



Socially responsible investment in Malaysia: behavioral framework in evaluating investors' decision making process



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ABSTRACT

Socially responsible investment (SRI) is the method of investment decisions on social, ethics, and/or environment within the context of rigorous financial analysis. This study aims to examine the role of intention, attitude, subjective norms, perceived behavioral control and moral norms in explaining SRI behavior by investors in Malaysia. The underlying framework is the Theory of Planned Behavior (TpB) that has been modified to incorporate moral norms as an additional explanatory variable. Studies that apply TpB in their measurement of behavior indicate a mix of explanations for the relationship of constructs that influence behavior through intention which warrant further examinations.

The results based on a questionnaire survey of Malaysian investors suggest that attitude, subjective norms and moral norms have positive effect on intention which in turn positively affects behavior towards SRI. The relationship for attitude, subjective norms, and moral norms to behavior is improved significantly by intention as a mediator. Based on squared multiple correlations (R^2), it is found that the final structural model could explain 46% of the variance in intention and 50% of the variance in behavior. SRI providers and policy makers should also consider the influence of social pressure from investors' friends and relatives in their SRI decision-making. Investors' personal standards are also found to influence the intention and behavior to invest in SRI.

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1. Introduction

Traditionally, the concept of investing that incorporates social, ethical and environmental issues (SEE), is referred to as ethical investment (EI) (Simon et al., 1972; Domini, 1984). At present, it is commonly known as socially responsible investment (SRI). SRI has increasingly attracted interest among market players around the world (Hofmann et al., 2008; Nilsson, 2008; Renneboog et al., 2008). Despite the interest shown by both practitioners and academics, it has been agreed that evidence in the form of knowledge and theoretical explanation on the attributes that could explain SRI investors' decision-making behaviour remains inconclusive and requires further study (Williams, 2007; Haigh, M. 2008; Haigh, Matthew and Guthrie, 2008; Nilsson, 2008; Glac, 2009).

Investors' decision-making behaviour regarding SRI is influenced by financial and SEE goals (Nilsson, 2008, 2009; Glac, 2009). However, how these goals are translated into actual investment

behaviour towards SRI requires further examination (Hofmann et al., 2008; Glac, 2009). It has been suggested that behaviour is significantly influenced by attitude through intention (Fishbein and Ajzen, 1975; Ajzen, I 1991; Manstead, 2000). Several studies (East, 1993; Hofmann et al., 2008) have found that other factors apart attitude, i.e.; subjective norms, perceived behavioural control, and moral norms, also influences decision-making behaviour. However, the findings on these factors' influence on behaviour offers mixed explanations. That is, subjective norms influence behaviour more than attitude through intention which require further examination (East, 1993; Godin et al., 2005; Hofmann et al., 2008; Ravis et al., 2009).

In making a decision, investors are faced with a dilemma, a social dilemma situation in which the greed in achieving higher gains (i.e. profit) may lead to socially irresponsible investments. Analogue to what has been discussed in the previous literatures, social dilemma is defined as a situation in which: (1) each person has strategy that yields best payoff (Dawes, 1980) or where each group member receives a higher payoff for defecting behaviour than for cooperative behaviour (Rutte and Wilke, 1985); and (2) where collective choice in dominating strategies results in a

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Abbreviations

| | |
|-------|---|
| Ab | Attitude |
| AVE | Average Variance Extraction |
| CFA | Confirmatory Factor Analysis |
| CMSRL | Capital Markets Services Representative's License |
| CSR | Corporate Social Responsibility |
| CR | Construct Reliability |
| EFA | Exploratory Factor Analysis |
| EI | Ethical Investment |
| I | Intention |
| ITI | Industry Transformation Initiative |

| | |
|------|---|
| MAUT | Multiple Attribute Utility Theory |
| MLE | Maximum Likelihood Estimate |
| MN | Moral Norms |
| PBC | Perceived Behavioural Control |
| PE | Past Experience |
| PN | Personal Norms |
| SEE | Social, Ethical and Environmental Issues |
| SEM | Structural Equation Modelling |
| SIDC | Securities Industry Development Corporation |
| SN | Subjective Norms |
| SRI | Socially Responsible Investment |
| TpB | Theory of Planned Behaviour |

deficient outcome. From the perspectives of investors, the gains (in terms of profit) might be achieved by neglecting sustainability and social responsibility, the ideal situation (socially responsible investment) could be lost due to selfish individual incentives (of the investors who invest socially irresponsible). Social dilemma situation will not be the focus for this study, and this will be covered for further study.

This study examines Malaysian investors' decision-making behaviour towards SRI, as based on the Theory of Planned Behaviour (TpB) (Ajzen, 1991). To date, no evidence has been published, specifically on the examination of SRI according to these investors' behaviours based on the theoretical framework of TpB. In the Islamic financial system, SRI in Malaysia is uniquely approached using Shariah – compliant shares/funds (Pitluck, 2008). Shariah – compliant shares/funds, whose principles stem from the Qur'an, have been suggested as being similar to SRI in the global capital market (Wilson, 1997; Ghoul and Karam, 2007; Chong and Anderson, 2008; Pitluck, 2008). Based on Shariah, investment in assets associated with alcohol, gambling and any other harmful activities to human and environment are considered haram (forbidden) (Ghoul and Karam, 2007; Chong and Anderson, 2008; Pitluck, 2008). In SRI, investments that are considered to be haram in Islam, are viewed as bringing more harm than good and should be avoided (Hofmann et al., 2008; Renneboog et al., 2008). Since, the underlying Islamic investment principle (haram) is consistent with SRI (negative investment), it can therefore be assumed, in principle, that Islamic investment and SRI display shared characteristics. However, it is not the focus of this study to examine the difference between Islamic investment and SRI. This study examines SRI investors' decision-making behaviour in the setting of Islamic financial system in Malaysia.

Both forms of investment (conventional and SRI) aim to achieve financial gain by including SEE considerations. However, the concept of investment of dual aims is considered to be irrational in financial-based theory (Lewis and Mackenzie, 2000a; Hofmann et al., 2008). Following portfolio theory (Markowitz, 1952; Michelson et al., 2004), SEE considerations would either increase risk or reduce profitability of the portfolio, thus making SRI less efficient than a conventional portfolio (Elton et al., 1993; Carhart, 1997; Cox et al., 2004).

This study uses SEM to ascertain the extent to which the TpB's attributes (attitude, subjective norms, perceived behavioural control, and intention) with moral norms, can predict investors' behaviour in the context of SRI in Malaysia. Full examination of TpB's constructs as recommended by Ajzen (1991), Ajzen and Fishbein (2008) is followed to determine the causal relationship among constructs, and whether this relationship can be improved by intention as a mediator. The empirical data needed for this

examination were collected from a series of field surveys among Malaysian fund managers, dealers' representatives and individual investors who participated in seminars organised by the Securities Commission of Malaysia in various centres nationwide.

This quantitative study replicates the measurement used by East (1993) that applies TpB, in explaining the linkages between investors' decision-making behaviour. Extending previous research on TpB in investors' behaviour (East, 1993; Hofmann et al., 2008) and studies that include moral norms (Godin et al., 2005; Ravis et al., 2009), the role of intention as a mediator of behaviour is examined here.

1.1. Research objectives

The study aims to examine the relationship between TpB's attributes together with moral norms and investors' decision-making behaviour towards SRI, mediated by intention and translates this into a conceptual framework for a new research agenda according to Malaysian investors' perspectives.

In order to achieve the above aims, this study is set to achieve the three following objectives:

- Applies and extends the TpB, by examining the influence of attributes (attitude, subjective norms, perceived behaviour control and moral norms) of Malaysian investors' decision-making behaviour towards SRI, with intention as a mediator. There is evidence that intention does not necessarily translate into behaviour (Haigh, 2008). It is important for us to identify these elements' influence and how they shape investors' decision-making process towards SRI, and we must also identify and validate important factors that are consistent with the TpB framework. This knowledge can elicit understanding on the dimensions of investors' decision-making behaviour towards SRI, specifically in the Malaysian investors' perspectives.
- Extends recent studies, (East, 1993; Godin et al., 2005; Hofmann et al., 2008; Ravis et al., 2009), where positions, attitudes, subjective norms, perceived behavioural control and moral norms are attributes of behaviour through intentions.
- Provides explanations on Malaysian investors' decision-making behaviour towards SRI according to the TpB's framework together with moral norms.

1.2. Motivation

This study examines Malaysian investors' behaviour towards SRI, by applying measurements stipulated in TpB as the key input to explain the relationship. The examination does not just extend the

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