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Social responsibility dimension in Islamic investment: A survey of investors' perspective in Malaysia

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Abstract - This paper seeks to explore the level of support investors attach to the social responsibility dimension in Islamic investment. The call to address this 'neglected' dimension as observed in the practice of Islamic finance is emphasized in the face of the rapidly growing Socially Responsible Investment (SRI) industry in the West and other developed markets, where various social, ethical, and environmental considerations are central to the investment decision. The empirical analysis of the paper is based on a survey conducted on Malaysian investors of Islamic funds from three leading fund management companies. The overall result reveals that the investors in general place a hierarchy in the elements they considered important; the observance of *fiqh* injunctions is ranked as the most important consideration, followed by economic and social responsibility dimensions. The findings are based on both the descriptive analysis and the composite scales constructed as a result of an exploratory factor analysis, which provide statistical evidence on the nature of social responsibility dimensions being acknowledged by the respondents as part of an important underlying factor in their investment decision. Despite being overpowered by the economic aspect, the findings suggest that social responsibility criteria in investment are perceived as important by a majority of the investors, and substantial proportion of the respondents consider the dimension to be as equally or more important than the economic dimension. Further analysis reveals that the level of importance investors attached to the social responsibility dimension is determined by ethnicity, religion, level of commitment to *Shariah* principles in investment, income, age, level of SRI awareness, as well as gender, marital status and participation in pro-social activities. The favorable attitude of the respondents on the importance of social responsibility issues can be an encouraging precursor to the incorporation of these concerns into Islamic investment practices.

Keywords: social responsibility; ethical and Islamic investment; Islamic economics and finance

1. Introduction

Recent debates on the development and practice of Islamic finance have highlighted the increasing divergence between the economics literature on Islamic finance and the actual practice of the industry players. 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 (IFIs) often override the supposed faith-based ethical principles which had formed its underlying foundation. Moreover, while *Shariah* 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 have been considered by some as a 'prohibition driven' industry. This has led to the call for Islamic finance to address broader social responsibility outlook beyond the traditional legal compliance, in line with the normative goals of Islamic moral economy and the *Maqasid as-Shariah* (the higher objectives of the *Shariah*).

This paper 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 concerns especially in the field of Islamic investment is further emphasized in the face of the rapidly growing Socially Responsible Investment Industry (SRI) in the West and other developed markets, which use various social, ethical, and environmental issues in their investment criteria in effort to promote socially responsible and

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sustainable behavior among corporations. Although Islamic investment is founded by a totally different worldview and ethical foundation, Islam strongly shares the concerns towards social, ethical and environmental issues, and the incorporation of such concerns in Islamic investment will bring the industry to a new height and move it closer to the idealized aspiration of Islamic economics. Nevertheless, the viability of such an investment approach will ultimately depend on the favorable acceptance of the idea among investors. Therefore, the main objective of this paper is to investigate the perceptions in terms of the importance investors attached to the social responsibility dimension in *Islamic* investment and to explore the factors that influence this. The article starts by reviewing the Islamic investment industry, the prevalent nature of complying with the *fiqh* injunctions (as compared to its spirit and objective), and the prospect of incorporating broader aspects of social responsibility in the investment process in line with the experience of SRI. The paper continues with the description of the research methods, followed by a detailed analysis of a questionnaire survey on the issue conducted in 2009 on Malaysian investors of Islamic funds. The last section highlights the main findings and concludes the paper.

2. Literature review

The defining feature of Islamic investment practices, which are also applicable in all of the sub-sectors of Islamic finance, is based on the ethical principles embodied in the *Shariah* (Islamic legal and ethical system), where its underlying objective are generally aimed at realizing overall human wellbeing and social justice. Some of the salient *Shariah* 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 *Shariah*. Such prohibitions necessarily remove sectors like conventional banking and insurance, gaming, alcohol, non-*halal* meat production, tobacco, entertainment, weapon and genetic biotechnology from the *Shariah*-approved investable universe. Similarly, conventionally structured financial products such as bonds, derivatives as well as excessively speculative transactions are also considered as *Shariah* repugnant (Wilson, 2004; Derigs and Marzban, 2008).

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 forms of investment instruments. While it is almost unanimous among the contemporary *Shariah* experts that the equities of companies where all of its transactions are in full conformity with *Shariah* (including that the company neither borrows money on interest nor keeps its surplus in an interest bearing account) can be purchased, held and sold without any hindrance, the contention among the *Shariah* 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) concluded 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 *Shariah* 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, as well as having the benefit of propagating the message and ethical principles of Islam globally.

Such acceptance however, comes with a number of *Shariah* parameters, which need to be strictly observed in the investment process. These parameters address some issues of concern from the *Shariah* 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; the prohibition against the interest-based financing of the business activities; and the prohibition of the sale of debt to a third party and the exchange of cash-like assets at values different from its par value. These criteria provide the threshold in which equities within the tolerable limit of the parameters are identified as *Shariah*-compliant securities. In order to ensure that 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 *Shariah* is very clear that Muslim investors must not benefit in any way from activities or transactions repugnant to the *Shariah*. 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 channeling of such portion from the dividend received from the shares holding of the company, to charitable organizations or purposes.

These *Shariah* 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 *Shariah* screening of equities. In general, these screening norms are known as sector (qualitative) and financial (quantitative) filters. Table 1 summarizes the salient features of such filters and the *Shariah* issues of concern addressed by such criteria.

While *Shariah* encompasses a holistic outlook of the system of life in Islam, it is apparent that the screening norms practiced by the industry emphasizes 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 adopted by some institutions, other sector screens focus on the "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. While such a legalistic and exclusionary approach is a necessary step, many scholars and commentators of Islamic finance have argued that it is insufficient in realizing the underlying objective of the

Table 1. Screening norms of *Shariah*-based investment.

Filter	***Shariah* Issues of Concern**	**Industry Norms[1]**
Sector: Main business activities	–Business activities and transactions involving *riba', gharar, maysir,* excessive speculation, and other activities or transactions repugnant to the *Shariah* 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 *Shariah*, tobacco, and some weapons and genetic bio-technology.
Sector: Mixed business activities	Lawful core business activities but mixed with some impermissible activities; discussions have been contentious among the *Shariah* 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 capitalization is also used, e.g. must not exceed 33%.
Financial: Liquidity ratio	Concerns with the presence of substantial elements of liquid assets, e.g. accounts 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 capitalization 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 capitalization.

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

Shariah and the normative goals of Islamic economics (Siddiqi, 1999, 2004; El-Gamel, 2006; Wilson, 2004; Lewis, 2010). Despite the fact that there were some recommendations to prohibit investing in companies with harmful policies, such as unfair treatment of workers and detrimental environmental actions (Yaquby, 2000), concerns have yet to make their way into mainstream Islamic investment practices.

It is interesting to note that the Western ethical and socially responsible investment (SRI) industry, originates from almost similar exclusionary screening of "sin" activities and evolves towards integrating broader social and environmental issues. In line with the holistic nature of *Shariah*, and its underlying objectives, it is imperative that the Islamic investment practices move to a new phase of development, where ethical and social responsibility issues are incorporated in the decision making process. The mainstreaming of SRI and the growing concern towards social responsibility issues globally has made it even more imperative for Islamic investment to incorporate such concerns. In the face of the increasing 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 answer to this predicament (El-Gamel, 2006), and perhaps opening the way towards breaking the so-called “formalist deadlock” of Islamic finance (Bazl, 2010). Recent development shows encouraging gestures by the industry’s leading players in this respect. In the recent 11th International Islamic Finance Forum in Dubai, one of the largest gatherings of world’s leaders in Islamic finance, the issue of linking Islamic finance with microfinance and poverty eradication programs has been the highlight. Prior to that, in 2006, the same forum had emphasized the need for the Islamic investment industry to incorporate moral and social dimensions into its investment criteria in addition to other rules (Zawya.com, 2006). In other words, despite its compliance with *Shariah* principles, which mainly shun certain impermissible activities, the Islamic finance sector, including Islamic investment, should do more to encourage and promote socially responsible practices.

One important example of such an initiative 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 *Shariah* 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). While this initiative can be considered to be an important milestone in this respect, the consideration for broader SEE issues are still lacking among Islamic financial institutions, and investment products that incorporate such concerns are still very rare in the market of Muslim countries. As the SRI industry is said to be a consumer driven phenomenon (Schueth, 2003), the support of investors on the issues is the key to the success of such investment products.

3. Data and research method

3.1 Instrument

In the light of the previous discussions, it is pertinent to obtain the perceptions and opinion of investors on the scope and the notion of *Shariah* principles subscribed in Islamic investment. The recognition of the importance of social responsibility commitment among the investors as part and parcel of the principles of the *Shariah* would therefore increase the support for social responsibility issues to be applied in the investment decision of Islamic investment products. For this purpose, respondents were surveyed on the elements that they perceive as important to be considered when investing based on *Shariah* principles. When commenting on the scope of *Shariah* supervision of Islamic funds, DeLorenzo (2004:16) highlights three different classes of rewards expected of Islamic investing: spiritual, financial and social. While the spiritual reward of the investors is frequently associated with the acknowledgement of the *Shariah* imperative and its compliance in the investment process, such compliance has been pre-dominantly focussed on the *fiqh* injunctions and the negative screening strategy. The social aspect of Islamic investing, however, would address broader ethical and environmental concerns and require not only exclusionary, but also positive screening, advocacy and engagement strategies with companies (DeLorenzo, 2004; Wilson, 2004), and the rewards will be experience 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 realized when investment is efficiently used and allocated.

Based on the above, the three concerns – i.e., *fiqh* injunctions, economic, and social responsibility – are believed to be an appropriate characterisation of what is expected of a holistic approach in the practice of Islamic investment. For this purpose, a total of ten criteria were identified and selected that constitute various *Shariah* 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 were measured on a five-point Likert scale ranging from 1 = not important at all, to 5 = very important.

The questionnaire also gathers other important data of the respondents such as their socio-demographic information, commitment to *Shariah* principles in investment, pro-social behaviors that they consistently participated in, and some investment related characteristics, such as their main investment objective, risk-return attitude and their level of SRI awareness. This information will then be used as potential explanatory variables to understand the respondents’ perceptions about the level of importance of social responsibility dimension in Islamic investment.

3.2 Respondents

The study involved a survey of investors in Islamic funds using a purposive sampling method from 3 fund management companies in Malaysia: Public Mutual Berhad (215 respondents), CIMB-Principal Asset Management Berhad (141 respondents) and Prudential Fund Management Berhad (95 respondents), with a total of 451 respondents. The three fund management companies represent different company sizes operating in the Malaysian unit trust industry. The survey was conducted between January and March 2009, through a network of agents and agency branches of the three fund management companies located in different areas of Kuala Lumpur, the financial center of Malaysia. 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. Male respondents constitute 58.1 percent of the total sample, while female respondents are 41.9 per cent. Apart from the responses received from the Malay ethnic group, which constitutes about 80 percent of the total respondents, the survey also included a total of 73 (16.2%) respondents from the Chinese ethnic group, and 17 (3.8%) from the Indian ethnic group. In terms of religion, a total of 363 (80.7%) respondents were Muslims, 43 (9.6%) were Buddhist, 29 (6.4%) were Christians, and

11 (2.4%) were Hindus. A cross tabulation of ethnicity by religion shows that all Malay respondents were Muslim, while another 3 Muslim respondents came from the Indian ethnicity. As the distribution of investors in Islamic funds across ethnicities and religions in the Malaysian market is not known, a direct comparison between the sample and the population could not be made. Nevertheless, the participation of investors from other faiths contributes to a comprehensive outlook by 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 respondents were also from middle-aged groups, middle and high income earners, and educated individuals, which is consistent with the segment of the market for such financial products.

Another important piece of information collected from the survey is related to 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 *Shariah* 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 holding in other non-SRI related investment (Nilsson, 2008; Lewis & Mackenzie, 2000). Some considered this behavior as an attempt to balance two conflicting motives; to avoid the feeling of guilt if not acting in a way that is in line with their ethical conviction while at the same time not wishing to substantially sacrifice financial returns on investment. In other words, such pragmatic behavior is consistent with the principle of "not putting all the eggs in one basket," even if this involved matter of conviction or principles (Lewis, 2001). For this purpose, the respondents are categorized into three categories, with the non-Muslim investors constituting the first group, while the Muslim investors are divided between "pragmatic" and "committed" investors, based on their commitment to comply with *Shariah* principles in their choice of investment.

As seen in Table 2, from a total of 413 respondents who provide information on the pattern of their investment between Islamic and conventional funds, a total of 202 (48.9%) investors, including 3 non-Muslim investors invest all their unit trust investment in Islamic funds. The remaining investors have varying percentages of their overall investment held between Islamic and conventional funds, including a total of 131 (31.7%) Muslim investors. This suggests that while religion (Islam) may be a strong factor in guiding the investment decision for some Muslim investors (i.e., the committed investors), it does not provide sufficient influence over others (i.e., the pragmatic investors) in complying with the *Shariah* principles in their investment decision.

4. Analysis and findings

4.1 Criteria perceived as important in Islamic investment

The analysis starts by presenting the descriptive results on the level of perceived importance of the ten criteria included in the questionnaire among the respondents. Table 3 shows the frequencies, mean and standard deviation of the criteria ranked according to their level of importance perceived by the investors using the mean scores of each item. It is quite apparent that the top three criteria are dominated by the *fiqh* injunction on the prohibitions of elements repugnant to *Shariah*, 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 *Shariah*" 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), "maximize returns on investment" (4.340), and "use resources efficiently" (4.219). However, despite the fact that the trademark 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

Table 2. Commitment to *Shariah* principles based on the percentage invested in Islamic funds in comparison to overall investment.

		Commitment to *Shariah* Principles in Investment			
		Non-Muslim investors	**Pragmatic investors**	**Committed investors**	**Total**
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%)

items in the mean rank constitute those criteria 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 environment" (3.991).

The overall results as shown in Table 3 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 *Shariah* were ranked highly. Looking at the values of the standard deviation, it is quite apparent that among the four items representing the *fiqh* injunctions of the *Shariah*, "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 whole ten items. This suggests that the perceived importance of the prohibition of interest-based transactions in Islamic investment registers greater variation in the responses. Perhaps such phenomenon can be explained on several grounds. First, unlike issues related to the production or consumption of "*haram*" products (liquor, pork, etc.), gambling and unacceptable entertainment (pornography, pubs, etc.), which are traditionally and culturally recognized 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 that claimed to invest ethically by excluding industries like gambling, liquor, pornography and some other related criteria, 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, and has experienced tremendous growth, the market share of interest-free products in the Malaysian market is still relatively small as compared to its interest-based counterpart. The fact is Malaysia is practicing a dual system where conventional interest-based and Islamic banking systems operate in parallel and the pre-dominant nature of the former on the latter has perhaps made such practices common place in the financial dealings among the masses and has neutralized their perception on the strict prohibition of Islam against all forms of interest. In addition, note that the respondents involved in the study include investors from other faiths; and even among the Muslim investors, sizeable numbers held different proportions of their total investment in conventional funds. If such 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 use interest-based conventional financial service, and therefore be further desensitizing their attitude towards the importance of such prohibition. Whether or not the importance of the criterion of "not be involved in conventional financial services" is considered as distinct from the other type of prohibitions will be examined in later in the analysis.

Another interesting pattern emerging from the mean scores of the ten items is the fact that the criteria related to economic aspect were consistently rank higher from the three criteria representing the social responsibility dimension. This would imply that after complying with the *fiqh* injunctions, the next most important criteria as perceived by the investors would be related to economic consideration, such as prudent risk management, maximization of returns, and efficient use of resources.

Table 3. Level of importance attached to criteria related to Islamic 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
Not be involved in gambling related activities	6	9	36	74	295	4.531	0.8498	420
Not be involved in entertainment activities which are not permissible in *Shariah*	6	13	46	118	266	4.392	0.8826	449
Manage risks prudently	0	7	43	180	219	4.361	0.7189	449
Maximise returns from investment	1	6	40	195	206	4.337	0.7144	448
Use resources efficiently	0	17	55	190	188	4.220	0.8026	450
Not be involved in conventional financial services	7	24	69	134	214	4.170	0.9798	448
Contribute to poverty eradication	1	13	70	194	172	4.162	0.8053	450
Contribute positively to the development of the society	2	21	75	176	175	4.116	0.8788	449
Care about the impact to the environment	3	21	98	181	147	3.996	0.8904	450

On the other hand, among the three items representing the social responsibility dimension, "contribute to poverty eradication" is rank 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.

Despite being at the lower end of the ranking, the mean score of the three criteria representing the social responsibility dimension, in its absolute terms, are within the range of "important" and "very important." In fact, if based on the frequencies as presented in Table 3, the percentage of investors who consider the criteria either as important or very important is around 81 percent for "contribute to poverty eradication," 78 percent 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 Islamic investment by a significant majority of the respondents.

4.2 Validating the underlying dimensions

The analysis on the perceived importance of social responsibility dimension in Islamic investment proceeds with an exploratory factor analysis on the ten items as presented in Table 2. In this context, the analysis would reveal whether the social responsibility dimension is recognized by the respondents as one of the distinctive factors in Islamic investment criteria. Subsequently, the results can then be used to investigate the importance of the social responsibility dimension in comparison to other dimensions and whether there is any significant difference in the perceived importance of social responsibility dimension among various investor groups. Analysis enables the use of the underlying factor as a composite measure (as opposed of using the individual items), therefore rendering subsequent analysis more parsimonious (Hair et al., 1998).

Before running 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. The KMO measure shows a value of .891, which indicates a "meritorious" sample adequacy according to the Kaiser (1974) scale, and hence is deemed appropriate for factor analysis. The Bartlett's Test of Sphericity also reaches statistical significance (0.000), supporting the factorability of the correlation matrix. Subsequent to this, an exploratory factor analysis was employed to the ten items as previously presented in Table 3. Given the nature of the data and the variables, principle axis factoring was employed for the extraction, and direct oblimin was chosen as the rotation technique as recommended by Costello & Osborne (2005).

As shown in Table 4, the rotated factor solution reveals three strong factor models with all the ten items exhibiting large factor loadings (above 0.3). Variables with factor loadings smaller than ±0.3 are normally considered not significant and therefore were suppressed in the table for easy interpretation. In brief, the exploratory factor analysis employed above verifies the existence of three underlying

Table 4. Factor analysis-pattern matrix and commonalities.

Variable	Factor: 1 (Social Responsibility)	Factor: 2 (*Fiqh* Injunctions)	Factor: 3 (Economic)	Communality of Each Variable
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 *Shariah*		−.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
Average Commonalities				
Post Rotation Eigenvalue	3.965	4.244	4.137	
Cumulative% of Variance Explained				69.459

dimensions, which "drive or control" the values of the variables that are being measured. All of the items load heavily to their respective factors as anticipated (based on the a priori factor structure), and are therefore named accordingly as "social responsibility," "*fiqh* injunctions," and "economic factor," respectively.

The result of the factor analysis has also provided the statistical evidence on the nature of the criterion of "not be involved in conventional financial services" in relation to other criteria related to the *fiqh* injunctions. Note that the initial descriptive analysis (Table 3) has shown that the item was not perceived as important as the other criteria of *Shariah* prohibitions by the respondents and therefore might be perceived as representing a distinctly different underlying factor. However, the factor analysis has shown that not only are the items clustered together with the three other *fiqh* injunctions, but the criterion also show strong loading to the factor (.550). Therefore, despite having a relatively lower mean score, the factor analysis confirms the unidimensionality of the four items, suggesting that the respondents perceived these criteria as constituting the same construct.

4.3 Comparing the perceived importance of social responsibility dimension with other dimensions

4.3.1 Overall comparison

Given that the unidimensionality of each dimension has been established, it is possible now to construct a reliable scale that represents each of the dimensions. For additional confirmation, reliability tests using Cronbach's Alpha are also conducted for all the three factors. Based on the above, three separate scales were constructed by computing the average of the individual scores of the constituent items for each of the three factors. The mean scores and other statistics for the three scales, which represent the three dimensions, is shown in Table 5 for the purpose of comparison.

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, and is consistent with the earlier analysis based on the ten individual items (section 4.1). The hierarchy of importance between the three dimensions is further examined using the Friedman test. As can be seen from Table 5, the statistical result is highly significant, confirming the ordered ranking between the *fiqh* injunctions, economic and social responsibility dimensions.

4.3.2 Perceived importance of social responsibility dimension vis-a-vis economic dimension

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 terms of the measurement of the importance of the social responsibility dimension in relation to the economic dimension.

Table 6 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 the economic scale, and negative values imply that the scores for economic scale are greater than the social responsibility scale. It also means that a higher score of the "SR-Econ" scale indicates that the investors attach greater relative importance to the social responsibility factor as compared with the economic factor, and vice versa.

As can be seen from Table 6, around 38 percent of the respondents rate economic scale higher than the social responsibility scale, and this reflects their priority on the perceived importance of economic aspects over social responsibility concerns. On the other hand, around

Table 5. Descriptive statistics, cronbach's alpha and friedman test statistic for the three dimensions.

	***Fiqh* injunctions scale**	**Economic scale**	**Social responsibility scale**
Mean	4.416	4.306	4.093
Median	4.75	4.33	4.00
Mode	5.00	5.00	5.00
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
Friedman Test			
Mean Rank		N	415
Fiqh injunctions	2.26	Chi-Square	90.373
Economic	2.01	Df	2
Social Responsibility	1.73	Asymp. Sig.	.000

Table 6. Descriptive statistics 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

15 percent of the respondents scored social responsibility scale higher than the economic scale, implying that they prioritize social responsibility concerns over economic aspects. Interestingly, almost half of the respondents (47%) scored equally for the social responsibility and economic scale. Therefore, a total of 62 percent of the respondents perceive social responsibility issues as more or equally important to economic aspects within Islamic investment.

4.4 Factors influencing the perceived importance of social responsibility dimension in Islamic investment

As highlighted earlier, one of the objectives of this paper is to explore the factors that influence the level of perceived importance of the social responsibility dimension in Islamic investment among the respondents. Based on the measure of the perceived importance of social responsibility developed earlier, the analysis proceeds by examining 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 and the SR-Econ scale. As highlighted in section 3.1, sub-groupings of the respondents that are used here as potential explanatory variables include socio-demographic profile, commitment to *Shariah* principles in investment, pro-social behaviours, and investment related characteristics. Mann-Whitney U tests 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).

4.4.1 Comparing social responsibility scale between sub-groups of respondents

Table 7 presents the statistical results and the summary of the mean ranks for the social responsibility scale for different sub-groups included in the study. Looking at the findings for the socio-demographic variables, statistically significant difference at 0.05 level were not found among different sub-groups of gender, marital status, education and types of occupation.

Differences in opinions were more pronounced between respondents of different ethnicity, religion, age and income group with all of these socio-demographic variables reaching statistical significance at the 0.05 level. From Table 6, Malay-Muslim respondents register the highest mean rank statistics as compared to respondents from other ethnics and faiths. The perceived importance attached by the lower income groups to the social responsibility dimension of Islamic investment is also higher than those in higher income groups. This suggests that lower income earners are more receptive to the idea of having social responsibility criteria incorporated into the Islamic investment process. Perhaps this can be explained by the fact that criteria such as poverty eradication and societal development are issues that affect them directly. On the contrary, the higher income earners, who would likely have more funds under investment, and therefore have more at stake, would understandably be more reserved towards social responsibility concerns related to investment, especially if they perceive such non-economic consideration could compromise financial returns.

On the other hand, it appears that the perceived importance of the social responsibility dimension in Islamic investment takes a somewhat curvilinear relationship with respect to age. As shown in Table 6, higher mean ranks are observed among younger respondents (below 30) and the elderly (above 50), while those in the middle-age groups (31–40 and 41–50) register lower values. The higher mean rank for the younger group of investors is consistent with some other studies on SRI that may be explained by the increasing awareness of the younger generation on social responsibility issues.

Differences in the social responsibility scale are not only prevalent between Malay-Muslim investors and investors from other ethnicity and religion, but also between different types of Muslim investors. As previously highlighted, the investors had been segmented into three groups, and the result shows that the mean rank for the committed investors is much higher as compared to the pragmatic and the non-Muslim investors. It also appears that there is a statistically significant difference in the scores of social responsibility scale between different level of participation in pro-social activities, with the respondents who have greater participation in socially responsible behaviors at the individual level responding with higher levels of perceived importance around the social responsibility dimension in Islamic investment as compared to other respondents. Another important grouping factor that contributes significantly to the variation in the social responsibility scale is the level of awareness of SRI. As shown in Table 7, higher mean ranks can be found in the group of investors with higher levels of SRI awareness. Other characteristics of the investors, such as their risk appetite and main investment objectives, are not statistically significant.

4.4.2 Comparing SR-Econ scale between sub-groups of respondents

As the present analysis is an extension to the earlier analysis in section 4.4.1, it is useful to compare the results

Table 7. Comparing scores of social responsibility scale between different sub-groups of respondents.

Variable	Chi-square (Z-score)	Df	Sig.	Results of Mean Rank Statistics
Gender	(–1.040)	1	0.299	
Marital status	(–0.155)	1	0.877	
Ethnicity	93.452	2	0.000	Malays have higher mean rank as compared to those from other ethnicities.
Religion	95.148	3	0.000	Muslims have higher mean rank as compared to those from other faiths.
Age	10.796	3	0.013	Young and elderly respondents have higher mean ranks as compared those in their middle-age.
Highest education	2.869	3	0.412	
Income	30.141	5	0.000	Lower income earners have higher mean rank as compared to those having higher income.
Type of occupation	(–0.486)	1	0.627	
Type of investor	118.949	2	0.000	Committed investors have higher mean rank as compared to the pragmatic and non-Muslim investors.
Individual pro-social behaviour	10.553	2	0.005	Those with higher pro-social participation have higher mean rank.
Collective pro-social behaviour	3.936	2	0.140	
Main investment objective	(–0.185)	1	0.853	
Risk-return attitude	2.232	2	0.328	
SRI awareness	14.714	4	0.005	Those having higher SRI awareness have higher mean rank.

in Table 8 for the SR-Econ scale with the one shown in Table 7. Some of the results in Table 8 are consistent with the previous analysis and therefore strengthen the earlier findings based on the social responsibility scale. 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 ethnicities and religions also indicate that the importances of economic factor over social responsibility are much greater among these groups. Another similar finding is with respect to income of the respondents, with lower income groups are associated with higher mean ranks for the SR-Econ scale. While differences between the sub-groups of age remain significant in this analysis, interestingly, the somewhat curvilinear relationship between social responsibility scale with age has change to a linear relationship in the context of the SR-Econ scale, with younger respondents register higher scores for the SR-Econ scale.

Turning to other characteristics of the investors, Table 8 shows that significant differences between sub-groups on the SR-Econ scale can only be found among the types of investors based on their commitment to *Shariah* principles in investment and the level of SRI awareness. Similar to the findings in the previous analysis (Table 7), the pragmatic and the non-Muslim investors seemed to attach greater importance of economic consideration over social responsibility factor as compared to the committed investors. The insignificant values for other characteristics of the respondents such as pro-social behavior, risk-return appetite 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 factors in relation to economic factors in Islamic investment.

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. In this context, compared to female and single respondents, male and married investors put greater importance of economic consideration over social responsibility concern as compared to female and single respondents.

Table 8. Comparing scores of SR-Econ scale between different sub-groups of respondents.

Variable	Chi-square Z-score	Df	Sig.	Results of Mean Rank Statistics
Gender	(–2.680)	1	0.007	Female respondents have higher mean rank
Marital Status	(–3.322)	1	0.001	Single respondents have higher mean rank
Ethnicity	21.406	2	0.000	Malays have higher mean rank as compared to those from other ethnicities
Religion	21.466	3	0.000	Muslims have higher mean rank as compared to those from other faiths
Age	16.626	3	0.001	Mean rank increases with younger respondents
Highest Education	7.631	3	0.054	
Income	35.091	5	0.000	Lower income earners have higher mean rank as compared to those having higher income
Type of Occupation	(–0.855)	1	0.393	
Type of Investor	19.612	2	0.000	Committed investors have higher mean rank as compared to the pragmatic and non-Muslim investors
Individual pro-social behaviour	1.307	2	0.520	
Collective pro-social behaviour	2.836	2	0.242	
Main Investment Objective	(–0.132)	1	0.895	
Risk-return Attitude	5.571	2	0.062	
SRI Awareness	29.215	4	0.000	Those having higher SRI awareness have higher mean rank

5. Conclusion

The overall result reveals that investors on whole place into a hierarchy the elements they considered important for investment, which is based on *Shariah* principles – with the observance of *fiqh* injunctions ranked as the most important consideration, followed by economic and social responsibility dimensions. Such findings are based on both the descriptive analysis of the individual items as well as the composite scale constructed as a result of an exploratory factor analysis, which among others, provide statistical evidence on the nature of social responsibility dimensions being acknowledged by the respondents as part of an important underlying factor in Islamic investment criteria. Despite being consistently overpowered by the economic concerns, descriptive analysis on the questionnaire responses (Table 2) suggest that social responsibility criteria are still perceived as important by the majority of the investors, and based on the SR-Econ scale, 62 percent of the respondents consider social responsibility more or equally as important as the economic dimension. These results provide the empirical evidence that the social responsibility dimension is recognized by investors as part of an important component in *Shariah*-based investment.

The analysis has also explored various potential factors that can influence the level of importance investors attach to the social responsibility dimension. In this respect, two scales were constructed for such 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 related to the level of perceived importance of social responsibility, with Malay/Muslim investors exhibiting higher scores as compared to other groups. Nevertheless, not all Malay-Muslim respondents showed strong commitment to the *Shariah* principles in their investment decision. As has been shown earlier, sizeable numbers of Muslim respondents in this study have a different proportion of their investments allocated between Islamic and conventional funds. The findings of this study have shown that those who strictly comply to *Shariah* principles in their investment, labelled as the committed investors, placed a greater importance on social responsibility in Islamic investment as compared to the 'pragmatic' investors and the non-Muslim investors.

Like many other studies in the field of socially and environmentally desirable behaviors, demographic profiling has been one of the important areas of interest. In this context, income and age have been found to be an important factor with lower income earners and younger investors having a more favorable attitude in terms of the level of importance of social responsibility in both of the scales used in the analysis. Other variables, such as pro-social behavior, gender, and marital status, were also found to be important factors based on one of the scales. As shown earlier, those who have higher participation in the individually oriented pro-social behavior tend to have higher scores for the "social responsibility" scale, while being female and single are linked with higher scores for the "SR-Econ" scale. Nevertheless, one factor that has consistently emerged as a strong and important variable in all the analyses is the level of SRI awareness. This result can prove to be promising as such an awareness may well increase over time, and the favorable attitude among investors towards the importance of social responsibility concerns in investment will likely to be stronger in the future.

The above findings offer important insights on the perceived importance of social responsibility dimension and the main factors underlying the support for such concerns in Islamic investment. While the incorporation of social responsibility criteria in Islamic investment provides new opportunities for product development and global convergence with the SRI movement, it will be a challenge for fund managers to balance economic consideration with the social responsibility concerns. Nevertheless, the continuous growth of the SRI industry and the empirical evidence on the performance of SRI funds globally provides reassurance that such an investment approach is viable, and certainly more sustainable in the long run. The realization of such an investment approach in the Islamic investment industry will necessarily bring the sector to a greater height, in line with the normative goals of Islamic economics and the higher objective of *Shariah* (*maqasid as-Shariah*).

Note

1. 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).

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