

**INVESTMENT, ISLAMIC BANK AND FINANCIAL DESIGN FROM MALAYSIAN  
LISTED FIRMS**



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## LETTER OF REPORT SUBMISSION

30 September 2013  
Prof. Dr. Abu Bakar Abdul Majid  
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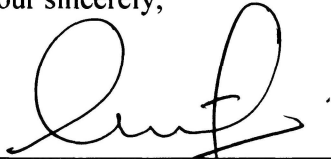
Dear Prof,

### SUBMISSION OF FINAL REPORT

Attached is the final report titled "INVESTMENT, ISLAMIC BANK AND FINANCIAL DESIGN FROM MALAYSIAN LISTED FIRMS".

Thank you.

Your sincerely,



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DR MASTURAH BINTI MA'IN  
Project Leader  
Faculty of Business Management  
UiTM Melaka



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NOR SHAHRINA BINTI MOHD RAFIEN  
Faculty of Business Management  
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## **ABSTRACT**

This paper examines the link between financial design and Islamic bank variables on firm investment. It is aimed to support additional empirical evidence based on previous studies. The firm-level data for Malaysian Shariah listed firms between 2000 and 2010 are used. This paper also utilizes the same estimation method i.e. generalised method of moments for dynamic panel data, as proposed by Arellano and Bover (1995). The findings show that: first, the investment of Shariah listed firms are positively related to the development of the banking system and the capital market. Second, the cash flow shows a negative impact on investment of firms. Third, the debt asset ratio has a negative impact on firm investment. Fourth, Bai' Bithaman Ajil and Ijarah financing show a negative effect on investment of firm. Fifth, the zakah variable shows a mixed result on firm investment.

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 OVERVIEW OF STUDY**

Capital formation or investment is essential to sustain economic growth. Malaysia and other developing countries require a high rate of capital formation or investment to generate and sustain high economic growth to supplement growth in labour force and technological progress. However, in developed economies like United States (US): technological progress and innovation (reflected in high growth in total factor productivity) spearhead growth. These factors are far more important than factors in the traditional growth like labour force and capital investment in determining economic expansion.

In order to replace the obsolete or underutilized capital, high rate of capital formation is needed. It represents a net increase in fixed investment which creates productive capacity for economic growth. For example, investment of firms will boost the productive capacity of a country and thus increase growth and standard of living without giving rise to inflationary pressure. The investment of firms can be highlighted from the bank balance sheet through bank lending channel in credit channel. This includes financial intermediation that contributes to growth by mobilizing savings, efficiently allocating these resources among competing investment projects and other demands of funds.

In this case, Islamic bank also encounter no exception in promoting the economic growth. It can be seen from the involvement of Islamic banks in economic growth through bank lending channel. This channel also shows that Islamic banks play a special role in the financial system design because they are well suited to solve information problems in the credit market. In addition, interest is prohibited in Islamic bank and only accepted for the well-being of the society in the world. Islamic banking system also