

THE MEASUREMENT OF ISLAMIC UNIT TRUST INVESTMENT DECISION IN MALAYSIA: AN EXPLORATORY FACTOR ANALYSIS

Noraini Yusuff (Corresponding author)

Academy of Islamic Studies
Department of Shariah and Management
University of Malaya
Email: ynoraini@uum.edu.my

Fadillah Mansor

Academy of Islamic Studies
Department of Shariah and Management
University of Malaya
Email: fadillah@um.edu.my

Abu Bakar Hamed

Islamic Business School
Universiti Utara Malaysia
Email: abubakarhamed123@gmail.com

Date submitted: 4th April 2017; Date accepted: 15th June 2017

Abstract

The objective of this study is to develop the constructs in Islamic Unit Trust Investment Decision (IUTID) and examine its determinants. The determinants of Islamic Unit Trust Investment Decision are Islamic Financial Literacy (IFL), Information Sources (IS), Investment Risk (IR), Religiosity (RE) and Product Knowledge (PK). The measurement developed is based on the literature review and has been validated by the construct's experts, and among Islamic Unit Trust Investors. The validity and reliability test have tested to all the constructs. The data have been analyzing using SPSS. Results of the analysis show that Islamic unit trust investment decision can be measured using ten (10) items of investment selection criteria. The others determinants such as Islamic financial literacy construct consists of seven (7) items, information sources construct consists of ten (10) items, investment risk consists of eight (8) items, religiosity consists of eight (8) items and product knowledge consists of seven (7) items. The variance of the construct shows that information sources have the highest variance followed by investment risk, Islamic financial literacy, religiosity and product knowledge. These instruments can be used by unit trust companies, the authorities of Islamic unit trust (FIMM, SC, BNM) and other banking's product to understand the behavior of their clients and later, can implement it to the expected new customers.

Keywords: Islamic Unit Trust, Investment Decision, Exploratory Factor Analysis

INTRODUCTION

Islamic unit trust fund is one of investment product that is suitable for the low and middle-income consumer. Islamic unit trust fund is a product that is managed by the asset management company and unit trust's agent and it is categorized as a Shariah-based product. Islamic unit trust funds offer the low to medium level of risk because it is based on diversification. The asset management company will collect all the capital from the investors, which have the same objective of investment and return and will invest in the diversified portfolio. Islamic unit trust is suitable for those who have limited skill and knowledge and the majority of them are risk averse investors.

An Islamic unit trust fund is categories as the fastest growing products in investment area in Malaysia. There are 2,815,648 accounts already registered in Islamic unit trust funds. Year by year, the total net asset value (NAV) is rapidly increasing. In one decade from 2006 to 2016, the total NAV increased from RM9.101 billion to RM60.915 (Securities Commission of Malaysia, 2016). In 2016, there are 35 management companies in unit trust funds and 28 of that companies offered Islamic unit trust funds. However, this amount is far below from the target of Capital Masterplan 2 by Securities Commission of NAV at RM158 billion on 2020. This situation shows that the asset management company of unit trust funds should take consideration to encourage more investors to invest in Islamic unit trust funds. When the economy is a recession, Islamic unit trust funds show the better performance than conventional unit trust funds (N. Alam, Kin & Rajjaque, 2013; Mansor & Bhatti, 2011; Mohd Dom, Ibrahim, Che Sulaiman & Ahmad Sholahuddin, 2014).

Based on that problem above, it is important to investigate the factors that influence an investor to invest in Islamic unit trust fund. It is in-line with the idea of Barberis & Thaler (2003) that it is important to understand the decision making of the investors. By understanding the investor's behavior, it can help asset management companies to focus the strategies and try to attract the investors based on the significant factors with an Islamic unit trust investment decision.

The behavior of investors in the unit trust fund has been studied by various researchers (Capon, Fitzsimons, & Price (1996); Capon, Fitzsimons, & Weingarten (1994); Jamaludin (2013); Wan Nawang, Hashim, & Marzuki (2008). Capon et al. (1994) has investigated the behavior of 298 wealthy households in purchasing unit trust funds in the United States (US). They investigate the impact of sources of information on the unit trust selection criteria. The respondents were collected from seven investment advisory firms. Results of this study reveal that performance ranking is the most important source of information to the wealthy household investors, followed by recommendation of business associates and advertising (local newspapers, magazines, and national newspapers). This study proves that the personal information which is recommendations from friends and/or family show less important factor.

Later, Capon et al.(1996) have further investigated the investment decisions among unit trust investors in the US. This study also investigates the effect of information sources on unit trust selection criteria. The results of this study found that only a single small group have high knowledgeable on unit trust investment. Moreover, most investors appear to be naïve and having little knowledge of the investment strategies.

In Malaysia, the behavior of unit trust investors has been studied by Jamaludin, Smith, & Gerrans (2013) and Wan Nawang et al. (2008). Jamaludin et al. (2013) has explored the selection criteria of unit trust in retirement scheme among 440 Muslim and non-Muslim of EPF members, and 561 unit trust consultants. The data was analyzed using mean analysis and independent sample t-test. Results of this study found that the fund's commitment to Islamic principles and past performance of the fund is the most important criteria for the Muslims and non-Muslims members respectively. These results are also similar with the selection criteria made by Muslims and non-Muslims consultants.

Moreover, Jamaludin (2013) also investigate the effect of religiosity on individuals' investment choice decisions. This relationship has been tested using Chi-square test and the results found that religiosity does not significantly influence individuals' investment choice decisions especially in the part of retirement savings in unit trust funds.

Another study by Wan Nawang et al. (2008), explore on the perceptions of Malaysian towards unit trust investment decision making. The data have collected in Klang Valley. This study reveals that majority of Malaysian have limited knowledge on unit trust investment. The latest study on the same area have been studied by Abu Bakar (2016), found the similar results which proof that the Malaysian people still have limited knowledge especially in Islamic unit trust funds.

From the above review of previous studies, it can be concluded that there is still a gap in this area in the aspects of (i) limited study on the decision-making in Islamic unit trust funds; (ii) the variable tested in each research is different; (iii) method of data analysis. This study motivated to investigate the decision making of investors more depth which covering the aspects of individual factors, environmental and psychological. Besides, this study interested to explores the investment decision on Islamic unit trust fund. This study investigates the effects of Islamic financial literacy, information sources, religiosity, investment risk and product knowledge on Islamic unit trust investment decision making. The main purpose of this study is to develop a construct for measurement on Islamic unit trust investment decision making and all the determinants.

LITERATURE REVIEW

IUTID and Its Determinants

Decision making is one of the vital areas in the consumer behavior. The decision maker will make a decision based on alternatives product which are fits with the goals, objectives, and desire (Harris, 2012). According to Blackwell, Miniard, & Engel (2001), the decision-making process can be influenced by three main factors such as individual

differences, environmental influence, and psychological process. Understanding risk and return of the investment is an important factor in investment decision making. An investment decision on unit trust fund have been studied by Capon, Fitzsimons, & Weingarten (1994), Capon et al. (1996), Jamaludin (2013) and Wan Nawang, Hashim, & Marzuki (2008). The previous study on investment decision on unit trust fund has focusing on the factors as information sources, product knowledge, religiosity, and unit trust funds selection criteria.

Five factors of Islamic financial literacy, information sources, investment risk, religiosity and product knowledge are the determinants of Islamic unit trust investment decision. Islamic financial literacy can be defined as the ability of a person to analyze financial knowledge, skill and attitude of individual related to money management based on Islamic perspective (Abdul Rahim, Abdul Rashid & Hamed, 2016). There is a limitation study on Islamic financial literacy and many of previous authors are suggested to explore in-depth in this area (Abdullah & Chong, 2014; Ahmad, 2010; Antara, Musa & Hassan, 2016). Information sources is an element in decision making where the individual will search for more information before making any purchase (Chao & Rajendran, 1993). Information sources can be divided into two type of information sources as internal information and external information (Capon et al., 1996). Internal information sources are a source of information come from family members, friends or those who are close to us.

The third factor is investment risk can be well defined as the degree of risk which is effect investor's decision making. There is a wide degree of risk in investment which can influence investors decision such as interest risk, inflation risk, economy risk, political risk and others (Lee, 2001). Understanding the type of risk is important which can help investors to make a right decision on the right time. The fourth factor is religiosity which can be defined as the behavior and attitudes of an individual based on their religious belief (Delener, 1990; Stolz, 2008). Religiosity is important in decision making because it is capable of influencing individual cognitive and behavior (S. S. Alam, Janor, Zanariah, Che Wel & Ahsan, 2012). The last factor is product knowledge, which can refer to the knowledge of consumers about the product (Brucks, 1985) and is an important element when purchasing (Lin & Chen, 2006).

RESEARCH METHODOLOGY

Sampling and Measurement

A population of the study is Muslims staff in Universiti Utara Malaysia, Kedah, who already have an experience invest in Islamic unit trust funds. The structured questionnaire was distributed to 200 respondents via systematic random sampling technique. Each five of the investors who enter post office for the ASN/ASB transactions will answer the questionnaire. According to Tabachnick & Fidell (2007), to run the exploratory analysis for the measurement of the constructs, about 150 cases should be sufficient.

The data collected were analyzed using SPSS version 22. All the items in the questionnaire been validated by the experts and a small sample of investors in Kedah. The validity of the develop constructs was further examined using an exploratory factor analysis. Similarly, the reliability of the constructs verified.

To measure the IUTID, the constructs have been choosing based on the same criteria, which can influence the decision-making process. The items in the questionnaire were adopted and combined based on the previous study by Abdul Rahim, Abdul Rashid, & Hamed (2016) for Islamic financial literacy; Capon, Fitzsimons, & Price (1996) for information sources and criteria on Islamic unit trust decision making; Wan Ahmad, Ab Rahman, Che Seman, & Ali (2008) for the construct of religiosity; Wan Nawang, Hashim, & Marzuki (2008) for the construct of product knowledge and investment risk was adopted from Lee (2001) . All the items were structured based on five items of Likert scale ranging from 1 “strongly disagree” to 5 “strongly agree”. Then, check by the experts and discuss with selected respondents for its face validity test. The questions were developed and distributed to the respondents and the data will be analyzed using exploratory factor analysis to fulfill construct validity.

FINDINGS

It is to stress here that the purpose of this paper is to measure the constructs of Islamic unit trust investment decision and determinants. This section explains the results and discussion of the findings in order to meet the objectives of the study. It is necessary to conduct an exploratory factor analysis in this study to fulfill the construct validity. A principle axis factoring (PAF) was conducted on all items with oblique rotation. The study used principle axis factoring because it requires no distribution assumptions and may be used if data are not normally distributed (Beavers et al., 2013). The Kaiser-Meyer-Olkin (KMO) verified the sampling adequacy for the analysis of Islamic unit trust investment decision is at 0.889 which is above the requirement by Hooper (2012). The Bartlett’s Test of Sphericity was significant at 0.000. Ten items are extracted to one factor and achieve the percentage of variance at 56.24 percent and the eigenvalue at 5.624. The factor loading of the items is loading at the average of 0.638 to 0.793. The Cronbach’s alpha of this construct is 0.911. Table 1 below shows the value. Therefore, the use of factor analysis is appropriately for this study.

Table 1: Factor Loadings, Eigenvalue, Percentage of Variance and Cronbach’s Alpha of Islamic Unit Trust Investment Decision

Items	Loading	Value
Risk and Return	.793	
Fund manager's Reputation	.784	
Experience of fund manager	.770	
Financial Institutions linked fund	.737	
The Fund's commitment to Islamic Principles	.716	
Size of funds	.710	
Investment Performance	.698	
Government-linked fund	.662	
Management Fees	.647	

Liquidity Eigenvalue	.638	5.624
Percentage of Variance		56.24%
Cronbach's Alpha		0.911

The next analysis is on the determinants with five factor of investment decision making. The KMO for the determinants is higher than the requirement at 0.772. The Bartlett's Test of Sphericity also significant at $P < 0.001$. Table 2 shows the determinants of other factors of Islamic unit trust investment decision have extracted for five factors and achieve the cumulative percentage at 50.72 percent. According to Beavers et al. (2013), variance extracted as little as 50 percent is acceptable. The eigenvalue each of five factors are 7.718 percent (information sources), 5.173 percent (investment risk), 3.086 percent (Islamic financial literacy), 2.758 percent (religiosity) and 2.058 percent (product knowledge). The analysis proposed that one item of religiosity needs to be deleted because the factor loading was a negative value. The Cronbach's alpha for each construct achieves the requirement of reliability test which is higher than 0.5, in the range of 0.797 to 0.863.

Table 2: Determinants of other Factors

Items	Constructs				
	IS	IR	IFL	RE	PK
Information Sources (Cronbach's Alpha: 0.863)					
Television	.751				
Seminars	.743				
Advertising in press (newspaper/ magazine)	.723				
Catalogues/ Brochures/ Master Prospectus	.664				
Books	.645				
Internet/ Online Sources	.610				
Poster/ Billboard	.576				
Work colleagues	.559				
Published Performance Ratings	.558				
Friends/ Family	.515				
Agent	.388				
Investment Risk (Cronbach's Alpha: 0.880)					
Fluctuation in Interest Rate		.849			
Fluctuation in Inflation Rate		.805			
Changing in Stock Price		.796			
Credit Risk		.646			
Managing Technique of investment manager		.625			
Economic condition		.528			
Liquidity		.516			
Status Shariah of compliance stock		.474			

Islamic Financial Literacy (Cronbach's Alpha: 0.826)

I acknowledge uncertainty on sanctity of financial contract is strictly prohibited in Islam	.729
In Islam, I only transact with people that I trust	.665
I understand that all Islamic financing must be backed by asset	.614
I can only invest in permissible activities or services	.557
I know that I might or might not receive any return when contract is concluded	.555
I am aware of the availability of Islamic instrument in the market	.539
I always make sure that there is no element of interest in all financial transactions that I made	.521

Religiosity (Cronbach's Alpha : 0.824)

I fulfill all that I promise	.824
I thank Allah for the income that I receive	.763
I am honest at all times	.748
Quranic teachings are suitable and practicable in today's life	.729
I have taken interest (<i>riba</i>)	.500
I have taken or given bribes	.477
I pay zakat fitrah every year	.412
I always keep myself away from earning through <i>haram</i> (prohibited) means.	.408

Product Knowledge (Cronbach's Alpha: 0.797)

IUTs issuers should be more aggressive in promoting unit trust investments	.793
IUTs is one of the alternatives of saving for children education	.759
The government and the SC should help in increasing public's awareness on IUTs investments	.741
IUTs is an alternative saving for retirement	.672
IUTs gives better return compared to regular savings	.534
IUTs is risky	.458

Ups and Downs of stock market
 will not affect the returns on IUTs
 investment

.349

Eigenvalue	7.718	5.173	3.086	2.758	2.058
Percentage of Variance	18.824	12.617	7.528	6.726	5.021
Cumulative Percentage	18.824	31.442	38.97	45.696	50.716

CONCLUSION

The constructs of Islamic unit trust investment decision and the determinants were validated using exploratory factor analysis. The constructs have achieved the requirement of the validity test. The results show that information source is the highest value, which gives the impact to Islamic unit trust decision making followed by investment risk, Islamic financial literacy, religiosity and product knowledge.

These instruments can be used by unit trust companies and the authority of Islamic unit trust such as The Federation of Investment Managers Malaysia (FIMM), Securities Commission of Malaysia (SC), Bank Negara Malaysia (BNM) and other banking's product to understand the behavior of their clients. By understanding the actual behavior of investors, it easy for them to implement it among consumers and hence, can focus on the new investors which have the same behavior with the actual investors.

ACKNOWLEDGEMENT

This article is the requirement for the first author as a Ph.D. candidate at the University of Malaya, Kuala Lumpur.

REFERENCES

- Abdul Rahim, S. H., Abdul Rashid, R., & Hamed, A. B. (2016). Islamic Financial Literacy and its Determinants among University Students: An Exploratory Factor Analysis. *International Journal of Economics and Financial Issues*, 6(S7), 32–35.
- Abdullah, M. A., & Chong, R. (2014). Financial Literacy: An Exploratory Review of the Literature and Future Research. *Journal of Emerging Economies and Islamic Research*, 2(3), 1–9.
- Abu Bakar, A. (2016). Islamic Unit Trust in Developing Countries Economy and Society. *Journal of Global Business and Social Entrepreneurship*, 2(4), 218–224.
- Ahmad, M. (2010). Why Islamic Financial Literacy is Important. *Personal Finance*, (March), 46.
- Alam, N., Kin, B. T., & Rajjaque, M. S. (2013). A Comparative Performance of Conventional and Islamic Unit Trusts: Market Timing and Persistence Evidence. *Journal of Financial Services Marketing*, 18(4), 316–326.

<https://doi.org/10.1057/fsm.2013.24>

- Alam, S. S., Janor, H., Zanariah, Che Wel, C. A., & Ahsan, M. N. (2012). Is Religiosity an Important Factor in Influencing the Intention to Undertake Islamic Home Financing in Klang Valley? *World Applied Sciences Journal*, 19(7), 1030–1041. <https://doi.org/10.5829/idosi.wasj.2012.19.07.392>
- Antara, P. M., Musa, R., & Hassan, F. (2016). Bridging Islamic Financial Literacy and Halal Literacy: The Way Forward in Halal Ecosystem. *Procedia Economics and Finance*, 37, 196–202. [https://doi.org/10.1016/S2212-5671\(16\)30113-7](https://doi.org/10.1016/S2212-5671(16)30113-7)
- Barberis, N., & Thaler, R. H. (2003). A Survey of Behavioral Finance. In G. M. Constantinides, M. Harris, & R. Stulz (Eds.), *Handbook of the Economics of Finance* (1st ed., pp. 1051–1128). Amsterdam: Elsevier Science BV. <https://doi.org/10.2139/ssrn.327880>
- Beavers, A. S., Lounsbury, J. W., Richards, J. K., Huck, S. W., Skolits, G. J., & Esquivel, S. L. (2013). Practical Considerations for Using Exploratory Factor Analysis in Educational Research. *Practical Assessment, Research & Evaluation*, 18(6), 1–13. <https://doi.org/ISSN 1531-7714>
- Blackwell, R. D., Miniard, P. W., & Engel, J. F. (2001). The Consumer Decision Process. In *Consumer Behavior* (9th ed., p. 84). USA: South-Western, Thomson Learning.
- Brucks, M. (1985). The Effects of Product Class Knowledge on Information Search Behavior. *Journal of Consumer Research*, 12, 1–16.
- Capon, N., Fitzsimons, G. J., & Price, R. A. (1996). An Individual Level Analysis of the Mutual Fund Investment Decision. *Journal of Financial Services Research Financial Services*, 10, 59–82. <https://doi.org/10.1007/BF00120146>
- Capon, N., Fitzsimons, G. J., & Weingarten, R. (1994). Affluent Investors and Mutual Fund Purchases. *International Journal of Bank Marketing*, 3(12), 17–25.
- Chao, P., & Rajendran, K. N. (1993). Consumer Profiles and Perceptions: Country-of-origin Effects. *International Marketing Review*, 10(2), 22–39.
- Delener, N. (1990). The Effects of Religious Factors on Perceived Risk in Durable Goods Purchase Decisions. *The Journal of Consumer Marketing*, 7(3), 27–38.
- Harris, R. (2012). Introduction to Decision Making. Retrieved April 1, 2016, from <http://www.virtualsalt.com/crebook5.htm>
- Hooper, D. (2012). Exploratory Factor Analysis. In H. Chen (Ed.), *Approaches to Quantitative Research-Theory and its Practical Application: A Guide to Dissertation Students* (1st ed., pp. 0–32). Cork, Ireland: Oak Tree Press.
- Jamaludin, N. (2013). Religion and Individual Investment Choice Decision: The Case of Malaysia. *International Journal of Business and Social Science*, 4(1), 104–113.
- Jamaludin, N., Smith, M., & Gerrans, P. (2013). Mutual Fund Investment Choice Criteria: A Study in Malaysia. *International Journal of Education and Research*, 1(4), 1–10.
- Lee, S. L. (2001). *The Risks of Investing in the Real Estate Markets of the Asian Region* (Land Management and Development No. 04/01). Reading. Retrieved from <http://centaur.reading.ac.uk/27114/>
- Lin, L.-Y., & Chen, C.-S. (2006). The Influence of The Country-of-Origin Image, Product Knowledge and Product Involvement on Consumer Purchase Decisions: An Empirical Study of Insurance and Catering Services in Taiwan. *Journal of*

- Consumer Marketing*, 23(5), 248–265. <https://doi.org/10.1108/07363760610681655>
- Mansor, F., & Bhatti, M. I. (2011). Islamic Mutual Funds Performance for Emerging Market, During Bullish and Bearish: The Case of Malaysia. In *2nd International Conference ...* (pp. 770–789). Retrieved from [http://www.internationalconference.com.my/proceeding/icber2011_proceeding/181-2nd ICBER 2011 PG 770-789 Islamic Mutual Funds.pdf](http://www.internationalconference.com.my/proceeding/icber2011_proceeding/181-2nd%20ICBER%202011%20PG%20770-789%20Islamic%20Mutual%20Funds.pdf)
- Mohd Dom, R., Ibrahim, M. F., Che Sulaiman, C. L., & Ahmad Sholahuddin, A. S. (2014). Performance of Unit Trust Funds in Malaysia: A Comparison Between Conventional and Islamic Unit Trusts. *Social and Management Research Journal*, 11(1), 31–48.
- Securities Commission of Malaysia. (2016). *Archive Summary of Statistics – Unit Trust Funds in Malaysia*. Kuala Lumpur, Malaysia. Retrieved from <https://www.sc.com.my/data-statistics/unit-trust-funds-in-malaysia-summary-of-statistics/>
- Stolz, J. (2008). *The Explanation of Religiosity: Testing Sociological Mechanisms Empirically* (No. 8). *Observatoire des Religions en Suisse*. Lausanne.
- Tabachnick, B. G., & Fidell, L. S. (2007). *Using Multivariate Statistics*. New York: Allyn and Bacon.
- Wan Ahmad, W. M., Ab Rahman, A., Che Seman, A., & Ali, N. A. (2008). Religiosity and Banking Selection Criteria Among Malays in Lembah Klang. *Shariah Journal Jurnal Syariah Jil*, 16(2), 99–130.
- Wan Nawang, W. R., Hashim, N., & Marzuki, A. (2008). *Perceptions of Malaysians Towards Unit Trust Investments: A Case Study in Klang Valley*. Nilai, Negeri Sembilan.