, the discourse of Islamic economics, reflected by the writings of its founding fathers, has been heavily loaded with the normative aspect. This is understandable as its ontological and epistemological sources of the discipline are divine in nature, and therefore, it is expected that these normative assumptions would shape the economic and financial choices and preferences of individuals. While such an understanding reflects the ideal nature of individual behaviour, many factors have changed the state of the current Muslim *ummah*. Therefore, the process of Islamisation needs to consider the present stage of the society, and necessary steps should be considered to address the challenges and facilitate the transformation towards the idealised situation (Ahmad, 2002).

In the context of the transitional state where the economic dimension remains as a dominant factor in individual decision making, the crucial challenge is to reconcile self-interest to be consistent with the social interest. As highlighted by Chapra (1996), Islamic economics and finance can benefit from the vast knowledge available in the realm of mainstream economics, particularly with respect to the increasing literature on ethics and altruistic behaviour. As discussed in Chapter 2, one of the possible reconciliations of the potential conflict between the two can be found in the literature on strategic or instrumental theory of ethics. The appealing feature of the strategic understanding is the idea that being ethical will not necessarily require sacrifice in the pursuit of self-interest, and possibly promote long term economic wellbeing. For instance, socially responsible behaviour can benefit businesses through better human resource and customer loyalty, reduced reputational and legal risk, as well as enhanced public image (Davis, 1973). Cooperative approaches as opposed to opportunistic behaviours are also argued to reduce various costs and potentially contribute to the business' competitive advantage (Jones, 1995). In the context of investment, concerns towards SEE issues have also been shown to be important criteria in identifying financially sound investments as exemplified by the value-seeking investors. Such an understanding will necessarily change the attitude of businesses, managers and investors towards social responsibility issues and commitment beyond what is strictly required by law. In the light of this, the preceding discussion seeks to examine such a strategic understanding from the Islamic perspective, and determine whether such framework can be adopted to create an appropriate economic incentive in shaping the behavioural tendencies of *homo Islamicus*.

9.5.2 Islamic Perspective of Strategic Framework of Social Responsibility

The overall findings of this research have revealed the prominent role of self-interested economic incentive in the perceptions, attitudes and behaviours related to the incorporation of social responsibility dimension in Islamic investment. While Islam provides numerous normative principles for the conduct of individuals, it is not devoid of positive economic statements about the nature of human. Based on the extensive examination on the Qur'anic verses related to economics, Hasanuzzaman (1999) identified various instincts of man, which have a bearing upon his economic behaviour. This includes "the lust for accumulating wealth", "the desire to acquire material resources quickly", "temperamentally stingy and ungrateful with regard to his acquisitions", "overcautious in maintaining his solvency which leads him to be judicious in utilising his resources", and "exults his worthiness and resourcefulness" (Hasanuzzaman, 1999: 93).

It is quite apparent that the inclination towards worldly gains by individuals is also featured strongly in the Holy Qur'an. While maximisation of *falah* necessarily means prioritising the eternal happiness and salvation, for some, the preference of worldly wellbeing has overpowered the lasting rewards in the hereafter (Qur'an, 87:16-17). However, the love of worldly wellbeing is not all negative. Some of the descriptions of man in the Qur'an such as enduring one's livelihood for old age and children and to live in social harmony (Hasanuzzaman, 1999: 99) can be considered to be the positive side of human love for good worldly living. In fact, the desire for comfort and adornment (Qur'an, 18:46; 42:36) or for an easy livelihood is described as one of the pleasures of this world rather than an evil, and Muslims are allowed to seek and earn such things, even during the pilgrimage (Qur'an, 2:198) (McAuliffe, 2002).

Additionally, while seeking the love and pleasure of God is the ultimate goal of human beings, often such 'pure' aims are concurrently followed by rewards in the form of eternal happiness in paradise. This understanding shows that Islam does not only recognise normative principles at the deontological realm, but also acknowledge the role of instrumental perspective. Spiritual rewards and relief of punishments are instruments of incentive, in persuading individuals to behave in the desired normative manner. In some instances, the relationship between the two is described as commerce.[81] In encouraging the believers to act in accordance of the divine commandments, rewards are not only promised in the hereafter, but also associated with positive outcomes in the present worldly context. Act of virtues such as gratefulness to God (*shukr*), piousness (*taqwa*) and beneficence (*ihsan*) are frequently associated with positive benefits, which is applicable to both worlds.[82] In fact, Muslims are called upon not to fear economic losses as a result of obeying the commandments of Allah *swt*. in avoiding economic activities that have been

[81] "Those who rehearse the Book of Allah, establish regular Prayer, and send (in Charity) out of what We have provided for them, secretly and openly, hope for a commerce that will never fail" (Qur'an, 35:29).

[82] Example for the act of gratefulness (*shukr*);"And remember! your Lord caused to be declared (publicly): "If ye are grateful, I will add more (favours) unto you; But if ye show ingratitude, truly My punishment is terrible indeed." (Qur'an, 14:7).

prohibited in Islam.[83] Similar understanding can also be found in the opposite context. For instance, those who commit acts of injustice are asked to repent (Qur'an, 5:39); they are warned that their punishment in the hereafter will be severe (Qur'an, 39:24); and that there will be negative consequences even in this world (Qur'an, 29:31) (McAuliffe, 2002).

The above discussions have highlighted two important issues. Firstly, the nature of individuals to pursue material wellbeing is acknowledged in Islam, and such a motivation is completely allowed, and even encouraged as long as the limits of the *Shari'ah* are duly observed. Secondly, it is important to note that the implications of human actions, in terms of the positive outcome or negative consequences are applicable in both worlds. Therefore, the sense of prudence for long term self-interest of individuals can also be applicable to the present worldly realm, and should not only be emphasised on the rewards or punishment in the hereafter. Within this understanding, the promotion of good through various social responsibility commitment will not only serve the interest of the life to come, but also contribute to positive benefits in the worldly life. Therefore, a case for a strategic or instrumental approach as a complementary feature to the normative ethics can be a base for shaping the behavioural norms of economic agents in the discipline of Islamic economics.

9.5.3 The Strategic Understanding of Social Responsibility: Some Qualifications

The preceding discussions have shown that the instrumental nature of individual behaviour is not in conflict with the Islamic worldview as long as it is within the limits of the *Shari'ah*. In fact, the prevalence of incentives, whether in the form of positive benefits and negative consequences, both in the context of the hereafter and the present worldly life are common themes in Islamic teachings. This is considered to be a practical approach in influencing the behaviour of individuals, and applicable to the general public. Nevertheless, such understanding should be carefully

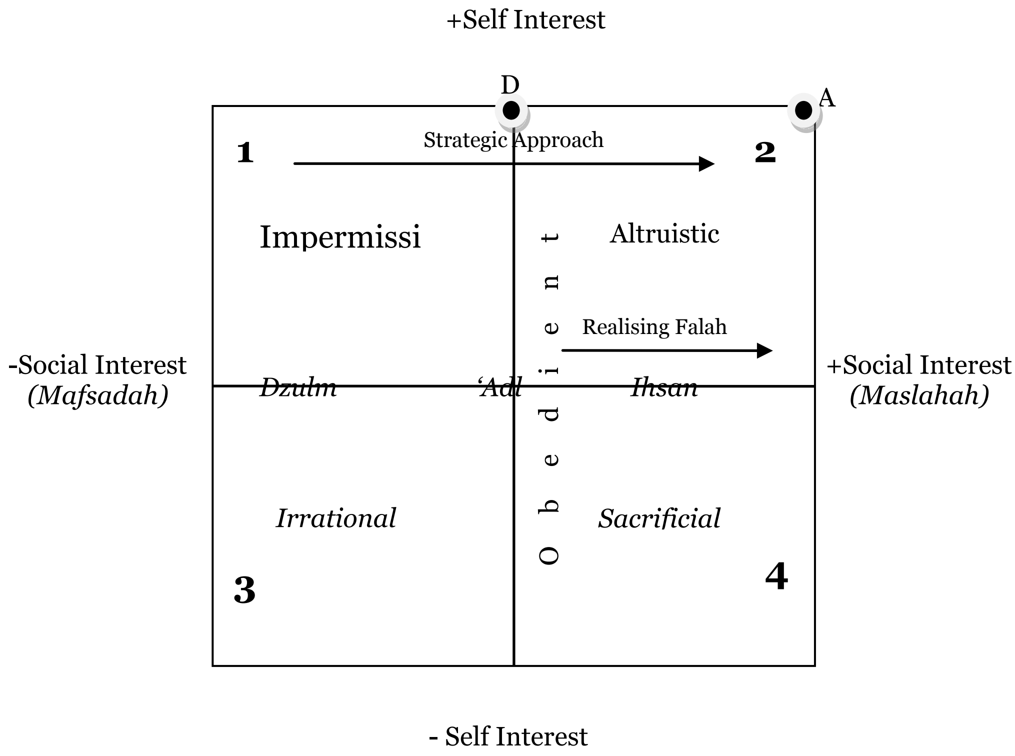
[83] "O ye who believe! Truly the Pagans are unclean; so let them not, after this year of theirs, approach the Sacred Mosque. And if ye fear poverty, soon will Allah enrich you, if He wills, out of His bounty. For Allah is All-Knowing, All-Wise." (Qur'an, 9:28).

conceptualised, and the following discussion will provide some qualifications on the issue.

While it has been argued earlier that the strategic understanding is not in contradict with Islamic principles, it should be noted that from the spiritual aspect, it is less ideal in comparison to the normative deontological understanding; act of good is done because it is divinely prescribed and by doing so acquire God's pleasure. However, from a pragmatic point of view, the strategic understanding of social responsibility may prove to be accommodating in bringing social responsibility issues to the forefront with favourable attitude and greater acceptance by the general public, especially in matters of business and finance. In this respect, looking from a business point of view, Dusuki (2008a) provide a description on the social responsibility continuum, with five levels of behaviour; 'irresponsible', 'minimalist', 'apathy', 'strategic' and 'purely altruistic' behaviour. While the purely altruistic behaviour (where social responsibility commitment is upheld regardless of its financial outcome) is the idealised state of nature, such aspiration may not be relevant to most individuals as highlighted by the findings of this research. The recognition of a strategic understanding will bring the social responsibility commitment to a much higher level in the continuum, where the issues are addressed in a regular and organised manner, as compared to a mere compliance of the minimum requirement of legislation (minimalist level), or a minimal and piecemeal approach towards social responsibility initiatives (apathy level).

Another important feature of the strategic understanding relates to its end goal. While the emphasis of the mainstream strategic theory focuses on the potential economic benefits that can be ripped from socially responsible practices, the Islamic perspective only consider this as part of the ingredient for the ultimate goal of realising overall wellbeing and the state of *falah*. In this context, the prospect of yielding positive impact from social responsibility practices is considered as an additional incentive to the religious or moral commitment in reducing the potential conflict between social and self-interest, and therefore contributes to favourable environment for the realisation of the normative goals. Again, the sources of positive returns must not be seen only in terms of financial gain or any other pecuniary returns, but should include any form of benefits in terms of individual or collective wellbeing, consistent with the broad notion of *falah*. This will in turn prove to be instrumental in creating a conducive situation for the optimal solution, as reflected by the hypothetical point C depicted in Figure 9.1. Therefore, the outcome of the strategic framework of social responsibility from an Islamic perspective is defined within the context of realising *maslahah* and *falah*, and such a framework reflects a transitional stage in the ongoing journey towards higher level of spiritual development.

Figure 9.1: A Unified Behavioural Framework of Social Responsibility Issues and Commitment- Reflecting the Optimal Solution within the Strategic Framework of Social Responsibility



Behavioural Framework of Social Responsibility Issue and Commitment

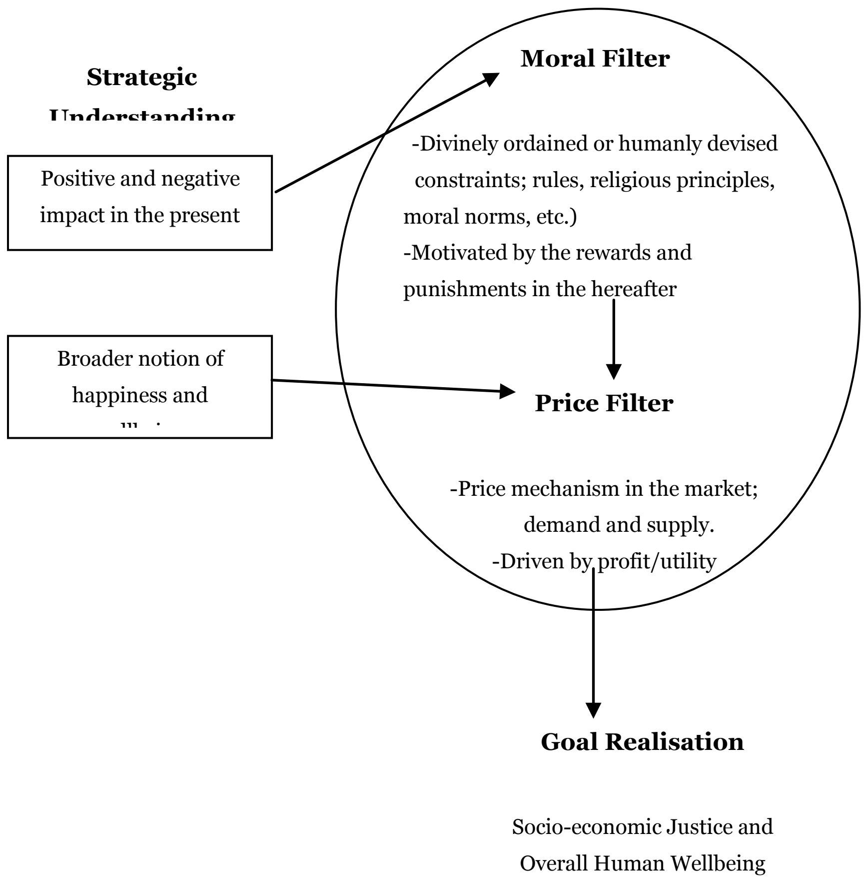
In summary, it is important to emphasise that the strategic understanding of social responsibility as discussed here is distinct from the mainstream understanding in the literature of instrumental or strategic theory as postulated in the West. Some of the qualifications and assumptions of this framework are as follows:

(i) It needs to be recognised that the strategic framework of social responsibility is less ideal as compared to the normative deontological understanding;
(ii) Following the above, a strategic framework of social responsibility must not be discussed in isolation, but must always be linked to its normative underpinnings;
(iii) The purpose of the strategic framework is to bring about greater support from all parties for social responsibility concerns into the realm of economic undertakings;
(iv) While the motivation to address social responsibility concerns may not be entirely driven by normative considerations in this respect, the positive implications would nevertheless contribute to the wellbeing of the society;
(v) Sources of positive returns must not be seen only in terms of financial gain or any other pecuniary returns, but should include any form of benefits in terms of individual or social wellbeing, consistent with the broad notion of *falah*;
(vi) The determination of what is good and bad must always be based on the divine sources of the *Shari'ah*, and the strategic framework must never contravene *Shari'ah* limits; the ends must never justify the means.

9.5.4 Integrating Strategic Understanding of Social Responsibility with the Moral and Price Filters of Market

Given individuals have two dimensions in their decision making; to pursue self-interested motives on one hand, and social interests on the other, it is important that the ideal behaviour is promoted in the endeavour to realise the normative goals of the economy. As discussed in Chapter 3, it is assumed that in Islamic economics that a form of 'moral filter' which accommodative of goal realisation is present in the market. This filter is shaped by Islamic values; and the notion of accountability and the rewards and punishment in the life to come serve as the motivating factor to persuade individuals to follow the desired path for goal realisation. As shown in Figure 9.2, the presence of the moral filter is argued to be instrumental in removing undesirable elements in the market such that the subsequent equilibrium achieved through the second filter of price mechanism would be potentially more favourable towards the realisation of the normative goals (Chapra, 1996).

Figure 9.2: Moral and Price Filters in an Islamic Economy



Nevertheless, as the commitment to subscribe to the principles of the *Shari'ah* may greatly vary between individuals and the worldly material wellbeing may overpower the promised rewards in the hereafter, the actual effect of such filter may potentially be weak on some individuals. This is exemplified by the findings of this study where a considerable number of Muslim respondents invest varying proportion of their unit trust investment in conventional funds in spite of their recognition of the importance of earning *halal* return. Even for those who commit to subscribe to this moral filter in conducting economic activities, the filter is primarily concerned with the observance of certain 'constraints', which are limited to issues related to major prohibitions and *fiqh* rules. This is then exacerbated by the predominance of profit maximisation paradigm in the market and the lack of economic incentive in influencing economic agents to go beyond the rules and injunctions in addressing broader social responsibility issues.

Therefore, the strategic understanding of social responsibility provides another perspective to the moral and price filter in the economy. The sense of prudence in the context of individual's self-interested wellbeing is recognised not only in terms of rewards and punishments in the hereafter, but also positive and negative impact in the present worldly life. Additionally, in line with the broad notion of wellbeing in the context of realising *falah*, the decision of economic agents within the price mechanism of the market will not only be responsive towards narrowly defined monetary benefits (e.g. profits or other pecuniary motives), but also on broader sources of happiness and wellbeing (e.g. social cohesion, security or clean environment). These two aspects of the strategic understanding of social responsibility can be instrumental in creating a favourable attitude towards social responsibility issues to be adopted by economic agents in the economy. In the context of Islamic investment, the strategic framework can emphasise on the potential benefits of investing based on social responsibility criteria. Not only that the investors will be able to generate financial returns from investment, they will also gain long term benefits from the positive impact of the responsible and sustainable policies of businesses. As the operations of businesses often have huge implications on the wellbeing of their employees, customers, suppliers, local community, environment and overall economic condition, these will inevitably affect the life of most people, including the investors themselves. Additionally, the increasing democratisation of the capital market through mutual or unit trusts and pension funds means that the investors of the businesses are likely to be part of the working class, and a good practice of social responsibility on workers will directly benefit them. In short, the strategic understanding of social responsibility helps to create a more favourable attitude among economic agents to consider broader social responsibility concerns consistent with the normative goals of Islamic economics.

9.6 SUMMARY AND CONCLUSION

This chapter has summarised and synthesised the overall discussions and analysis of this study from both the conceptual and empirical components. The conceptual discussions of the research have focused on the Islamic perspectives of social responsibility and its implications on the practice of Islamic investment. In the light of the SRI experience, various strategies frequently adopted in SRI are also reviewed for *Shari'ah* compatibility with the Islamic investment practices. On the other hand, the empirical component has explored the respondents' perceived importance of social responsibility dimension and its various issues in the context of Islamic investment, their commitment to incorporate these issues in their actual investment, as well as the determinants that influence these decisions.

In summary, the overall findings have shown a favourable attitude among the respondents on their perceived importance of social responsibility issues and encouraging support regarding the application of these issues in Islamic investment. Based on the findings, a profile of socially responsible investors can be identified, with ethnicity, religion, age, income, education, types of occupation and organisation, participation in pro-social behaviour, and the level of SRI awareness constitute the important factors. Both of the behavioural motivations, i.e. financial motive and normative consideration, have been shown to be important factors in influencing the respondents' behavioural commitment. The strong and sometimes dominating influence of financial motive on the behaviours of individual needs to be reflected in the theoretical literature of Islamic economics and finance. In this respect, the subsequent interpretative discussion has proposed a strategic framework of social responsibility. Nevertheless, it should not be taken as a theory independent of its normative foundation as normally construed in the Western literature. Instead, instrumental theory in Islamic perspective should be seen as complementary in nature with the normative underpinnings as the core, providing additional motivation and enabling environment for the realisation of the Islamic socio-economic objectives in the context of the real world.

CHAPTER 10

CONCLUSION

10.1 HIGHLIGHTS OF THE RESEARCH

The past recent decades witnessed a rapid growth of Islamic banking and finance industry in the wake of Islamic revivalism of the Muslim world. Since its inception in the mid-1970s, advocates of the industry have envisaged a just and equitable financial system which is not only more robust and efficient, but also aspired to address socio-economic predicament of the under-developed states of the Muslim world. While the industry is the offshoot of the Islamic political economy, it is said that the course that the industry is heading has diverged from its conceptual underpinnings found in the literature. Despite the progress made and the growing maturity of the industry, critics argue that the pursuit of profit maximisation and commercial orientation of Islamic financial institutions often overrides the supposed faith-based ethical principles which has formed its underlying foundation. Moreover, while *Shari'ah* encompasses a holistic outlook of the system of life in Islam, many have expressed that the operation of Islamic financial services have been pre-dominantly shaped by a 'legalistic' outlook and considered by some as a 'prohibition driven' industry. This has led to the call for Islamic finance to address a broader social responsibility outlook beyond the traditional compliance to *fiqh* injunctions, in line with the normative goals of Islamic economics and the objectives of the *Shari'ah* (*Maqasid al-Shari'ah*).

This study attempts to explore such discussion within the context of Islamic investment which has gained tremendous growth and developed into a strong and viable area in the Islamic financial services industry. The call to address social responsibility issues especially in the field of Islamic investment is further emphasised in the face of the rapidly growing Socially Responsible Investment (SRI) movement in the developed markets, which uses various social, ethical, and environmental issues in their investment decision, in the effort to promote socially responsible and sustainable behaviour among corporations. In general, the study constitutes a preliminary examination on various aspects related to the incorporation of social responsibility dimension in Islamic investment in the light of the SRI experience.

The conceptual component of the research investigates various aspects of the theory and practice of SRI and Islamic investment industry, and therefore provided the necessary theoretical framework. The discussion starts by examining the experiences of the SRI industry, which include its terminology and definition, issues, strategies, major players and the motivation underpinning the movement. Chapter 3 proceeds to delineate the Islamic perspective of social responsibility based on various precepts of Islam, resulting in a unified behavioural framework of social responsibility issues and commitment. This is then followed by Chapter 4 where the present practice of Islamic investment is reviewed based on the normative framework as previously outlined. The study then turns to the empirical component where the empirical analysis centres on the investigation on the perceptions, attitudes and behaviours of investors on various aspects of social responsibility issues and commitment in Islamic investment. The discussion in Chapter 6 provides a general description on the profile of the respondents involved in the study, including a cluster analysis on the choice of investment among the investors and their underlying motivation when investing in Islamic funds. Subsequently, Chapter 7 investigates the investors' support for the incorporation of social responsibility dimension and its various issues in Islamic investment, and followed by Chapter 8, which examines the investors' willingness to incorporate such issues in their investment decision. Finally, Chapter 9 summarises and synthesises the overall discussion of the study, and contextualises the findings in the light of the present theoretical literature in Islamic economics and finance.

The various social responsibility issues incorporated in SRI reflects a new paradigm in which society and collective interest have become part of the considerations in the decision making process, where it has been traditionally dominated by purely economic concern. This is in line with the Islamic worldview where self-interest undertakings must always be balanced with the interest of the society in order to achieve an overall equilibrium of collective wellbeing and socio-economic justice. The normative foundations underpinning social responsibility are discussed in the context of the Shari'ah and its underlying objectives (maqasid al-Shari'ah), the precepts of justice ('adl) and beneficence (ihsan), and the notion of ultimate happiness (falah). While the preservation of the essentials (maslahah dharuriyyat) and the prevention of injustice have been shown to be the necessary elements in providing the core and minimum level of commitment to social responsibility, the promotion of maslahah and the establishment of justice are not complete without the presence of the positive aspects. The presence of the latter will facilitate and sustain the overall human wellbeing and economic justice while the absence of the former will result in a downright prevalent of corruption and injustice in the society. Additionally, the dual approach towards maslahah and justice is supplemented with additional moral elements towards a higher level of commitment, in line with the spirit of beneficence (ihsan). The different layer of commitment to social responsibility is further discussed in the light of realising falah and its related behavioural expectations, particularly in the form of obedient, altruistic and sacrificial behaviours. In sum, the different levels of social responsibility issues and commitment reflect the holistic view of Islam which grounds Muslims' moral and ethical judgement to realising the desired normative goals, not only for material wellbeing, but more importantly spiritual development.

The holistic understanding of social responsibility underpinned by the various Islamic principles demands a comprehensive internalisation of these principles in the Islamic investment practices. Nevertheless, it has been shown that the present screening norms prevalent in the industry have predominantly focused on avoiding major prohibitions and the observance of *fiqh* rules in the investment process. Despite a clear consensus among the jurists on the general objective of the *Shari'ah*, particularly on the imperative of harm prevention towards the society and the environment, the focus of the screening norms remain in the area of product or sector oriented screen. It has been shown that *Shari'ah* injunctions which have implications on economic activities are also applicable on the policies and operations of businesses. Therefore, it is critical that a second component to the qualitative screen, which considers the potential harm resulting from the policies and operations of businesses, is incorporated into the screening process for *Shari'ah* compliance. Beyond the minimum level of social responsibility commitment, broader aspect of social responsibility can be addressed through various forms of positive screens as commonly practiced in the SRI industry. Additionally, engagements and dialogues with investee companies to persuade better social responsibility practices are considered to be a process of 'moral purification' of returns in line with the spirit of 'enjoining good and forbidding evil' in Islam. By embracing the social responsibility dimension, Islamic investment industry can play an important role in promoting socially responsible practices among corporations and raising social and ethical awareness among the public. Thus, the incorporation of the social responsibility dimension in Islamic investment epitomises the objectives of the *Shari'ah* and the notion of justice in promoting overall wellbeing of the society and the environment.

It appears that a comprehensive understanding of the teachings of the *Shari'ah* is shared by the respondents as social responsibility dimension being perceived as important part of the criteria that should be considered in *Shari'ah* based investment, along with the observance of the *fiqh* injunctions. However, such recognition only emerges third in the hierarchy after the economic consideration, which signifies the importance of economic dimension in the overall investment decision. Specifically, the perceived importance of various social responsibility issues among the respondents are shaped by the nature of the criteria, particularly the distinction between harm prevention and the promotion of good, and the differentiation between internal business practice and external stakeholders. This is in line with the normative foundations which clearly emphasised on the imperative of avoiding and eliminating all sources of harm and injustice in the society as the core to the social responsibility issues. Similarly, the distinction between the importance of internal business operation and external stakeholders revealed in the study also resembles the discussions on social responsibility issues relevant to the different level of *maslahah*.

The findings on the behavioural commitment of the respondents in the context of Islamic investment evidently reject the mono-utility assumption of neo-classical economics, with normative consideration plays an important role in all of the behaviours examined, i.e. obedient, altruistic and sacrificial behaviours. However, the assumption of *homo Islamicus*, with its corresponding characteristics and behavioural expectations, may not necessarily be as strong as idealised in the literature of Islamic economics. While normative consideration is important as the core to the support for social responsibility, in most cases, this has to be accompanied by favourable financial results, or at least, neutral or minimum financial implications. In fact, the predominant influence of financial motive on some of the investors can subdue the commitment for religious or moral principles, as been shown by the characteristics of the pragmatic investors. Perhaps, it cannot be simply assumed that *homo Islamicus* will necessarily always act in the Islamicly ideal behaviour, and positively responding to the moral norms and religious incentive.

The prominence of financial motive in the behaviours of individuals as found in previous studies and further highlighted in this research needs to be reflected in the theoretical literature of Islamic economics. In this respect, the subsequent interpretive discussions have argued that a strategic framework of social responsibility, as a complementary to the normative foundations, can be instrumental in providing additional motivation and enabling environment for the realisation of the Islamic socio-economic objectives. Contrary to the Western postulation, the outcome of the strategic framework of social responsibility from an Islamic perspective is defined within the context of realising *maslahah* and *falah*, and such framework reflects a transitional stage in the ongoing journey towards higher level of spiritual development.

10.2 IMPLICATIONS OF THE RESEARCH

The analysis on various aspects of social responsibility dimension in Islamic investment has resulted in elaborate findings, which have important implications, both at the theoretical and practical levels. This section discusses some of these relevant implications.

10.2.1 Theoretical Implications

This research fills an important gap in the literature of Islamic economics and finance, particularly in the area of social responsibility and Islamic investment. The study's primary theoretical contribution is the introduction of a normative behavioural framework of social responsibility issues and commitment which has been developed through the synthesis of various principles and precepts in Islam. This includes the objectives of the *Shari'ah* (*maqasid al-Shari'ah*), the precepts of justice (*'adl*) and beneficence (*ihsan*), and the notion of ultimate happiness (*falah*). This framework provides a comprehensive outlook and systematic understanding of individual behaviour in the face of social responsibility issues and commitment within the understanding of the Islamic worldview. The theoretical model has guided the empirical investigation by specifying the level of intensity of social responsibility issues as well as the behavioural expectations of individuals in the form of obedient, altruistic and sacrificial behaviours. The empirical analysis has also revealed numerous findings related to the respondents' perceptions, attitudes and behaviours on various aspects of social responsibility issues and commitment in Islamic investment, which are important contributions to the nascent state of the literature in the area.

In terms of the controversy surrounding the criticisms against the behavioural norms of *homo Islamicus* observed in the practice of Islamic finance, this study has also examined this issue in the context of the incorporation of social responsibility dimension in Islamic investment. While the normative literature in Islamic economics emphasises the role of religious and moral norms as the prime motivating factor in assuming socially desirable conduct, the findings showed consistent influence of financial motive in all of the behaviours examined. In the light of this, the interpretive approach employed in chapter 9 has proposed a strategic framework of social responsibility as a complementary to the normative foundations in creating a favourable attitude towards social responsibility commitment in economic undertakings. Such an understanding has also been integrated into the present literature of Islamic economics through its potential influence on the moral and price filters of market. This has been argued to provide an additional incentive for economic agents to be more accommodative towards goal realisation in an Islamic economy.

10.2.2 Practical Implications

Drawing from the encouraging responses on the perceptions, attitudes and behavioural commitment among the respondents, Islamic fund management companies should consider the offerings of specialised funds that apply social responsibility criteria. In doing so, the potential Islamic fund can focus on addressing basic social responsibility practices of businesses, as they have been shown to receive greater support from the respondents. Subsequently, other broader social responsibility issues can be introduced as the investors' acceptance on socially responsible funds increase in the market. Nevertheless, the fund managers are faced with an important challenge in order to balance social responsibility issues with financial performance, as indicated by the behavioural motivation of the respondents. On the other hand, the overall results revealed that respondents who are Malay-Muslim, young, better educated, earning higher income, working at the professional/managerial/administrative level and in the public sector (including with the government linked corporations), have higher participation in individually oriented pro-social behaviour, and have higher level of SRI awareness showed more favourable attitudes and greater willingness to incorporate social responsibility dimension in Islamic investment. This creates a potential segment of the market that are committed and concerned with socially responsible and ethical investment, and therefore, enables the strategic marketing of such funds by fund managers.

The significant contribution of the level of SRI awareness and education in the analysis implies that the efforts to increase the acceptability of investing using social responsibility criteria among the investors as well as the public at large can focus on the programs to educate and increase the level of awareness on the need to address social responsibility issues in promoting positive development to the society and environment. Similarly, the consistent and strong influence of the normative component in the behavioural commitment of the respondents, particularly on the constructs of moral norms suggests that the sense of moral awareness and responsibility are crucial elements in shaping individuals towards the idealised behaviours and therefore, should be emphasised in all educational programs. In line with the strategic understanding of social responsibility as well, the education and awareness program can also highlight the benefits of addressing broader social responsibility among individuals, investors, businesses as well as the public at large.

The discussion in this study also calls for the relevant authorities in the Islamic investment industry, particularly the *Shari'ah* scholars and advisors to seriously consider the policies and operations of businesses in the screening process, especially the ones that have serious detrimental impact to the society and the environment. In this respect, the recognition on the importance of addressing this second component to the qualitative screening criteria will be a catalyst to acceptable parameters that can be used as a guideline for permissibility status. This enables the concept to be more effectively and efficiently operationalised within the Islamic investment industry. The emergence of various CSR framework and index for listed companies further facilitates this process as corporations are required to produce more information on their social responsibility records and programs.

Additionally, the discussion has also emphasised on the promising role of Islamic investment industry to promote good social responsibility practices among corporations. Based on the experience of the SRI industry, a number of initiatives can be introduced to facilitate such aspiration. One important component to this is the introduction of the necessary infrastructure that can identify, monitor and assess social responsibility records of companies. This can be in the form of social responsibility indices, specialised research institutions that can evaluate companies on their social responsibility performance, appropriate social responsibility standards and disclosure framework, and other aspects that can increase the flow of information on the policies and operations of businesses to the public domain. Other forms of initiatives include tax benefit or incentives that can motivate various parties to be actively involved in social responsibility practices. For instance, the wide ranging incentive package given to the Islamic fund management industry in the case of Malaysia can be extended to include the introduction of Islamic funds which address broader social responsibility issues. Such initiative could create the market incentive for fund managers to offer such investment products. While retail and individual investors are generally perceived as more accommodative towards social responsibility issues, efforts to encourage such practices among institutional investors can also be made. Apart from the traditional forms of tax incentive, regulatory initiative such as the compulsory disclosure on the extent funds are invested using social, ethical and environmental issues as introduced by the United Kingdom can be an important step towards encouraging and creating awareness among institutional investors. Additionally, they can also be encouraged to subscribe to international social responsibility standards, such as the United Nations' Principles of Responsible Investment (UNPRI) as signatories. As the social responsibility awareness increase and the recognition on the responsibility of investors to ensure their invested companies conduct their business responsibly, Islamic investment industry can emerge as the epicentre in the financial market of promoting good social responsibility practices.

10.3 LIMITATIONS OF THE STUDY

Despite the efforts to provide a detail explorative investigation on the various aspects of social responsibility issues and commitment in Islamic investment from the conceptual and empirical level, the research is not without its limitations. Firstly, while the conceptual discussion has provided a comprehensive normative justifications for social responsibility issues and commitment from the perspective of *Shari'ah* imperative, the principles of moral economy, and the normative behavioural framework, the discussions on the importance of various social responsibility issues and its level of intensity were only discussed in general terms. It would be more meaningful if such discussion can reflect the current state of the Muslim countries and identify which areas of social responsibility issues should be given more emphasis in the light of the realisation of *maslahah and socio-economic justice*. In a similar manner, despite recognising the imperative of incorporating a second component to the qualitative screening process (i.e. harmful business policies and operations) in addition to the present sectoral or product based screening, the discussion has not presented specific *Shari'ah* parameters for the operationalisation of these criteria in the screening process. This would require a detailed analysis of various *Shari'ah* ruling and injunctions related to various aspects of business policies and operations, which deserve a dedicated study of its own.

At the empirical level, the survey on various aspects of perceptions, attitudes and behaviours related to social responsibility issues and commitment in Islamic investment has focused on examining retail investors. While the retail segment of the market was shown to be the most promising source of growth and presumed to be more accommodative towards social responsibility concerns, the institutional investors remains an important segment in the financial market, and more importantly, command a much larger funds available for investment. Additionally, the study was also conducted among Islamic funds' investors from three fund management companies in Malaysia. While the analyses have contributed to new knowledge in the area, the findings should be understood in the context of the financial, socio-economic, political and cultural set-up of Malaysia, which may not necessarily similar with other countries. Furthermore, the survey instrument employed in the study used mostly close-ended questions. While there is tremendous effort to survey the literature in order to identify and include all relevant aspects to the research, the various items included in the questionnaire were defined and selected by the researcher. Despite the limitations, the instrument was the ideal tool to answer the research questions and to collect data from a significant number of respondents.

Finally, it is important to note that the measures of perceptions, attitudes and behaviours from the survey were self-reported answers. Given the nature of the subject matter, there was always tendency of socially desirable response bias among the respondents. Respondents professing their willingness to support the use of social responsibility criteria or invest in such fund may not actually do so in reality. Nevertheless, from the findings, there are some evidence that show social desirability bias, if at all present, have not been too prevalent. For instance, the cluster analysis in Chapter 6 managed to distinguish between the committed and pragmatic investors in the manner they commit to the principles of *Shari'ah* in their investment, and the further profiling seems to provide consistent findings in terms of their characteristics. It has also been shown in Chapter 8 that the respondents had expressed some pattern of responsibility denial in the answers related to the ascribed responsibility statements, which is inconsistent with the social desirability response bias. Hence, while being cautious in the interpretation of the 'willingness' measure is a prudent assumption, the actual level of the willingness measure should not be totally discounted.

Given the exploratory nature of this study, it is reasonable to expect that the research contains the aforementioned limitations. Nonetheless, this preliminary study has laid down the necessary theoretical framework and numerous empirical findings in this new area of investigation, which can be a basis for further future research.

10.4 FUTURE RESEARCH

One of the most pressing issues concerning the Islamic investment practices is the need to consider the potential harmful effects of the policies and operations of businesses. While this has been highlighted before by many scholars and commentators of Islamic finance, it is still not well recognised in the Islamic investment practices. Despite the fact that this study has identified a preliminary basis for such concerns, it is important that specific parameters of the minimum social responsibility level should be designed and incorporated in the investment process. Therefore, future research which involved a detailed examination of the *Shari'ah* injunctions and rulings on various social responsibility concerns on the policies and operations of businesses is critical in providing such threshold or parameters for the second component to the qualitative screening process.

Given the scope of the present research, another potentially important area of study relates to the investigation on the support and commitment for social responsibility concerns among institutional investors. This can be a significant factor in integrating social responsibility dimension into the mainstream investment practices. Therefore, a research that can provide some insights into the level of support and commitment as well as the potential benefits and constraints faced by institutional investors, particularly in the face of fulfilling their fiduciary duties can be an important contribution in this respect. Similar studies can also be conducted in other part of the Muslim world. Such research endeavours may provide a basis for a comparative analysis between different types of investors or among different countries. In addition, research in the area can also employ other approaches and instruments, such as the qualitative method (e.g. face-to-face interviews or focus groups) or experimental design (e.g. simulation) in order to provide an in-depth understanding of the investors support for social responsibility concerns, their underlying motivation for investing, how they respond to potential trade-off between social responsibility commitment and economic pursuit, and other relevant aspects to such decisions.

As highlighted in this research, the application of broader social responsibility issues in Islamic investment can be a catalyst in creating market incentive for businesses to behave responsibly and improve their CSR initiatives. Such potentials can be seen from the experiences in the SRI industry. Towards this end, a promising future research can explore the various aspects important to the realisation of a credible movement in the context of the Islamic investment practices similar to the ones available in the SRI industry. The scope of the research can cover areas related to the appropriate infrastructure, enabling environment, or even the support of interested parties such as *Shari'ah* advisors, regulators and fund managers in realising such a movement.

10.5 EPILOGUE

In line with the development of SRI, and the growing concerns on social responsibility issues among various players in the Islamic finance industry, this study has explored various aspects of the social responsibility dimension of Islamic investment. In general, the research has shown a favourable attitude on the perceived importance of social responsibility criteria and encouraging support on the application of these criteria in Islamic investment. Despite the role of normative consideration on such decisions, financial motive has been shown to be prominent in all of the analysis. While the incorporation of social responsibility criteria in Islamic investment provides new opportunities for product development and global convergence with SRI movement, it will be a challenge for fund managers to balance economic consideration with the social responsibility concerns. Nevertheless, the continuous growth and increasing popularity of the SRI industry globally provide reassurance that such an investment approach is viable and certainly more sustainable in the long run. The realisation of such investment approach in the Islamic investment industry will necessarily bring the sector to a greater height, in line with the normative aspirations of Islamic economics and the objective of the *Shari'ah* (*maqasid as-Shari'ah*).

As a conclusion, this research has fulfilled its aim and objectives as specified in Chapter 1. The findings from both the conceptual and empirical components of the study have provided a holistic perspective on the research area, and offered important insights to various groups and stakeholders, such as academics, investors, fund managers, regulators as well as other interested parties, on different aspects of social responsibility issues and commitment in the field of Islamic investment. Given the nascent stage of research in this area, it is hoped that this study will attract more interest in this field, and the findings and recommendations of this study can be of important contribution to the advancement of new knowledge and product development in the Islamic investment industry in particular, as well as in the discipline and practice of Islamic economics and finance in general.

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Appendix 5A: Questionnaire Instrument

A Survey of

SOCIAL RESPONSIBILITY DIMENSIONS IN ISLAMIC INVESTMENT

Dear Investor,

Your participation in this research is greatly appreciated. Most of the questions merely require you to tick the appropriate box. All information given in this questionnaire will be kept strictly confidential.

As a token of appreciation for your participation in this survey, for every completed and returned questionnaire, RM 5.00 will be donated to the Malaysian Association for the Blind (MAB).

If you have any questions about the survey, please contact Mohd Nizam at 013-3407240 (Mobile), 03-61964638 (Office) or e-mail at mohdnizam@iiu.edu.my.

Thank you.

General Instructions and Information

1. **All responses are confidential and will only be used for research & academic purposes.**
2. Please do not worry about questions that are seemingly look alike. If you do not have the exact answer to a question, please provide your best judgement by ticking the appropriate box for the question. **Your answers are very important for the accuracy of the study**.
3. If you wish to make any comments, please feel free to use the space at the end of the questionnaire.
4. Please return the completed questionnaire by using the enclosed self-address and stamped envelope.

For Office Use Only:

Date of Questionnaire Returned: ___________
Respondent No: □□□□ Serial No.: 2-53__

SECTION A

(Please tick (√) in the appropriate box)

1. What is your <u>main objective</u> in investing in unit trusts? (Please tick *(√) only in ONE box)*

- ☐ To save for retirement
- ☐ To save for children's education
- ☐ To save for buying properties (house, land, etc*)*
- ☐ To save for setting-up own business
- ☐ To achieve financial freedom
- ☐ To protect savings from the effects of inflation
- ☐ To earn income from dividends
- ☐ Others: *(Please state)*

2. Which <u>one</u> of the following statements most accurately describes the level of financial risk that you are willing to take when you make investments?

- ☐ I take high risks expecting to earn high returns.
- ☐ I take moderately high risks expecting to earn moderately high returns.
- ☐ I take average risks expecting to earn average returns.
- ☐ I take moderately low risk expecting to earn moderately low returns.
- ☐ I take low risk expecting to earn low returns.

3. What types of unit trust funds that you currently invest in? (Please tick (√) in all relevant boxes)

<u>Conventional Funds</u>

- ☐ Conventional Equity Fund
- ☐ Conventional Balanced Fund
- ☐ Conventional Bond Fund
- ☐ Conventional Fixed Income Fund
- ☐ Conventional Money Market Fund
- ☐ Conventional Capital Protected Fund
- ☐ Conventional Real Estate Investment Trusts Fund
- ☐ Others: *(Please state)*

<u>Islamic Funds</u>

- ☐ Islamic Equity Fund
- ☐ Islamic Balanced Fund
- ☐ Islamic Bond (*Sukuk*) Fund
- ☐ Islamic Fixed Income Fund
- ☐ Islamic Money Market Fund
- ☐ Islamic Capital Protected Fund
- ☐ Islamic Real Estate Investment Trusts Fund
- ☐ Others: *(Please state)*

4. From your total investment in unit trusts, how much in percentage do you invest in Islamic funds?

- ☐ Less than 20%
- ☐ 20-39%
- ☐ All of my unit trust investments are in Islamic funds
- ☐ 60-79%
- ☐ 80-99%

5. Why do you invest in Islamic unit trust funds?
(*Please rate each statement according to its importance*)

	Not Important at All	Not Important	Neutral	Important	Very Important
I want to earn *halal* returns from my investment.	☐	☐	☐	☐	☐
I want to diversify my investment with conventional funds.	☐	☐	☐	☐	☐
I invest because it gives high returns.	☐	☐	☐	☐	☐
I want my investment to be used in economic activities that have positive impact to the society.	☐	☐	☐	☐	☐
Others: *(Please state)*	☐	☐	☐	☐	☐

6. **In your opinion, an investment that is based on *Shari'ah* principles should …**
   (*Please rate each statement according to its importance*)

	Not Important at All	Not Important	Neutral	Important	Very Important
Not be involved in conventional financial services (conventional banking, insurance, etc)	☐	☐	☐	☐	☐
Not be involved in the manufacture or sale of prohibited products (liquor, pork, tobacco, etc)	☐	☐	☐	☐	☐
Contribute positively to the development of the society	☐	☐	☐	☐	☐
Use resources efficiently	☐	☐	☐	☐	☐
Manage risks prudently	☐	☐	☐	☐	☐
Care about the impact to the environment	☐	☐	☐	☐	☐
Contribute to poverty eradication	☐	☐	☐	☐	☐
Maximise returns from investment	☐	☐	☐	☐	☐
Not be involved in entertainment activities which are not permissible in *Shari'ah*	☐	☐	☐	☐	☐
Not be involved in gambling related activities	☐	☐	☐	☐	☐
Others: *(Please state)*	☐	☐	☐	☐	☐

7. **What are your opinions on the following statements?**

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I expect Islamic funds to provide at least similar returns as compared to conventional funds.	☐	☐	☐	☐	☐
I am prepared to accept lower returns from my investment as long as it is based on Islamic principles.	☐	☐	☐	☐	☐
Investments that are based on Islamic principals are more resilient against fluctuations in the market.	☐	☐	☐	☐	☐

SECTION B

(Please tick* (√) in the *appropriate box)

8. **There is a rapidly growing trend in the fund investment industry which applies various 'social responsibility' criteria in its investment decision commonly known as 'ethical', 'environmental' or 'socially responsible' investment. To what extent are you aware of these funds?**

☐ I am very familiar with them.
☐ I am quite familiar with them.
☐ I know only a little about them.
☐ I have heard of them but know nothing about them.
☐ I have never heard of them.

9. As an investor, how important are the companies that you invest in <u>to have</u> the following 'social responsibility' criteria?

	Not Important At All	Not Important	Neutral	Important	Very Important
Helping the less fortunate groups (orphans, disable, poor students, charities, etc)					
Treating employees, customers and suppliers fairly (no discrimination)					
Providing a good benefits scheme to employees (medical cover, loans, etc)					
Having a good system of accountability and transparency in its operation					
Adopting good waste management and recycling policies					
Not involved in unethical business behaviours (fraud, price manipulation, bribery, etc)					
Are not using child or forced labour					
Ensuring a safe and healthy working environment					
Promoting ethical values in its operation					
Investing in poor and underdeveloped areas					
Using environmentally friendly technologies					
Not involved in environmentally damaging activities					
Respecting the rights of employees and the freedom of association (workers' union)					
Promoting employees' competency and career development					
Providing facilities to community (community hall, recreational area, etc)					
Others: *(Please state)*					

10. As an investor, how important are the companies that you invest in <u>not to be involved</u> in the following activities?

	Not Important At All	Not Important	Neutral	Important	Very Important
Arms industry					
Nuclear power					
Genetically modified food					
Pesticides/Chemicals					
Animal abuse					
Others: *(Please state)*					

SECTION C

(Please tick (√) in the appropriate box)

11. What are your opinions if 'social responsibility' issues are applied as additional criteria in the investment decision of Islamic unit trust funds?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
By adding the 'social responsibility' criteria, the scope of profitable investment will be reduced.	☐	☐	☐	☐	☐
By applying 'social responsibility' criteria, Islamic funds will avoid investing in potentially problematic companies.	☐	☐	☐	☐	☐
By applying 'social responsibility' criteria, Islamic funds will invest in sustainable businesses.	☐	☐	☐	☐	☐
By adding 'social responsibility' criteria, Islamic funds will have limited opportunity to diversify investment risks.	☐	☐	☐	☐	☐

12. What are your perceptions of the <u>risks</u> and <u>returns</u> for Islamic unit trust funds that apply 'social responsibility' criteria in their investment?

	Much Lower	Somewhat Lower	Similar	Somewhat Higher	Much Higher
In comparison to ordinary Islamic funds, I expect that the investment **<u>risks</u>** for Islamic funds that apply 'social responsibility' criteria are …	☐	☐	☐	☐	☐
In comparison to ordinary Islamic funds, I expect that the investment **<u>returns</u>** for Islamic funds that apply 'social responsibility' criteria are …	☐	☐	☐	☐	☐

13. Please provide your opinions on the following statements;

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I might support irresponsible business behaviours if I ignore 'social responsibility' issues in my investment.	☐	☐	☐	☐	☐
I can help to improve the society's quality of life by investing using 'social responsibility' criteria.	☐	☐	☐	☐	☐
I am not concerned about 'social responsibility' issues in my investment.	☐	☐	☐	☐	☐
I do not believe that my investment decision can have any adverse effects on the wellbeing of the society.	☐	☐	☐	☐	☐

'Social responsibility' issues should be addressed by the government and social organizations, and not by investors.	☐	☐	☐	☐	☐
Every investor must take responsibility on the effects of his or her investment.	☐	☐	☐	☐	☐

SECTION D

(Please tick (√) in the appropriate box)

14. If your current Islamic unit trust fund would like to apply 'social responsibility' criteria in its investment decision, will you support this initiative?

☐ I will support.
☐ Probably I will support.
☐ I am not sure.
☐ Probably I will not support.
☐ I will not support.

15. If an Islamic unit trust fund which applies 'social responsibility' criteria is offered to you today for your investment, will you invest in this fund?

☐ I will invest.
☐ Probably I will invest.
☐ I am not sure.
☐ Probably I will not invest.
☐ I will not invest.

16. If your current Islamic unit trust fund provides a 10 percent return, will you invest in the Islamic fund that applies 'social responsibility' criteria if its return is …

	I Will Not Invest	Probably I Will Not Invest	I Am Not Sure	Probably I Will Invest	I Will Invest
…More than 10 percent?	☐	☐	☐	☐	☐
…10 percent?	☐	☐	☐	☐	☐
…9 percent?	☐	☐	☐	☐	☐
…8 percent?	☐	☐	☐	☐	☐
…7 percent?	☐	☐	☐	☐	☐
…6 percent and below?	☐	☐	☐	☐	☐

17. In which of the following activities do you participate <u>consistently</u> for the past <u>SIX</u> <u>months</u>? (Please tick (√) in all relevant boxes)

☐ Donate money to charities, local community or NGOs
☐ Volunteer time for charities or social work
☐ Recycle household wastes (newspapers, bottles, etc)
☐ Involve in the activities of the local community
☐ Involve in the activities of social groups or NGOs
☐ Involve in the activities of pro-environmental organizations

- ☐ Boycott products of companies or countries with poor social or environmental records
- ☐ Involve in the activities of consumer associations
- ☐ Purchase environmentally friendly products
- ☐ Others: *(Please state*)

SECTION E

(Please tick (√) in the *appropriate box)*

18. Gender:
- ☐ Male
- ☐ Female

19. Marital Status:
- ☐ Single
- ☐ Married
- ☐ Divorced/ Widowed

20. Age :
- ☐ 20 and below
- ☐ 21 – 30
- ☐ 31 – 40
- ☐ 41 – 50
- ☐ Above 50

21. Ethnicity:
- ☐ Malay
- ☐ Chinese
- ☐ Indian
- ☐ Others: *(Please state)*

22. Religion
- ☐ Islam
- ☐ Christianity
- ☐ Buddha
- ☐ Hindu
- ☐ Others: *(Please state)*

23. Highest Education Level:
- ☐ Primary/Secondary School
- ☐ Certificate/Diploma/Matriculation/A-Level
- ☐ Bachelor (First Degree)
- ☐ Professional/ Postgraduate (Master or PhD)
- ☐ Others: (*Please state*)

24. Total Monthly Income:
- ☐ RM 1,500 and below
- ☐ RM 1,501 - RM 3,000
- ☐ RM 3,001 - RM 5,000
- ☐ RM 5,001 - RM 10,000
- ☐ RM 10,001 - RM 20,000
- ☐ More than RM 20,000

25. Details of Occupation:

a) Type of Occupation
- ☐ Professionals/Technical/Related
- ☐ Administrative/Managerial
- ☐ Clerical/related
- ☐ Sales/Services
- ☐ Businessman/Merchant
- ☐ Operators/Labourers
- ☐ Farmer/Fisherman
- ☐ Retired
- ☐ Housewife
- ☐ Others: (*Please state*)

b) Type of Organisation
- ☐ Government/Government Agency
- ☐ Government Linked Corporation
- ☐ Multinational Corporation
- ☐ Public Listed Company
- ☐ Large Company (More than 250 workers)
- ☐ Medium-Sized Company (51-250 Workers)
- ☐ Small-Sized Company (50 or less workers)
- ☐ Self Employment/Own Business
- ☐ Others: (*Please state*)

Thank you for taking the time to complete this questionnaire.
Your assistance in providing the information is very much appreciated.

If there is anything else you would like to tell us about this survey or other comments you wish to make that you think may help us to understand your attitude towards Islamic funds and issues arising thereof, please do so in the space provided below.

Comments:

Appendix 5B: List of Islamic Funds in Malaysia

No.	Fund Management Company*	Fund Name*	Fund Category*	Launch Date*	Appro-ved Fund Size (mil-lion Units)*	Fund Size (RM mill.)**	Total Funds Under Manage-ment (RM mill.)**	Market Share of Islamic Funds Based on Asset Size
1	Public Mutual Bhd	PB Islamic Asia Equity Fund	Equity Fund	8/1/2007	2,000	163.91		
		PB Islamic Asia Strategic Sector Fund	Equity Fund	6/9/2007	1,500	67.92		
		PB Islamic Cash Management Fund	Money Market Fund	8/5/2007	1,000	46.81		
		PB Islamic Equity Fund	Equity Fund	5/9/2005	2,000	50.22		
		PB Islamic Bond Fund	Bond Fund	16/03/2006	300	58.36		
		PB Islamic Cash Plus Fund	Money Market Fund		2,000	50.99		
		Public Asia Ittikal Fund	Equity Fund	22/08/2006	5,000	450.53		
		Public China Ittikal Fund	Equity Fund	20/11/2007	7,000	744.43		
		Public Islamic Asia Dividend Fund	Equity Fund	3/4/2007	6,500	694.66		
		Public Islamic Bond Fund	Bond Fund	15/08/2001	1,800	602.99		
		Public Islamic Opportunities Fund	Equity Fund	28/06/2005	1,500	218.16		
		Public Islamic Optimal Growth Fund	Equity Fund	8/4/2008	1,500	292.69		
		Public Islamic Asia Balanced Fund	Balanced Fund	21/08/2007	1,500	98.06		
		Public Islamic Balanced Fund	Balanced Fund	20/09/2005	3,000	470.69		
		Public Islamic Dividend Fund	Equity Fund	14/02/2006	4,500	1111.47		
		Public Islamic Select Bond Fund	Bond Fund	10/7/2007	500	44.98		
		Public Islamic Enhanced Bond Fund	Bond Fund	28/11/2006	500	117.45		
		Public Islamic Equity Fund	Equity Fund	28/05/2003	6,000	539.82		
		Public Islamic Money Market Fund	Money Market Fund	5/6/2007	1,000	375.79		
		Public Islamic Select Enterprises	Equity Fund			26.99		
		Public Islamic Sector Select Fund	Equity Fund	13/11/2007	1,350	165.89		
		Public Islamic Select Treasures Fund	Equity Fund		1,500	246.95		
		Public Islamic Income				3.62	7681.57	48.79%

		Public Ittikal Fund	Equity Fund	10/4/1997	2,500	1038.19		
	CIMB Wealth Advisors Bhd***	CIMB Islamic Balanced Fund	Balanced Fund	8/3/2001	1,000	102.35		
		(SBB Dana Al-Mizan)						
		CIMB Islamic Balanced Income Fund	Balanced Fund	23/08/2005	400	72.82		
		(SBB Dana Al-I'tidal)						
		CIMB Islamic DALI Equity Fund	Equity Fund	30/04/2003	500	73.80		
		(SBB Dana Al-Ihsan2)						
		CIMB Islamic DALI Equity Growth Fund	Equity Fund	7/5/1998	1,200	640.20		
		(SBB Dana Al-Ihsan)						
		CIMB Islamic Enhanced Index Fund	Equity Fund	30/04/2003	500			
		(SBB Dana Al-Hikmah)						
		CIMB Islamic Equity Fund	Equity Fund	8/10/2004	700	60.88		
		(SBB Dana Al-Ikhlas)						
		CIMB Islamic Small Cap Fund	Equity Fund	30/04/2003	500	46.33		
		(SBB Dana Al-Azam)						
		CIMB Islamic Sukuk Fund	Bond Fund	8/10/2004	350	312.19		
		(SBB Dana Al-Hafiz)						
	CIMB-Principal Asset Manage-ment Bhd***	CIMB-IDET	Equity Fund		600			
		CIMB Islamic Asia Pacific Equity Fund	Equity Fund	2/6/2006	400	35.43		
		(Asia Pacific Adil Fund)						
		CIMB Islamic Balanced Growth Fund	Balanced Fund	26/05/2003	500	14.40		
		(Lifetime Dana Barakah)						
		CIMB Islamic Enhanced Sukuk Fund	Bond Fund	23/02/2005	500	15.65		
		(Lifetime Dana Wafiq)						
		CIMB Islamic Equity Aggressive Fund	Equity Fund	16/06/1995	300	31.99		
		(Lifetime Dana Mubarak)						
		CIMB Islamic Short Term Sukuk Fund	Fixed Income Fund	20/04/2006	500	356.98		
		(Lifetime Dana Fayyad)					3007.32	19.10%

		CIMB Islamic Money Market	Money Market Fund			133.55		
		CIMB Islamic Global Equity Fund	Equity Fund		300	71.11		
		CIMB Islamic Kausar Treasury Management Fund 1	Money Market Fund	25/05/2007	200			
		CIMB Islamic Kausar Treasury Management Fund 2	Money Market Fund	25/05/2007	200			
		CIMB Islamic Kausar Treasury Management Fund 3	Money Market Fund	25/05/2007	200			
		CIMB Islamic Kausar Lifecycle 2017	Equity Fund	12/7/2007	200	3.10		
		CIMB Islamic Kausar Lifecycle 2022	Equity Fund	12/7/2007	200	0.91		
		CIMB Islamic Kausar Lifecycle 2027	Equity Fund	12/7/2007	200	0.91		
		CIMB Global Property Equity Fund	Equity Fund		300			
		CIMB Islamic Structured Growth	Structured Products	28/05/2007	1,350	535.37		
		CIMB Islamic Commodities Structured 1	Structured Products			217.67		
		CIMB Islamic Commodities Structured 2	Structured Products			265.61		
		CIMB Islamic Global Emerging Market Equity				16.07		
3	ING Funds Bhd	ING Baraka Capital Protected	Fixed Income Fund	9/5/2007	600	414.13		
		ING Baraka Capital Protected 2	Fixed Income Fund	30/07/2007	600	254.88		
		ING-Baraka Commodities Capital Protected	Fixed Income Fund	2/10/2007	200	289.23		
		ING Bon Islam	Bond Fund	23/04/2004	300	3.23		
		ING Ekuiti Islam	Equity Fund	23/04/2003	300	25.41		
		ING-i-Enhanced Cash	Money Market Fund	2/8/2007	500	14.50		
		ING Annual Income Climate Structured				185.93	1187.31	7.54%
4	AmInvest-ment Services Bhd	AmAl-Amin	Fixed Income Fund	26/11/2001	500	266.31		
		AmIslamic Balanced	Balanced Fund	10/9/2004	1,000	9.54	431.06	2.74%

		AmIslamic Growth	Equity Fund	10/9/2004	1,000	15.67		
		AmBon Islam	Bond Fund	26/11/2001	500	24.40		
		AmIttikal Fund	Equity Fund	12/1/1993	1,000	96.91		
		AmOasis Global Islamic Equity	Feeder Fund	24/04/2006	200	18.23		
		AmPrecious Metals	Feeder Fund	15/11/2007	250			
5	MAAKL Mutual Bhd	MAAKL Al-Faid	Equity Fund	8/7/2003	200	130.64		
		MAAKL-CM Shariah Flexi Fund	Mixed Asset	6/11/2007	1,000	56.71		
		MAAKL Al-Fauzan	Equity Fund	6/9/2005	1,000	57.95		
		MAAKL Al-Ma'Mun	Money Market Fund	23/01/2007	300	60.60		
		MAAKL-Shariah Asia-Pacific Fund	Equity Fund		600	12.33		
		MAAKL Al-Umran	Balanced Fund	28/03/2006	1,000	12.24		
		MAAKL As-Saad	Bond Fund	8/7/2003	200	39.61		
		MAAKL Syariah Index Fund	Equity Fund	23/01/2002	300	37.11	407.19	2.59%
6	AmanahRaya Unit Trust Manage-ment Sdn Bhd	AmanahRaya Islamic Cash Management Fund	Money Market Fund	26/11/2007	200	256.89		
		AmanahRaya Islamic Equity Fund	Equity Fund	23/04/2008	400	0.81		
		AmanahRaya Syariah Trust	Bond Fund	21/09/2006	500	65.61		
		Amanah Raya Islamic Capital Protected				43.64	366.95	2.33%
7	Alliance Investment Manage-ment Bhd	Alliance Dana Adib	Equity Fund	25/03/2004	400	33.15		
		Alliance Dana Alif	Balanced Fund	26/02/2003	300	13.62		
		Alliance Islamic Money Market Fund	Money Market Fund	6/10/2005	600	311.89	358.66	2.28%
8	Prudential Fund Manage-ment Bhd	Prudential Asia Pacific Shariah Equity Fund	Equity Fund	22/11/2007	1,200	48.79		
		Prudential Dana Dinamik	Equity Fund	25/02/2004	700	25.32		
		Prudential Islamic Fixed Income Wholesale	Fixed Income Fund	20/12/2006	500			
		Prudential Dana Al-Ilham	Equity Fund	14/08/2002	200	38.11		
		Prudential Dana Al-Islah	Fixed Income Fund	14/08/2002	200	16.85		
		Prudential Islamic Income Fund	Money Market Fund	8/2/2007	1,000	112.04		
		Prudential Shariah FX Fund	Structured Products	15/08/2007	600	48.71		
		Prudential Dana Wafi	Bond Fund	21/02/2005	200	5.95	295.77	1.88%
9	HLG Unit	HLG Dana Makmur	Equity Fund	19/11/2001	500	12.77	262.37	1.67%

	Trust Bhd	HLG Dana Maa'rof	Balanced Fund	25/03/2003	200	14.47		
		HLG Islamic Income Management Fund	Fixed Income Fund	26/04/2007	600	93.94		
		HLG Dana Munir	Bond Fund	25/03/2003	500	3.70		
		HLG Shariah Inflation Select				137.49		
10	Affin Fund Manage-ment Bhd	Dana Islamiah Affin	Balanced Fund	11/11/2001	400	119.68		
		Affin Islamic Equity Fund	Equity Fund	1/8/2007	400	115.59	235.27	1.49%
11	HWANGDBS Investment Manage-ment Bhd	HWANGDBS Dana Fahim	Balanced Fund	28/06/2004	300	7.37		
		HWANGDBS Islamic Cash Fund	Money Market	22/08/2006	100	202.23		
		HWANGDBS Dana Izdihar	Equity Fund	8/10/2002	300	25.08	234.68	1.49%
12	OSK-UOB Unit Trust Manage-ment Bhd	OSK-UOB Institutional Islamic Money Market Fund	Money Market Fund	1/11/2007	600	137.88		
		OSK-UOB Dana Islam	Equity Fund	26/10/2001	100	5.39		
		OSK-UOB Muhibbah Income Fund	Balanced Fund	12/3/2007	400	53.21	196.48	1.25%
13	Amanah Mutual Bhd	AMB Dana Arif	Bond Fund	27/04/2004	1,000	50.91		
		AMB i-Trust Fund 2008	Bond Fund		300			
		AMB Dana Ikhlas	Balanced Fund	17/09/2002	400	19.33		
		AMB Dana Yakin	Equity Fund	24/11/2000	1,200	42.14		
		AMB Dana Fitrah 1 - Capital Protected	Fixed Income Fund	27/07/2004	300	47.68	160.06	1.02%
14	Pacific Mutual Fund Bhd	Pacific Dana Aman	Balanced Fund	16/04/1998	1,000	92.20		
		Pacific Dana Dividen	Equity Fund	26/07/2007	300			
		Pacific Dana Murni	Bond Fund	25/03/2003	500	54.15	146.35	0.93%
15	PTB Unit Trust Bhd	Amanah Saham Darul Iman	Equity Fund	31/10/1994	500	144.42	144.42	0.92%
16	RHB Unit Trust Manage-ment Bhd	RHB Global Islamic Portfolio Series 1	Equity Fund	28/06/2006	100	43.50		
		RHB Islamic Bond Fund	Bond Fund	25/08/2000	500			
		RHB Islamic Growth Fund	Equity Fund	26/01/2004	500	15.06		
		RHB Mudharabah Fund	Balanced Fund	9/5/1996	750	57.64		
		RHB Islamic Cash Management	Money Market			10.61	126.81	0.81%
17	TA Investment Manage-ment Bhd	TA Asia Pacific Islamic Balanced Fund	Balanced Fund	7/11/2006	300	14.29		
		TA Dana Fokus						
		TA Islamic CashPlus Fund	Money Market	6/6/2005	600	25.30	106.25	0.67%

			Fund					
		TA Islamic Fund	Equity Fund	24/04/2001	600	43.39		
		TA Dana OptiMix	Mixed Asset	17/01/2005	800	23.27		
18	ASM Investment Services Bhd	Dana Al-Aiman	Equity Fund	9/4/1968	350	51.59		
		Dana Bestari	Equity Fund	17/07/1975	250	14.50		
		ASM Dana Mutiara	Equity Fund	2/2/1970	100	8.33		
		ASM Syariah Aggressive Fund	Equity Fund	5/5/1972	20	3.36		
		ASM Syariah Money Market	Money Market Fund	1/11/1969	200	7.86		
		ASM Syariah Dividen				1.74	87.38	0.56%
19	Avenue Invest Bhd	Amanah Saham Wanita	Equity Fund	5/5/1998	450	55.12		
		Avenue Syariah EXTRA Fund	Balanced Fund	12/3/1996	250	17.17		
		Avenue Asnita Bond Fund	Bond Fund	18/03/2005	500	1.03	73.32	0.47%
20	Apex Investment Services Bhd	Apex Dana Al-Faiz-i	Balanced Fund	28/08/2003	100	9.71		
		Apex Dana Al-Sofi-I	Equity Fund	28/08/2003	300	57.82		
		Apex Dana Al-Kanz	Money Market Fund	18/05/2006	250	2.70	70.23	0.45%
21	BIMB Unit Trust Manage-ment Bhd	ASBI Dana Al-Fakhim	Bond Fund	27/12/2001	400	14.66		
		ASBI Dana Al-Falah	Equity Fund	27/12/2001	400	0.83		
		ASBI Dana Al-Mubin	Equity Fund	30/06/1994	302	35.23		
		ASBI Dana Al-Munsif	Balanced Fund	27/12/2001	400	3.65	54.37	0.35%
22	CMS Trust Manage-ment Bhd	CMS Islamic Balanced Fund	Balanced Fund	6/12/2004	200	9.13		
		CMS Islamic Fund	Equity Fund	15/08/2002	500	21.15		
		CMS Islamic Money Market Fund	Money Market Fund	9/11/2007	200	3.66	33.94	0.22%
23	Amanah Saham Kedah Bhd	Amanah Saham Kedah	Equity Fund	27/12/1995	200	31.32	31.32	0.20%
24	Pheim Unit Trust Bhd	Dana Makmur Pheim	Balanced Fund	28/01/2002	100	5.67		
		Pheim Asia Ex-Japan Islamic Fund	Equity Fund	1/11/2006	200	16.14	21.81	0.14%
25	Asia Unit Trusts Bhd	AUTB Dana Bakti	Equity Fund	14/05/1971	500	14.46		
		AUTB Dana Bon Amanah	Bond Fund	5/4/2004	500	1.04	15.50	0.10%
26	Pelaburan Johor Bhd	Amanah Saham Angkasa	Equity Fund	24/04/1998	300	5.63	5.63	0.037%
27	Inter-Pacific Asset Manageme nt Sdn Bhd	InterPac Dana Safi	Equity Fund	25/07/2007	400	5.60	5.60	0.036%

28	Kenanga Unit Trust Bhd	Kenanga Syariah Growth Fund	Equity Fund	29/1/2002	200	1.99	1.99	0.013%

*Obtained from the Securities Commission official webpage at SC.com.my, accessed on December 2008.
** Obtained from The Edge-Lipper Funds' Table, The Edge 27 November 2008.
*** A process of rationalisation under the CIMB Group had resulted in most unit trust funds previously managed by CIMB Wealth Advisors, including Islamic funds to be transferred to CIMB-Principal Asset Management Bhd effective on July 1st, 2008. Press release from the CIMB Group Media Centre at:
http://www.cimb.com/index.php?ch=g2_mc&pg=g2_mc_news&ac=214&tpt=cimb_group

Appendix 6A: Cross-Tabulations Results

Ethnicity * Religion Crosstabulation

Count

		Religion					
		Islam	Christianity	Buddhism	Hinduism	Others	Total
Ethnicity	Malay	360	0	0	0	0	360
	Chinese	2	24	43	0	4	73
	Indian	1	5	0	11	0	17
Total			113	307	15	4	450

Age * Marital Status Crosstabulation

Count

		Marital Status			
		Single	Married	Divorced/ Widowed	Total
Age					
	20 and below	4	1	0	5
	21 - 30	56	28	2	86
	31 - 40	40	162	4	206
	41 - 50	11	96	8	115
Above 50	2	20	1	23	
Total		113	307	15	435

Religion * Percentage invest in Islamic Unit Trust Crosstabulation

Count

		Percentage invest in Islamic Unit Trust						
		Less than 20%	20-39%	40-59%	60-79%	80-99%	All of my unit trust investments are in Islamic funds	Total
Religion								
	Islam	24	36	21	30	25	225	361
	Christianity	4	8	5	9	1	1	28
	Buddhism	8	10	16	7	1	1	43
	Hinduism	1	0	4	3	2	1	11
Others	0	0	3	0	0	1	4	
Total		37	54	49	49	29	229	447

APPENDIX 7Ai-7Aiii: Multiple Exploratory Factor Analysis Results for Criteria Considered Important for *Shari'ah* Based Investment

APPENDIX 7Ai: Principal Axis Factoring with Direct Oblimen Rotation (2 Factor Solution)

Pattern Matrix(a)

	Factor	
	1	2
Care about the impact to the environment	.917	.163
Positively to the development of the society	.812	.010
Use resources efficiently	.797	-.016
Contribute to poverty eradication	.749	-.101
Manage risks prudently	.621	-.150
Maximise returns from investment	.512	-.235
Not be involved in gambling related activities	-.093	-.966
Not be involved in the manufacture or sale of prohibited products	-.003	-.891
Not be involved in entertainment activities which are not permissible in *Shari'ah*	.084	-.790
Not be involved in conventional financial services	.207	-.552

Extraction Method: Principal Axis Factoring.
Rotation Method: Oblimin with Kaiser Normalization.
a Rotation converged in 6 iterations.

APPENDIX 7Aii: Principal Axis Factoring with Direct Oblimen Rotation (3 Factor Solution)

Pattern Matrix(a)

	Factor		
	1	2	3
Positively to the development of the society	.918	-.090	-.093
Care about the impact to the environment	.781	.081	.147
Contribute to poverty eradication	.556	-.154	.208
Not be involved in gambling related activities	-.106	-.948	.022
Not be involved in the manufacture or sale of prohibited products	-.011	-.889	.010
Not be involved in entertainment activities which are not permissible in *Shari'ah*	.120	-.823	-.055
Not be involved in conventional financial services	.094	-.550	.132
Manage risks prudently	-.058	-.015	.880
Use resources efficiently	.278	.031	.633
Maximise returns from investment	.062	-.175	.552

Extraction Method: Principal Axis Factoring.
Rotation Method: Oblimin with Kaiser Normalization.
a Rotation converged in 13 iterations.

APPENDIX 7Aiii: Principal Axis Factoring with Direct Oblimin Rotation (4 Factor Solution)

Pattern Matrix(a)

	Factor			
	1	2	3	4
Positively to the development of the society	.910	-.066	-.108	.079
Care about the impact to the environment	.816	.076	.116	-.039
Contribute to poverty eradication	.614	-.163	.186	-.093
Not be involved in gambling related activities	-.060	-.968	.042	-.134
Not be involved in the manufacture or sale of prohibited products	-.022	-.845	.025	.141
Not be involved in entertainment activities which are not permissible in *Shari'ah*	.155	-.806	-.031	-.067
Not be involved in conventional financial services	.053	-.512	.116	.278
Manage risks prudently	-.028	-.026	.918	-.090
Use resources efficiently	.292	.043	.567	.190
Maximise returns from investment	.087	-.168	.495	.134

Extraction Method: Principal Axis Factoring.
Rotation Method: Oblimin with Kaiser Normalization.
a Rotation converged in 12 iterations.

APPENDIX 7B: Exploratory Factor Analysis Result for Various Social Responsibility Issues Investors' Perceived as Important in Their Investment.

Principal Axis Factoring with Direct Oblimen Rotation (3 Factor Solution)

Pattern Matrix(a)

	Factor		
	1	2	3
Using environmentally friendly technologies	.880	.015	-.242
Facilities to community	.839	-.053	.040
Good benefits scheme to employees	.792	.011	.336
Respecting the rights of employees	.743	.098	.024
Good waste management and recycling policies	.728	.135	-.084
Investing in poor and underdeveloped areas	.724	-.073	-.115
Helping the less fortunate groups	.618	.133	.226
Promoting employees' competency and career development	.573	.258	.157
Treating employees, customers and suppliers fairly	.572	.299	.101
Not involved in environmentally damaging activities	.492	.440	-.322
Not involved in unethical business behaviours	-.117	.867	.021
not using child or forced labour	.114	.753	-.230
Promoting ethical values in its operation	.187	.653	.122
Good system of accountability and transparency in its operation	.235	.559	.193
Safe and healthy working environment	.358	.480	.028

Extraction Method: Principal Axis Factoring.
Rotation Method: Oblimin with Kaiser Normalization.
a Rotation converged in 27 iterations.

Appendix 8A: Mann-Whitney and Kruskal-Wallis Results for Comparing Scores of Perceive Risk, Perceive Return, Awareness of Consequence, and Ascribed Responsibility between Different Sub-groups of the Respondents.

Gender: Mann-Whitney Test
Ranks

	Gender	N	Mean Rank	Sum of Ranks
Risks	Male	259	223.85	57,977.00
	Female	188	224.21	42,151.00
	Total	447		
Returns	Male	259	223.67	57,931.00
	Female	187	223.26	41,750.00
	Total	446		
Awareness of Consequence	Male	260	224.46	58,359.50
	Female	184	219.73	40,430.50
	Total	444		
Ascribed Responsibility	Male	260	228.38	59,380.00
	Female	187	217.90	40,748.00
	Total	447		

Test Statistics(a)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Mann-Whitney U	24,307.000	24,172.000	23,410.500	23,170.000
Wilcoxon W	57,977.000	41,750.000	40,430.500	40,748.000
Z	-0.031	-0.035	-0.392	-0.860
Asymp. Sig. (2-tailed)	0.975	0.972	0.695	0.390

a. Grouping Variable: Gender

Marital Status: Mann-Whitney Test
Ranks

	Dummy married; 1 married 0 otherwise	N	Mean Rank	Sum of Ranks
Risks	0.00	127	206.55	26,231.50
	1.00	304	219.95	66,864.50
	Total	431		
Returns	0.00	126	200.33	25,241.50
	1.00	304	221.79	67,423.50
	Total	430		
Awareness of Consequence	0.00	125	199.92	24,989.50
	1.00	303	220.52	66,816.50
	Total	428		
Ascribed Responsibility	0.00	125	209.08	26,134.50
	1.00	306	218.83	66,961.50
	Total	431		

Test Statistics(a)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Mann-Whitney U	18,103.500	17,240.500	17,114.500	18,259.500
Wilcoxon W	26,231.500	25,241.500	24,989.500	26,134.500
Z	-1.081	-1.739	-1.606	-0.750
Asymp. Sig. (2-tailed)	0.280	0.082	0.108	0.453

a. Grouping Variable: Dummy married; 1 married 0 otherwise

Ethnicity: Kruskal-Wallis Test
Ranks

	Ethnicity	N	Mean Rank
Risks	Malay	356	226.26
	Chinese	73	204.70
	Indian	17	246.41
	Total	446	
Returns	Malay	355	225.29
	Chinese	73	201.05
	Indian	17	269.38
	Total	445	
Awareness of Consequence	Malay	354	233.66
	Chinese	73	175.29
	Indian	16	177.19
	Total	443	
Ascribed Responsibility	Malay	357	223.16
	Chinese	73	224.94
	Indian	16	224.53
	Total	446	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	2.545	5.073	15.353	0.013
df	2	2	2	2
Asymp. Sig.	0.280	0.079	0.000	0.994

a. Kruskal Wallis Test
b. Grouping Variable: Ethnicity

Religion: Kruskal-Wallis Test
Ranks

	Religion	N	Mean Rank
Risks	Islam	359	224.63
	Christianity	29	240.34
	Buddha	43	174.78
	Hindu	11	252.18
	Total	442	
Returns	Islam	358	222.97
	Christianity	29	203.14
	Buddha	43	204.76
	Hindu	11	267.32
	Total	441	
Awareness of Consequence	Islam	357	230.76
	Christianity	29	164.03
	Buddha	43	172.21
	Hindu	10	203.70
	Total	439	
Ascribed Responsibility	Islam	360	221.24
	Christianity	28	187.32
	Buddha	43	242.76
	Hindu	11	233.86
	Total	442	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	8.159	3.198	15.222	3.407
df	3	3	3	3
Asymp. Sig.	0.043	0.362	0.002	0.333

a. Kruskal Wallis Test

b. Grouping Variable: Religion

Age: Kruskal-Wallis Test

Ranks

	Age- combining below 20 with 21-30	N	Mean Rank
risks	1.00	94	214.07
	2.00	212	223.00
	3.00	118	235.50
	4.00	23	214.74
	Total	447	
Returns	1.00	94	211.62
	2.00	211	231.61
	3.00	118	208.71
	4.00	23	273.59
	Total	446	
Awareness of Consequence	1.00	93	233.41
	2.00	210	217.96
	3.00	117	217.82
	4.00	24	242.75
	Total	444	
Ascribed Responsibility	1.00	93	197.67
	2.00	211	233.38
	3.00	119	230.48
	4.00	24	211.40
	Total	447	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	1.832	7.596	1.774	5.683
df	3	3	3	3
Asymp. Sig.	0.608	0.055	0.621	0.128

a. Kruskal Wallis Test

b. Grouping Variable: Age- combining below 20 with 21-30

Monthly Income: Kruskal-Wallis Test

Ranks

	Total Monthly Income	N	Mean Rank
Risks	RM 1,500 and below	33	246.11
	RM 1,501 - RM 3,000	89	219.19
	RM 3,001 - RM 5,000	148	221.47
	RM 5,001 - RM 10,000	99	216.87
	RM 10,001 - RM 20,000	55	214.49
	More than RM 20,000	21	264.76
	Total	445	
Returns	RM 1,500 and below	33	245.97
	RM 1,501 - RM 3,000	89	201.89
	RM 3,001 - RM 5,000	147	223.49
	RM 5,001 - RM 10,000	99	238.15
	RM 10,001 - RM 20,000	55	206.09
	More than RM 20,000	21	235.29
	Total	444	
Awareness of Consequence	RM 1,500 and below	32	237.72
	RM 1,501 - RM 3,000	89	262.08
	RM 3,001 - RM 5,000	145	212.89
	RM 5,001 - RM 10,000	100	208.80
	RM 10,001 - RM 20,000	55	199.60
	More than RM 20,000	21	202.14
	Total	442	
Ascribed Responsibility	RM 1,500 and below	33	207.38
	RM 1,501 - RM 3,000	89	203.42
	RM 3,001 - RM 5,000	147	216.04
	RM 5,001 - RM 10,000	100	253.13
	RM 10,001 - RM 20,000	55	239.69
	More than RM 20,000	21	192.12
	Total	445	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	4.345	6.835	13.922	10.957
df	5	5	5	5
Asymp. Sig.	0.501	0.233	0.016	0.052

a. Kruskal Wallis Test

b. Grouping Variable: Total Monthly Income

Highest Level of Education: Kruskall-Wallis Test
Ranks

	Highest Education Level	N	Mean Rank
Risks	Primary/Secondary School	37	256.93
	Certificate/Diploma/Matriculation/ A-Level	151	207.19
	Bachelor (First Degree)	171	222.70
	Professional/ Postgraduate (Master or Phd)	81	224.02
	Total	440	
Returns	Primary/Secondary School	37	230.16
	Certificate/Diploma/Matriculation/ A-Level	150	211.38
	Bachelor (First Degree)	171	221.85
	Professional/ Postgraduate (Master or Phd)	81	227.42
	Total	439	
Awareness of Consequence	Primary/Secondary School	37	223.41
	Certificate/Diploma/Matriculation/ A-Level	147	220.74
	Bachelor (First Degree)	171	226.02
	Professional/ Postgraduate (Master or Phd)	82	199.24
	Total	437	
Ascribed Responsibility	Primary/Secondary School	37	202.30
	Certificate/Diploma/Matriculation/ A-Level	151	213.10
	Bachelor (First Degree)	171	214.51
	Professional/ Postgraduate (Master or Phd)	81	255.25
	Total	440	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	5.420	1.418	2.740	7.952
Df	3	3	3	3
Asymp. Sig.	0.143	0.701	0.433	0.047

a. Kruskal Wallis Test

b. Grouping Variable: Highest Education Level

Individual Pro-Social Behavior: Kruskall-Wallis Test
Ranks

	Individual SR	N	Mean Rank
Risks	1.00	134	188.24
	2.00	129	174.63
	3.00	93	169.84
	Total	356	
Returns	1.00	134	165.09
	2.00	128	176.21
	3.00	93	199.07
	Total	355	
Awareness of Consequence	1.00	133	174.15
	2.00	128	175.93
	3.00	90	178.83
	Total	351	
Ascribed Responsibility	1.00	133	153.47
	2.00	128	183.67
	3.00	93	203.37
	Total	354	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	2.336	7.021	0.120	14.273
Df	2	2	2	2
Asymp. Sig.	0.311	0.030	0.942	0.001

a. Kruskal Wallis Test
b. Grouping Variable: Individual SR

Collective Pro-Social Behavior: Kruskall Wallis Test
Ranks

	Collective SR	N	Mean Rank
Risks	1.00	136	96.88
	2.00	48	95.71
	3.00	8	94.88
	Total	192	
Returns	1.00	136	95.95
	2.00	48	96.71
	3.00	8	104.63
	Total	192	
Awareness of Consequence	1.00	134	92.61
	2.00	49	101.90
	3.00	8	116.63
	Total	191	
Ascribed Responsibility	1.00	135	93.47
	2.00	49	101.00
	3.00	8	120.00
	Total	192	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	0.025	0.213	2.275	2.215
Df	2	2	2	2
Asymp. Sig.	0.987	0.899	0.321	0.330

a. Kruskal Wallis Test

b. Grouping Variable: Collective SR

Cluster Membership: Kruskall-Wallis Test
Ranks

	Two Step Cluster Number	N	Mean Rank
Risks	1	83	193.41
	2	131	210.84
	3	195	206.01
	Total	409	
Returns	1	83	197.31
	2	131	205.85
	3	195	207.70
	Total	409	
Awareness of Consequence	1	83	161.04
	2	130	202.78
	3	194	223.20
	Total	407	
Ascribed Responsibility	1	82	203.57
	2	131	197.85
	3	196	210.38
	Total	409	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	1.274	0.523	17.063	0.925
Df	2	2	2	2
Asymp. Sig.	0.529	0.770	0.000	0.630

a. Kruskal Wallis Test

b. Grouping Variable: TwoStep Cluster Number

Awareness of SRI: Kuskall-Wallis Test
Ranks

	Awareness of growing trends on investment funds	N	Mean Rank
Risks	I have never heard of them	70	243.71
	I have heard of them but know nothing about them	58	205.33
	I know only a little about them	183	206.25
	I am quite familiar with them	87	231.51
	I am very familiar with them	41	237.22
	Total	439	
Returns	I have never heard of them	70	263.58
	I have heard of them but know nothing about them	58	200.64
	I know only a little about them	182	199.65
	I am quite familiar with them	87	228.93
	I am very familiar with them	41	239.02
	Total	438	
Awareness of Consequence	I have never heard of them	70	189.88
	I have heard of them but know nothing about them	57	214.02
	I know only a little about them	182	214.30
	I am quite familiar with them	86	248.51
	I am very familiar with them	41	229.32
	Total	436	
Ascribed Responsibility	I have never heard of them	70	203.26
	I have heard of them but know nothing about them	57	211.44
	I know only a little about them	184	225.35
	I am quite familiar with them	87	223.04
	I am very familiar with them	41	230.04
	Total	439	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	7.750	17.940	9.525	2.182
df	4	4	4	4
Asymp. Sig.	0.101	0.001	0.049	0.702

a. Kruskal Wallis Test

b. Grouping Variable: awareness of SRI funds

Types of Occupation: Kruskall-Wallis Test
Ranks

	Dummy for professional and management related occupation	N	Mean Rank	Sum of Ranks
Risks	0.00	175	225.37	39,440.00
	1.00	272	223.12	60,688.00
	Total	447		
Returns	0.00	175	224.61	39,306.00
	1.00	271	222.79	60,375.00
	Total	446		
Awareness of Consequence	0.00	174	207.19	36,050.50
	1.00	270	232.37	62,739.50
	Total	444		
Ascribed Responsibility	0.00	175	216.65	37,914.00
	1.00	272	228.73	62,214.00
	Total	447		

Test Statistics(a)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Mann-Whitney U	23,560.000	23,519.000	20,825.500	22,514.000
Wilcoxon W	60,688.000	60,375.000	36,050.500	37,914.000
Z	-0.191	-0.155	-2.070	-0.980
Asymp. Sig. (2-tailed)	0.848	0.876	0.038	0.327

a. Grouping Variable: Dummy for professional and management related occupation

Type of Organization: Kruskal-Wallis Test
Ranks

	Organisation in 3 category	N	Mean Rank
Risks	1.00	140	223.63
	2.00	197	222.28
	3.00	107	221.43
	Total	444	
Returns	1.00	140	220.32
	2.00	197	215.88
	3.00	106	235.59
	Total	443	
Awareness of Consequence	1.00	138	225.58
	2.00	197	191.54
	3.00	107	271.41
	Total	442	
Ascribed Responsibility	1.00	141	222.17
	2.00	197	227.73
	3.00	107	215.38
	Total	445	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	0.021	1.903	28.719	0.669
df	2	2	2	2
Asymp. Sig.	0.989	0.386	0.000	0.716

a. Kruskal Wallis Test

b. Grouping Variable: Organisation in 3 category

Main Investment Objective: Kruskall-Wallis Test
Ranks

	Dummy variable for main investment objective; 1 for retirement and children's education, 0 for otherwise	N	Mean Rank	Sum of Ranks
Risks	0.00	235	223.05	52,417.50
	1.00	211	224.00	47,263.50
	Total	446		
Returns	0.00	234	224.03	52,424.00
	1.00	211	221.85	46,811.00
	Total	445		
Awareness of Consequence	0.00	234	225.22	52,701.00
	1.00	209	218.40	45,645.00
	Total	443		
Ascribed Responsibility	0.00	235	223.79	52,590.00
	1.00	211	223.18	47,091.00
	Total	446		

Test Statistics(a)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Mann-Whitney U	24,687.500	24,445.000	23,700.000	24,725.000
Wilcoxon W	52,417.500	46,811.000	45,645.000	47,091.000
Z	-0.082	-0.191	-0.574	-0.050
Asymp. Sig. (2-tailed)	0.935	0.849	0.566	0.960

a. Grouping Variable: Dummy variable for main investment objective; 1 for retirement and children's education, 0 for otherwise

Risk-Return Appetite: Kruskal-Wallis Test
Ranks

	Risk appetite 3 category	N	Mean Rank
Risks	1.00	28	241.20
	2.00	92	210.60
	3.00	322	222.90
	Total	442	
Returns	1.00	28	197.38
	2.00	92	189.89
	3.00	321	231.98
	Total	441	
Awareness of Consequence	1.00	28	194.36
	2.00	91	212.72
	3.00	320	224.31
	Total	439	
Ascribed Responsibility	1.00	28	222.68
	2.00	92	248.61
	3.00	322	213.65
	Total	442	

Test Statistics(a,b)

	Risks	Returns	Awareness of Consequence	Ascribed Responsibility
Chi-Square	1.555	10.066	1.909	5.540
Df	2	2	2	2
Asymp. Sig.	0.460	0.007	0.385	0.063

a. Kruskal Wallis Test

b. Grouping Variable: Risk appetite 3 category

Appendix 8B: Exploratory Factor Analysis Result for the 6 Items Representing Awareness of Consequence and Ascribed Responsibility

Pattern Matrix(a)

	Factor	
	1	2
(AC2) I can help to improve the society's quality of life by investing using social responsibility criteria	0.908	-0.220
(AC1)I might support irresponsible business behaviours if I ignore social responsibility issues in my investment	0.475	0.139
(AR3)Every investor must take responsibility on the effects of his or her investment	0.392	0.013
(AR1) I am not concerned about 'social responsibility' issues in my investment	-0.065	0.669
(AC3)I do not believe that my investment decision can have any adverse effects on the wellbeing of the society	-0.024	0.628
(AR2) Social responsibility issues should be addressed by the government and social organizations, and not by investors	0.093	0.548

Extraction Method: Principal Axis Factoring.
Rotation Method: Oblimin with Kaiser Normalization.

a. Rotation converged in 4 iterations.

Appendix 8C: Full Results of Model 1 (Probit link function): Investors' willingness to support additional Social Responsibility Criteria in Currently Held Islamic Fund

PLUM - Ordinal Regression (Probit link)
Case Processing Summary

		N	Marginal Percentage
Support to apply additional SR criteria	1.00	52	13.6%
	2.00	122	31.9%
	3.00	208	54.5%
Perceived risk	1.00	122	31.9%
	2.00	164	42.9%
	3.00	96	25.1%
Perceived return	1.00	174	45.5%
	2.00	149	39.0%
	3.00	59	15.4%
Cluster membership	1.00	181	47.4%
	2.00	122	31.9%
	3.00	79	20.7%
Individual SR	1.00	239	62.6%
	2.00	143	37.4%
Collective SR	1.00	177	46.3%
	2.00	205	53.7%
SRI awareness	1.00	110	28.8%
	2.00	156	40.8%
	3.00	116	30.4%
Investment objective	1.00	180	47.1%
	2.00	202	52.9%
Risk appetite	1.00	282	73.8%
	2.00	100	26.2%
Gender	1.00	162	42.4%
	2.00	220	57.6%
Age in 3 category	1.00	84	22.0%
	2.00	189	49.5%
	3.00	109	28.5%
Income	1.00	61	16.0%
	2.00	208	54.5%
	3.00	113	29.6%
Education2cat	1.00	223	58.4%
	2.00	159	41.6%
Occupation	1.00	241	63.1%
	2.00	141	36.9%
Valid		382	100.0%
Missing		69	
Total		451	

Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	738.775			
Final	611.452	127.323	21	.000

Link function: Probit.

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	753.077	739	.352
Deviance	611.452	739	1.000

Link function: Probit.

Pseudo R-Square

Cox and Snell	.283
Nagelkerke	.331
McFadden	.172

Link function: Probit.

Parameter Estimates

		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[SupportSR = 1.00]	1.674	.581	8.319	1	.004	.537	2.812
	[SupportSR = 2.00]	2.931	.590	24.676	1	.000	1.774	4.087
Location	AwareConsequence	.232	.092	6.267	1	.012	.050	.413
	Ascribed_Responsibility	.286	.086	11.139	1	.001	.118	.453
	[Perceivedrisk=1.00]	-.259	.194	1.787	1	.181	-.638	.121
	[Perceivedrisk=2.00]	-.248	.185	1.804	1	.179	-.610	.114
	[Perceivedrisk=3.00]	0(a)	.	.	0	.	.	.
	[Perceivedreturn=1.00]	.629	.212	8.772	1	.003	.213	1.045
	[Perceivedreturn=2.00]	.180	.211	.723	1	.395	-.234	.594
	[Perceivedreturn=3.00]	0(a)	.	.	0	.	.	.
	[Clustermembership=1.00]	.803	.183	19.274	1	.000	.444	1.161
	[Clustermembership=2.00]	.330	.189	3.056	1	.080	-.040	.701
	[Clustermembership=3.00]	0(a)	.	.	0	.	.	.
	[Individual_SR=1.00]	.342	.141	5.934	1	.015	.067	.618

[Individual_SR=2.00]	0(a)	.	.	0	.	.	.
[Collect_SR=1.00]	.036	.138	.068	1	.795	-.234	.305
[Collect_SR=2.00]	0(a)	.	.	0	.	.	.
[SRI_awareness=1.00]	.916	.184	24.733	1	.000	.555	1.277
[SRI_awareness=2.00]	.455	.160	8.115	1	.004	.142	.768
[SRI_awareness=3.00]	0(a)	.	.	0	.	.	.
[Invest_objective=1.00]	.089	.134	.446	1	.504	-.173	.352
[Invest_objective=2.00]	0(a)	.	.	0	.	.	.
[Risk_appetite=1.00]	-.085	.157	.294	1	.588	-.394	.223
[Risk_appetite=2.00]	0(a)	.	.	0	.	.	.
[Gender=1.00]	-.196	.133	2.171	1	.141	-.456	.065
[Gender=2.00]	0(a)	.	.	0	.	.	.
[Age_3category=1.00]	-.085	.205	.170	1	.680	-.487	.317
[Age_3category=2.00]	-.048	.159	.091	1	.762	-.359	.263
[Age_3category=3.00]	0(a)	.	.	0	.	.	.
[Income=1.00]	-.146	.250	.344	1	.558	-.636	.343
[Income=2.00]	-.222	.173	1.644	1	.200	-.562	.118
[Income=3.00]	0(a)	.	.	0	.	.	.
[Education2cat=1.00]	.390	.150	6.805	1	.009	.097	.683
[Education2cat=2.00]	0(a)	.	.	0	.	.	.
[Occupation=1.00]	.180	.135	1.780	1	.182	-.085	.445
[Occupation=2.00]	0(a)	.	.	0	.	.	.

Link function: Probit.
a This parameter is set to zero because it is redundant.

Test of Parallel Lines(a)

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	611.452			
General	583.186	28.266	21	.133

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.
a Link function: Probit.

Appendix 8D: Full Results of Model 2 (Probit link function): Investors' Willingness to Invest in an Islamic Fund that Applies Additional Social Responsibility Criteria

PLUM - Ordinal Regression (Probit link)

Case Processing Summary

		N	Marginal Percentage
Invest in Islamic funds that apply SR criteria	1.00	62	16.2%
	2.00	161	42.1%
	3.00	159	41.6%
Perceived risk	1.00	122	31.9%
	2.00	164	42.9%
	3.00	96	25.1%
Perceived return	1.00	174	45.5%
	2.00	149	39.0%
	3.00	59	15.4%
Cluster membership	1.00	181	47.4%
	2.00	122	31.9%
	3.00	79	20.7%
Individual SR	1.00	239	62.6%
	2.00	143	37.4%
Collective SR	1.00	177	46.3%
	2.00	205	53.7%
SRI awareness	1.00	110	28.8%
	2.00	156	40.8%
	3.00	116	30.4%
Investment objective	1.00	180	47.1%
	2.00	202	52.9%
Risk appetite	1.00	282	73.8%
	2.00	100	26.2%
Gender	1.00	162	42.4%
	2.00	220	57.6%
Age in 3 category	1.00	84	22.0%
	2.00	189	49.5%
	3.00	109	28.5%
Income	1.00	61	16.0%
	2.00	208	54.5%
	3.00	113	29.6%
Education2cat	1.00	223	58.4%
	2.00	159	41.6%
Occupation	1.00	241	63.1%
	2.00	141	36.9%
Valid		382	100.0%
Missing		69	
Total		451	

Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	782.413			
Final	642.607	139.805	21	.000

Link function: Probit.

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	757.969	739	.306
Deviance	642.607	739	.995

Link function: Probit.

Pseudo R-Square

Cox and Snell	.306
Nagelkerke	.352
McFadden	.179

Link function: Probit.

Parameter Estimates

		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
Threshold	[InvestSR = 1.00]	2.968	.574	26.781	1	.000	1.844	4.093
	[InvestSR = 2.00]	4.484	.593	57.219	1	.000	3.322	5.646
Location	AwareConsequence	.311	.089	12.178	1	.000	.137	.486
	Ascribed_Responsibility	.315	.082	14.681	1	.000	.154	.476
	[Perceivedrisk=1.00]	.220	.183	1.436	1	.231	-.139	.578
	[Perceivedrisk=2.00]	-.061	.175	.123	1	.726	-.404	.282
	[Perceivedrisk=3.00]	0(a)	.	.	0	.	.	.
	[Perceivedreturn=1.00]	.492	.203	5.898	1	.015	.095	.889
	[Perceivedreturn=2.00]	.327	.206	2.521	1	.112	-.077	.730
	[Perceivedreturn=3.00]	0(a)	.	.	0	.	.	.
	[Clustermembership=1.00]	.809	.179	20.470	1	.000	.458	1.159
	[Clustermembership=2.00]	.489	.188	6.787	1	.009	.121	.856
	[Clustermembership=3.00]	0(a)	.	.	0	.	.	.
	[Individual_SR=1.00]	.390	.136	8.191	1	.004	.123	.658

[Individual_SR=2.00]	0(a)	.	.	0	.	.	.
[Collect_SR=1.00]	.196	.133	2.176	1	.140	-.064	.456
[Collect_SR=2.00]	0(a)	.	.	0	.	.	.
[SRI_awareness=1.00]	.658	.174	14.257	1	.000	.317	1.000
[SRI_awareness=2.00]	.294	.156	3.561	1	.059	-.011	.599
[SRI_awareness=3.00]	0(a)	.	.	0	.	.	.
[Invest_objective=1.00]	.132	.129	1.046	1	.306	-.121	.386
[Invest_objective=2.00]	0(a)	.	.	0	.	.	.
[Risk_appetite=1.00]	.278	.151	3.387	1	.066	-.018	.575
[Risk_appetite=2.00]	0(a)	.	.	0	.	.	.
[Gender=1.00]	.144	.129	1.235	1	.266	-.110	.397
[Gender=2.00]	0(a)	.	.	0	.	.	.
[Age_3category=1.00]	-.119	.199	.361	1	.548	-.509	.270
[Age_3category=2.00]	-.145	.154	.883	1	.347	-.446	.157
[Age_3category=3.00]	0(a)	.	.	0	.	.	.
[Income=1.00]	-.043	.242	.031	1	.860	-.517	.431
[Income=2.00]	-.262	.167	2.470	1	.116	-.590	.065
[Income=3.00]	0(a)	.	.	0	.	.	.
[Education2cat=1.00]	.498	.145	11.819	1	.001	.214	.781
[Education2cat=2.00]	0(a)	.	.	0	.	.	.
[Occupation=1.00]	.350	.132	7.086	1	.008	.092	.608
[Occupation=2.00]	0(a)	.	.	0	.	.	.

Link function: Probit.
a This parameter is set to zero because it is redundant.

Test of Parallel Lines(a)

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	642.607			
General	619.454	23.154	21	.336

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.
a Link function: Probit.

Appendix 8E: Results of Ordinal Regression- Model 3 (Probit link function): Investors' willingness to sacrifice Return for Social Responsibility Concerns

PLUM - Ordinal Regression

Case Processing Summary

		N	Marginal Percentage
Financial sacrifice 3 category	1.00	88	33.6%
	2.00	78	29.8%
	3.00	96	36.6%
SR-Econ2category	1.00	102	38.9%
	2.00	160	61.1%
Cluster membership	1.00	144	55.0%
	2.00	76	29.0%
	3.00	42	16.0%
Individual SR	1.00	173	66.0%
	2.00	89	34.0%
Collective SR	1.00	121	46.2%
	2.00	141	53.8%
SRI awareness	1.00	85	32.4%
	2.00	98	37.4%
	3.00	79	30.2%
Investment objective	1.00	119	45.4%
	2.00	143	54.6%
Risk appetite	1.00	196	74.8%
	2.00	66	25.2%
Gender	1.00	111	42.4%
	2.00	151	57.6%
Age in 3 category	1.00	63	24.0%
	2.00	127	48.5%
	3.00	72	27.5%
Income	1.00	37	14.1%
	2.00	147	56.1%
	3.00	78	29.8%
Education2cat	1.00	165	63.0%
	2.00	97	37.0%
Occupation	1.00	173	66.0%
	2.00	89	34.0%
Valid		262	100.0%
Missing		58	
Total		320	

Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	573.800			
Final	523.264	50.536	18	.000

Link function: Probit.

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	531.915	504	.188
Deviance	523.264	504	.268

Link function: Probit.

Pseudo R-Square

Cox and Snell	.175
Nagelkerke	.198
McFadden	.088

Link function: Probit.

Parameter Estimates

		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval Lower Bound	Upper Bound
Threshold	[Financialsacrifice3cat = 1.00]	1.538	.580	7.028	1	.008	.401	2.676
	[Financialsacrifice3cat = 2.00]	2.406	.588	16.759	1	.000	1.254	3.557
Location	AwareConsequence	.176	.100	3.108	1	.078	-.020	.371
	Ascribed_Responsibility	.156	.087	3.266	1	.071	-.013	.326
	[SREcon2category=1.00]	-.411	.161	6.468	1	.011	-.727	-.094
	[SREcon2category=2.00]	0(a)	.	.	0	.	.	.
	[Clustermembership=1.00]	.324	.226	2.048	1	.152	-.120	.768
	[Clustermembership=2.00]	.137	.248	.304	1	.581	-.349	.622
	[Clustermembership=3.00]	0(a)	.	.	0	.	.	.
	[Individual_SR=1.00]	.077	.160	.233	1	.630	-.237	.391
	[Individual_SR=2.00]	0(a)	.	.	0	.	.	.
	[Collect_SR=1.00]	.128	.157	.671	1	.413	-.179	.436
	[Collect_SR=2.00]	0(a)	.	.	0	.	.	.
	[SRI_awareness=1.00]	.536	.204	6.915	1	.009	.136	.935
	[SRI_awareness=2.00]	.662	.194	11.705	1	.001	.283	1.041
	[SRI_awareness=3.00]	0(a)	.	.	0	.	.	.
	[Invest_objective=1.00]	.159	.150	1.123	1	.289	-.135	.454
	[Invest_objective=2.00]	0(a)	.	.	0	.	.	.
	[Risk_appetite=1.00]	.214	.179	1.428	1	.232	-.137	.564
	[Risk_appetite=2.00]	0(a)	.	.	0	.	.	.
	[Gender=1.00]	-.053	.151	.125	1	.723	-.348	.242
	[Gender=2.00]	0(a)	.	.	0	.	.	.
	[Age_3category=1.00]	-.202	.234	.746	1	.388	-.660	.256

[Age_3category=2.00]	-.223	.184	1.483	1	.223	-.583	.136
[Age_3category=3.00]	0(a)	.	.	0	.	.	.
[Income=1.00]	.292	.287	1.036	1	.309	-.270	.854
[Income=2.00]	.360	.194	3.445	1	.063	-.020	.740
[Income=3.00]	0(a)	.	.	0	.	.	.
[Education2cat=1.00]	.119	.170	.490	1	.484	-.214	.453
[Education2cat=2.00]	0(a)	.	.	0	.	.	.
[Occupation=1.00]	-.073	.158	.216	1	.642	-.383	.236
[Occupation=2.00]	0(a)	.	.	0	.	.	.

Link function: Probit.
a This parameter is set to zero because it is redundant.

Test of Parallel Lines(c)

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	523.264			
General	504.105(a)	19.158(b)	18	.382

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.
a The log-likelihood value cannot be further increased after maximum number of step-halving.
b The Chi-Square statistic is computed based on the log-likelihood value of the last iteration of the general model. Validity of the test is uncertain.
c Link function: Probit.