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What Drives Muslim Investors to Be Sri? The Role of Religiosity

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ABSTRACT

Purpose - The primary concern of SRI in Indonesia began in 2009 along with the establishment of the Sri Kehati Index (SKI). Since its launch, historically Sri Kehati index has shown better performance compared to several major indices such as the Composite Stock Price Index (CSPI), LQ45, Jakarta Islamic Index, and so on. However, the number of works of literature revealed that the majority of research focuses on the demographic of investors. While investigating related to the role of their religion still small. Moreover, the product of SRI in Indonesia has been established and the type of investor has been classified. Thus examining the behavior of Muslim investors is a necessity. **Methodology** - Self-administered questionnaire was used to collect the data. Then, the questionnaire was shared through an online form nationwide. 205 respondents were collected. Hence, partial least square structural equation modeling (PLS-SEM) was applied to analyze the data. **Findings** – The result revealed that socially-oriented investment, environmental-oriented investment, and religiosity have a positive significant influence on the intention to be a socially responsible investment. While financial-oriented investment has an insignificant influence on the intention to be a socially responsible investment. Moreover, religiosity moderates between socially oriented and environmentally oriented investment negatively. **Originality** – The present paper contributes to the existing literature by giving new evidence of Muslim investor intention in SRI in Indonesia. **Research Implications** - This research provides some practical contributions for policymakers to enhance the infrastructures of SRI.

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1. Introduction

Recently, corporates are pushing their business not only to focus on profit but also on sustainable practices; such as focusing more on social and environment (Xu et al., 2022). Companies are struggling to meet the sustainability challenges which are demanded by the stakeholders as their responsibility. However, developing a strategy for more ethical and fair business is quite complex (Gajewski et al., 2022). Additionally, many investors urge the companies to contribute to social and environmental aspects rather than profit-oriented firms; thus, companies have to try to focus more on sustainability issues (Barko et al., 2021a). As a result, sustainability consciousness has been on the rise (Thanki et al., 2022).

Several investors who classified as socially responsible investors consider nonfinancial factors in their investment decision, this type of investors are also known as SRI (Socially Responsible Investment) investors (Renneboog, Horst, et al., 2011; Gajewski et al., 2022). The SRI become a worldwide issue and significantly increased in the last decade (Barko et al., 2021a; Rehman & Vo, 2020; Labidi, Laribi, & Ureche-Rangau, 2021; Zulkafli, Ahmad, & M, 2017). (van Dooren & Galema, 2018). Several issues have been taken by SRI context; such as corporate governance, environmental damage, and ethical practices of companies in their relationships with shareholders, employees, investors, customers, and the wider community (Binmahfouz & Kabir Hassan, 2013b; (Williams, 2007b).

SRI began in the early nineteenth century through religious groups, evolving from small activities to an investment fund to an investment philosophy (Labidi et al., 2021; Ghoul, 2007; Sparkes, 2008; Berry & Junkus, 2013; Sparkes & Cowton, 2004). Thus, being socially responsible does not contradict religious values, including Islam (Arenas & Cranenburgh, 2012). Islam, as a religion, outlines comprehensive rules by which Muslims live their lives, including their investment decisions. There are commonalities between SRI and the Islamic law of investment, including concern about the ethical value and social impact of investment decisions (Bennett & Iqbal, 2013). Since it was first introduced by religious activists, it can be assumed that SRI investment is in line with Islamic principles (Paranque & Erragragui, 2016). Moreover, Binmahfouz & Kabir Hassan (2013) suggested that SRI and Islamic investments both show similar portfolio performances, indicating that SRI and Islamic investments provide similar risks and returns for investors. Investors can, therefore, choose to invest either in SRI or Islamic investments, depending on their beliefs and ethical values.

Indonesia, as the world's most populous Muslim country, is relatively new to the concept of SRI. Indonesia's initial interest in SRI began in 2009 with the establishment of the Sri-Kehati Index (SKI). Seven companies were consistently listed on the SKI from 2009 until 2014 (Zulkafli et al., 2017) and as of 2021, 25 companies were listed. Since its launch, the SKI has performed better than others, such as the Composite Stock Price Index (CSPI), Indonesia's LQ45, the Jakarta Islamic Index, and others[1]. The tremendous performance of the SKI is attractive to various investors, and (Galema, Plantinga, & Scholtens, 2008) suggested that investors who decide to invest in socially, ethically, and environmentally conscientious firms won't sacrifice profits. Chatzitheodorou, Skouloudis, & Evangelinos (2019) classified socially responsible investors into four types: socially oriented, environmentally oriented, social-environmental oriented, and sustainably oriented. However, the socially responsible investor has multiple reasons for being socially responsible, such as cultural reasons (the influence of different regions) or ideological reasons (differences in values, ideology, or religion), including Muslim investors (Kempf & Osthoff, 2007; Hedesstro & Hamilton, 2009).

To date, several empirical examinations of investor behavior have been conducted, such as investor demographics, social and cross-cultural distinguishes (Miras-rodríguez, Carrasco-Gallego, & Escobar-pérez, 2015; A. Borgers, Derwall, Koedijk, & Horst, 2015; Cronqvist & Yu, 2017; Hoffmann, Cam, & Camilleri, 2019; Farooq, 2019); Rehman & Vo, 2020; Palacios-González & Chamorro-Mera, 2020; religious beliefs (Arli Denni, 2016; C. Li, Xu, Gill, Haider, & Wang, 2018) and investor consumption habits (Gonzales & Chamorro-mera, 2018). Behavioral frameworks using TPB (Azreen & Shauki, 2014) and investor berries and labeling (Gutsche & Zwergel, 2020) have also been explored. However, most literature reveals that the majority of research has been focused on investor demographics, with investigations of Muslim investors and the role of their religion remaining small (Widyawati, 2020).

1. https://www.kehati.or.id/en/index-sri-kehati-2/

Now that SRI products in Indonesia are established and the types of investors classified, examining the behavior of Muslim investors has become a necessity. In addition, Tripathi & Kaur (2020b) argued that socially responsible investing is still emerging in several developing countries, including Indonesia. Moreover, SRI investing has a small market portion compared to other types of investing, even though it is recognized (Tripathi & Kaur, 2020b). the investors in developing countries are profit-oriented rather than SRI-oriented which affects the limitation of empirical results and research; thus this paper is motivated to conduct the empirical result in a developing country.

The study aims to obtain a deeper understanding of the intentions and the role of religion of Indonesian Muslim investors towards SRI. (Thanki et al., 2022) stated that understanding SRI provides better information regarding the investor's motivation and orientation. Investors will gain positive sentiment and help them to make their investment decisions if they have a better understanding of SRI. The model is developed to seek investor motivations whether socially oriented, financially oriented, or environmentally oriented. Since the SRI issues are related to a religious group, religiosity is included in the developed model. To generate better results, PLS-SEM (Partial Least Square Structural Equation Modeling) is used to examine the data. This paper has several contributions, the first is finding the exact motivation of SRI investors. The second is contributing to the literature exploration of SRI topics and issues (Palacios-González & Chamorro-Mera, 2018; Thanki et al., 2022). The third, filling the gap in the impact of sustainability contexts such as social responsibilities and the Sharia screening process for Muslim investors which in this case of sharia screening is related to the intention of Muslim investors, however, myriad research focus on investment characteristics of SRI portfolio (Binmahfouz & Kabir Hassan, 2013b).

This research has several implications. First, the results of this study contribute to the extended literature on SRI. Second, the findings could become the basis for a set of guidelines for regulators to develop SRI products and regulations in majority Muslim countries. Third, the results of this paper could help investment managers and fund management companies attract more Muslim investors interested in SRI. This research is divided into five sections:

I. Introduction, provides background and objectives of the research;

II. Literature review, which presents a literature review or the background theory of all the variables in this study, previous studies, conceptual framework, and hypothesis development;

III. Methodology, which outlines the data and method;

IV. Result and discussion, consists of a description of the results presented in tables and figures, and in-depth analysis;

V. Conclusion and Recommendations, which draw conclusions from the results and make recommendations.

2. Literature Review

SRI literature has been growing rapidly since early 2000 (Rossi et al., 2019), with the topic prompting researchers to seek the antecedents for investor decisions to put money into SRI products. Socially oriented investors have the power as shareholders to push listed companies towards more socially-oriented behaviors (Dyck, Lins, Roth, & Wagner, 2018; Renneboog, Ter, & Zhang, 2008; Sparkes, 2008). Hoffmann et al. (2019) believed that the characteristics of individual investors are the main driver for socially-oriented investment. Hence, the characteristics of individual investors are varied, depending on their geography and demographics. Miras-rodríguez et al. (2015), as well as Labidi et al. (2021), argued that national culture affects investor behavior. In addition, they found that countries with high assertiveness and gender egalitarianism negatively influence the socially responsible investment environment. Rossi et al. (2019) found that for a household to be a socially responsible investor, a little nudge, such as a gift or promo, is needed. In addition, they found that education level and financial literacy play a crucial role in socially responsible investment, with those investors with higher education displaying less interest in socially responsible investment. Rehman & Vo (2020) found that gender diversity has a low correlation with low-carbon companies, social choice, and MSCI USA ESG (environmental, social, and governance) funds. In addition, J. C. Junkus & Berry (2010) individuals who engage in socially responsible investing are more likely to be female, single, young, highly educated, and have lower levels of wealth compared to those who do not invest in socially responsible companies. While Williams (2007), A. C. T. Borgers & Pownall (2014), and Nilsson

(2007) found that individual investor decision-making is driven by social preferences, such as negative screening of the portfolio, the investor could face a dilemma over their attitudes towards a financial and non-financial decision.

On the other hand, Widyawati (2020) argued that individual investors are motivated by their belief systems to be socially responsible investors, one of which is religion. The influence of religion in this area can be tracked to the nineteenth century, becoming more popular in the early 1980s, when a movement of religious activities started to take into account ethical concerns concerning investment decisions (Berry & Junkus, 2013). Thus, being socially responsible does not contradict religious values (Arenas & Cranenburgh, 2012). Misra, Srivastava, & Banwet (2019) stated that the religiosity of investors plays a pivotal role in shaping their investment decisions. Moreover, the level of religiosity is also important at the managerial level for making socially responsible investment decisions (Khedmati et al., 2021). This result is in line with (Cebula & Rossi, 2021), who found that the level of religiosity at the managerial level reduces corporate risk-taking behaviors. Arli Denni (2016) also found that religiosity significantly influences company policies regarding corporate social responsibility (CSR). Results from C. Li et al. (2018) show that entrepreneurial firms with religious owners invest more socially responsibly, and firms with more socially responsible investments have a lower cost of debt. The effect of religious beliefs on socially responsible investment is stronger when the entrepreneur is female. This finding is in line with (Lu & Wu, 2020), who discovered that entrepreneurs who practice religion tend to allocate more funds towards employee safety insurance due to the altruistic values that are encouraged by religious teachings, as well as their inclination towards risk aversion. This observation underscores the synergistic relationship between religious beliefs and established market institutions, as well as the social and political status of the entrepreneurs, emphasizing the interplay between formal market structures and religion. Furthermore, firms located in religious countries have a lower degree of risk exposure (Hilary & Hui, 2009). Previous works show that the level of religiosity shapes investor behavior at both the individual and managerial levels.

Myriad studies were also conducted on faith-based and socially responsible investment performance firms. Charfeddine & Najah (2015) explored the differences in portfolio allocation between socially responsible Islamic funds and their conventional counterparts. The findings indicate that there is no long-term correlation between Islamic and conventional indices, thereby creating an opportunity for diversified portfolio management in local markets. However, a long-term relationship was observed between socially responsible indices and their conventional counterparts. The study also revealed that Islamic and socially responsible indices exhibited a long-term correlation solely for Financial Times Stock Exchange (FTSE) indices. This finding can be elucidated by the fact that the screening procedures used in the British context are based on the religious principles of the Methodist Church, which advocate for the avoidance of investments in companies that engage in the production of tobacco, alcohol, gambling, and weapons. Consequently, the screening process for socially responsible and Islamic investments in the Financial Times Stock Exchange (FTSE) context is highly similar. Another relevant study conducted by (Castro, Hassan, Rubio, & Halim, 2020), found that Islamic mutual funds exhibit better performance than socially responsible funds, which, in turn, outperform Christian-based mutual funds. These findings were consistent even during the global financial crisis of 2007-2008. Additionally, Castro et al. (2020b)

revealed that a substantial amount of money was "left on the table" due to investing in constraint funds and avoiding the sin industry, thereby highlighting an ethical dilemma for investors.

Meanwhile, Burchi & Włodarczyk (2020) analyzed the performance of socially responsible investment (SRI) firms in both the United States (US) and Europe. The study concluded that SRI investments in the US exhibit lower returns than non-SRI investments, whereas, in Europe, SRI investments display both lower returns and higher levels of volatility. socially responsible investments (SRI) have a superior ability to mitigate risks, encompassing both losses and recovery velocity. Tripathi & Kaur (2020) sought to compare the performance of socially responsible investment indices across Brazil, Russia, India, and China (BRIC). The findings revealed that Brazil consistently achieved the highest ranking, whereas India outperformed during times of crisis. Throughout the entire period, as well as under varying market conditions, there was evidence of outperformance regarding risks and returns by SRI indices in the BRIC countries.

Paranque & Erragragui (2016) conducted a comparison of socially responsible investment (SRI) and Islamic investment. Their study did not reveal any detrimental impact on returns from the application of double screening, Islamic and SRI, and demonstrated significantly better performance for good governance screening between 2008 and 2011. However this outperformance cannot be accounted for by differences in investment style. Erragraguy & Revelli (2015), obtained similar results, indicating no adverse effects on returns from the application of Islamic and ESG screening, as well as substantially superior performance results from the inclusion of good governance criteria during the post-subprime crisis era. X. Li, Li, Wang, Jiao, & Pang (2020) analyzed the impact of religiosity on the financial and social performance of firms. The study proposed that a religious environment has a negative moderating effect on the link between corporate philanthropy and corporate financial performance, but a positive moderating effect on the link between corporate philanthropy and corporate social performance. The results offer a comprehensive comprehension of family firms by utilizing corporate financial performance (CFP) and corporate social performance (CSP), drawing significant insights into the role of corporate philanthropy and religious surroundings.

Based on the above literature, the socially responsible investor is motivated by social preferences, investor characteristics, and ideological values (religiosity). Since SRI indices have similar performances, with equal risks and returns, the results of the studies are debatable when investor belief systems and their ethical values come face-to-face with the financial performance of their portfolio Wallis & Klein (2014). Thus, socially responsible investors comprise several profile types. Nilsson (2009) socially responsible investors can be categorized into three groups: those who prioritize profit, those who prioritize social responsibility, and those who balance both social responsibility and returns. Ballestero, Bravo, Pérez-gladish, Arenas-Parra, & Plà-santamaria (2012) argued that investors have only two criteria: financial goals and ethical goals. As a result, they introduced a new bi-criteria model that considers the investor's ethical profile and incorporates absolute risk aversion coefficients and targets. Berry & Junkus (2013) stated that socially responsible investors are divided into two groups, motivated by environmental and sustainability issues. Environmental issues focus on a business's environmental performance and the environmental impact of its products, becoming key drivers for socially responsible investors.

Chatzitheodorou et al. (2019), however, assumed that socially responsible investors fall into several classifications. The first is the socially oriented investor, who puts money into non-sin firms. The second type is environmentally oriented, concerned more about things like renewable energy. The third type of investor invests in green companies and is an active member of environmental organizations, known as the socio-environmentally-oriented investor. The final type is the sustainability investor, who is concerned about clean production. However, the last two types are rarely categorized as SRI investors, due to the bias cut-off between the criteria of investor type and the SRI topics. Regardless, these types of investors must be assessed empirically, to clearly define the investors and academicians. Therefore, this present paper aims to empirically investigate possible investor types according to their intention to invest socially.

2.1 Conceptual Framework

Many factors motivate investors to be socially responsible in their investments. One of the most influential factors is religiosity. Religious people tend to act based on their religious values, Muslims (Arenas & Cranenburgh, 2012). Every aspect and decision of their lives are guided by Islamic conduct, such as the school they select for their children, the environment they choose for their home, the amount they set aside for the needy, and the preference to save money in an Islamic bank rather than a conventional bank. Islam, as a religion, has a comprehensive code of conduct for Muslims to guide their life, including investment guidance. Prohibition of *riba* (interest), *maysir* (speculation), *gharar* (uncertainty), and an emphasis on the profit and loss sharing commitment are fundamental values of Islamic investment (Bennett & Iqbal, 2013;Paranque & Erragragui, 2016).

Therefore, SRI shares similar values with Islam in several respects, such as the focus on ethical and moral values (Bennett & Iqbal, 2013), comparable portfolio screening processes (Binmahfouz & Kabir Hassan, 2013a), and similar objectives in promoting social and ethical investment (Erragraguy & Revelli, 2015). Thus, Islamic investment values are in line with the values of SRI in terms of investment activities. This suggests that the level of Muslim religiosity influences investment decisions to be more oriented toward social, ethical, and environmental objectives. Moreover, Islamic portfolios and SRI portfolios give equal risks and returns on performance (Erragraguy & Revelli, 2015; Paranque & Erragragui, 2016). Therefore, Muslim investors can make investment decisions based on their Islamic code of conduct and moral values, without sacrificing optimal returns on their investments.

Socially responsible investors, on the other hand, are divided into several types. According to (Chatzitheodorou, Skouloudis, & Evangelinos, 2019), socially responsible investors are socially oriented and environmentally oriented, even though the social and environmental objectives should be in line with returns. Thus, this paper attempts to analyze whether the level of religiosity of Muslim investors strengthens the motivation to invest in more socially, environmentally, and financially responsible ways, or if religiosity weakens those motivations.

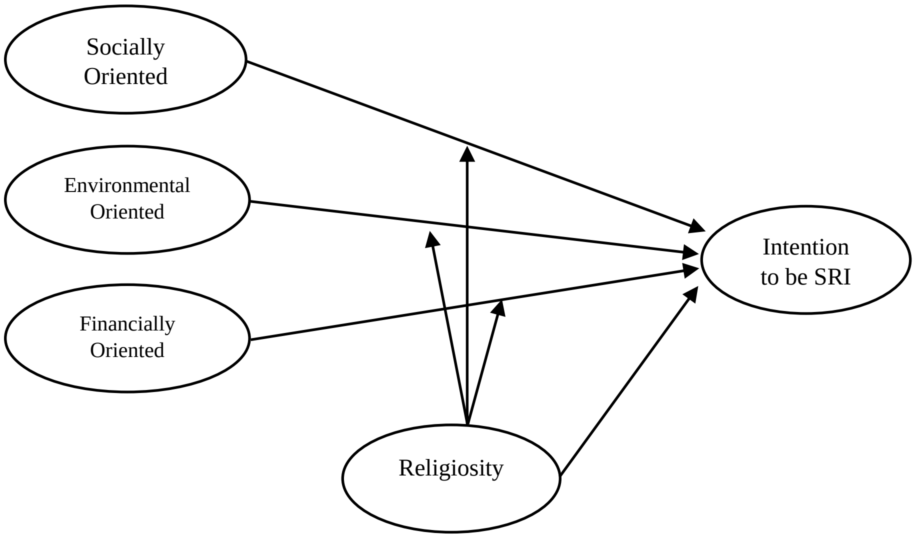

Figure 1. Conceptual Framework

2.2 Model Development

2.2.1 Socially-oriented Investment

Socially oriented investment refers to investment activities that are more concerned with social and environmental values rather than financial returns (Chatzitheodorou, Skouloudis, & Evangelinos, 2019). Socially-oriented investors decide to allocate their money to socially-oriented products, have pro-social behavior, and trust socially-oriented products (Nilsson, 2007). Williams (2007) and Nilsson (2009) argued that the socially-oriented investor pays more attention to the social, ethical, and environmental values that influence their portfolio strategies, such as not investing in companies that produce weapons or alcohol, engaging in illegal mining, etc. Socially responsible investors are usually willing to sacrifice their financial objectives to invest socially (Rossi et al., 2019). At the firm level, socially responsible investors prefer to direct their money to companies that consistently report on CSR J. Junkus & Berry (2015). Sciarelli, Cosimato, Landi, & Iandolo (2021) posited that firms strive to incorporate socially responsible investing (SRI) and environmental, social, and governance (ESG) factors into their investment portfolios as a means to align their investment decisions with their ethical and moral values. (Bauer & Smeets, 2015). This result is in line with (Gonzales & Chamorro-mera, 2018), who found that the motivation of investors to invest in a socially responsible manner is directly determined by socially responsible consumption habits, and a perception of the effectiveness of socially responsible investment; the perception of personal gain had an indirect effect. In addition, investors with social objectives and perceptions prefer to invest in socially responsible investments. Furthermore, socially-oriented investors assume that the social impact of their investment also affects their returns (Gruyter et al., 2020). It can, therefore, be concluded that if a socially responsible investor has a socially-oriented mindset, attitude, behavior, and habits, then they prefer to invest in socially responsible investments. The hypothesis is outlined below:

H1: The socially oriented investor will positively influence the intention to be a socially responsible investor.

2.2.2 Environmentally-oriented Investment

The environmentally oriented investor invests in green companies, such as renewable energy, and is an activist in non-profit organizations concerned about environmental issues (Chatzitheodorou, Skouloudis, & Evangelinos, 2019). Luu (2019) suggested that organizational behavior can influence the behaviors of members to engage in activities that benefit the natural environment. Thus, environmentally oriented investors have the power to push firms to act more environmentally responsibly (Dočekalová & Kocmanová, 2018). At the firm level, the role of a good ESG rating is crucial to avoid investor disappointment and protest (Barko et al., 2021b). Besides joining environmental organizations, investors can entrench the ESG profile through training and education. According to (Pinzone, Guerci, Lettieri, & Huisingh, 2019), green training is associated with employee engagement in voluntary pro-environmental behaviors and makes employees more satisfied with their jobs. The pro-environmental behaviors of investors, or their ESG-oriented profile, encourage investment in environmental companies, such as renewable energy, or companies with high ESG ratings. Numerous studies have been conducted on environmentally-oriented investors. Lin & Niu (2018) found that investors who invest in pro-environmental behavior have environmental knowledge, are environmentally conscious, and have social norms that lead them to purchase pro-environmental products. This result is in line with Long et al. (2017), who found that attitudes toward environmental behavior, subjective environmental norms, and perceived environmental behavioral control positively impacted environmental innovation intention. Dilla (2016), and Mun & S (2009), stated that environmentally-oriented portfolios provide equal risks and returns compared to non-environmentally-oriented portfolios if investors are good at screening and selecting up-trending portfolios. This indicates that environmentally oriented investors can invest based on their moral values without sacrificing returns. Consequently, Ramos, Labandeira, & Löschel (2015) revealed that households with environmental attitudes are willing to pay more to protect their environment. In sum:

H2: Environmentally oriented investors positively influence intentions to be socially responsible investors.

2.2.3 Financially-oriented Investment

The financially-oriented investor is motivated by the financial gain, rather than the social value, of their investment (Nilsson, 2007; Wallis & Klein, 2014; Chatzitheodorou et al., 2019). Therefore, financial return is the main objective of their investment activities and is also the rational reason for an investor to postpone consumption for gains in the future. Investors may encounter a predicament when their investment activities must align with their social and environmental values. At the firm level, pro-social and environmental products are demanded by investors (Dočekalová & Kocmanová, 2018), and managers and agents need to launch products that meet both the social impact criteria and financial returns at the same time. Despite this, Numerous studies have shown that there is no significant difference in stock performance between socially responsible investment (SRI) and non-SRI investment options (Revelli & Viviani, 2014; A. Borgers et al., 2015; Renneboog, Ter, & Zhang, 2011;Jones, Laan, Frost, & Loftus, 2008). Paranque & Erragragui (2016) reported that the application of a double screening, combining Islamic and SRI, did not have any adverse effect on returns. The study revealed a significantly higher performance for good governance screening during the period of 2008-2011. Castro et al. (2020a) show that Islamic mutual funds have outperformed socially responsible funds and that socially responsible funds have outperformed Christian-based mutual funds. Therefore, an investor who is financially oriented would still put their money into pro-social and environmental portfolios, and not sacrifice returns for social values. Moreover, Amel-zadeh & Serafeim (2018) stated that financially oriented investors use ESG information to invest in socially responsible investments (i.e. SRI stocks). In sum:

H3: The financially oriented investor positively affects the intention to be a socially responsible investor.

2.2.4 Religiosity

Religious people are rooted in socially responsible investment activities. Since the emergence of socially responsible investment, religious groups have played a critical role in developing the practice (Berry & Junkus, 2013;Sparkes, 2008). Hence, religiosity is one motivation for an individual to be socially a responsible investor (Widyawati, 2020). To be socially responsible is in line with any religious values, including Islam (Arenas & Cranenburgh, 2012). Misra et al. (2019) argued that at the individual level, the religiosity of investors plays a pivotal role in shaping their investment decisions. C. Li et al. (2018) argued that firms owned by religious entrepreneurs tend to allocate more resources toward socially responsible activities. At the managerial level, the level of religiosity is also important for socially responsible investment decisions. Khedmati et al. (2021) and Cebula & Rossi (2021) found that the level of managerial religiosity reduces corporate risk-taking behavior. Moreover, Arli Denni (2016) found that religiosity significantly affects consumer social responsibility; the more religious the investor, the better investment decisions they make (Misra et al., 2019). It can be concluded that the level of religiosity can impact an individual or manager's decision to invest in a socially responsible manner. The hypotheses are:

H4: Religiosity positively influences the intention to be a socially responsible investor.
H5: Religiosity moderates between socially-oriented and environmentally-oriented investment, and the intention to be a socially responsible investor.

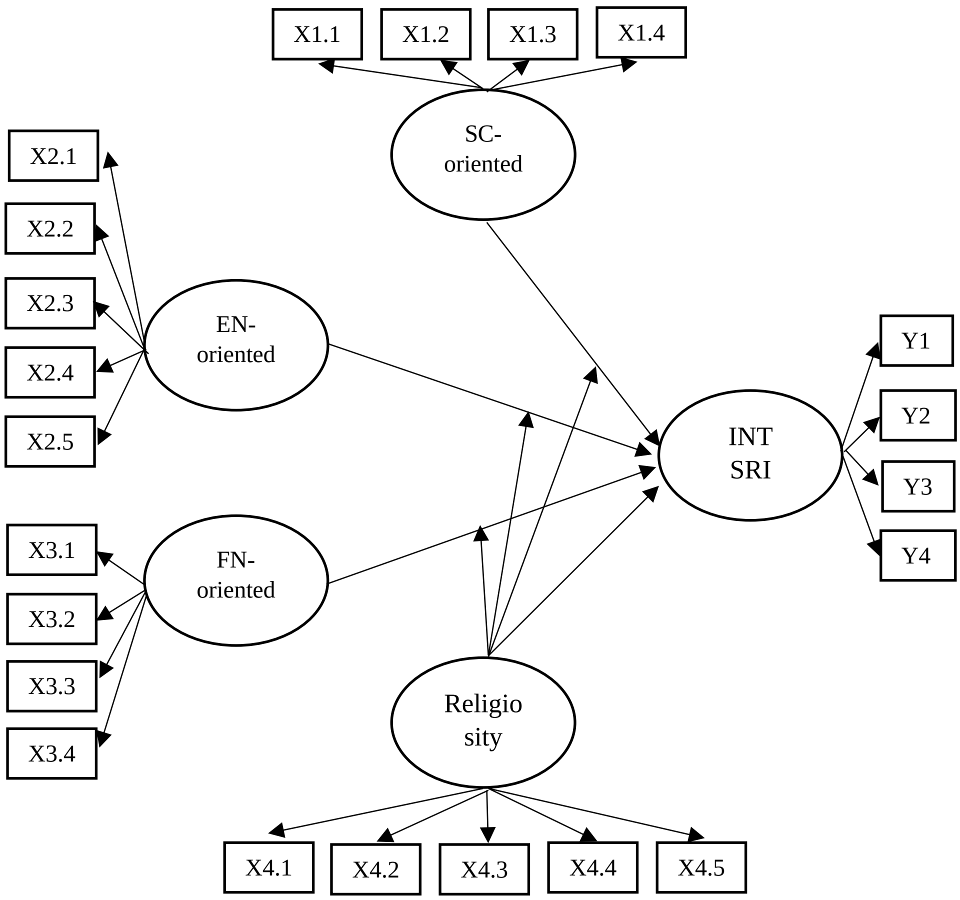

Figure 2. The proposed model

The figure above displays partial least squares (PLS) path modeling, with all the constructs. Each construct consists of several instruments representing the constructs. To ensure the accuracy and consistency of the data, the instruments used to measure each construct were sourced from previous studies, and their validity and reliability were verified. A description of all the instruments follows.

Table 1. Explanation of instruments

Instrument	Constructs	Reference
	Social-oriented investment	
X1.1	Corporate awareness of the social condition	(Chatzitheodorou, Skouloudis, & Evangelinos, 2019)
X1.2	CSR distribution	
X1.3	Investment decisions influenced by CSR distribution	
X1.4	Investment decisions are influenced by the social value of the firm	
	Environmental-oriented investment	
X2.1	Environmental activist	(Chatzitheodorou, Skouloudis, & Evangelinos, 2019)
X2.2	Active in the environmental organization	
X2.3	Investing in green companies	
X2.4	Investing in renewable energy stocks	
X2.5	The importance of investment in green firms	
	Financial-oriented investment	
X3.1	Looking for profit	(Sparkes, 2008; Benson & Humphrey, 2008)
X3.2	Concern about financial performance	
X3.3	Profit oriented	
X3.4	Investment decisions are influenced by the profit of the firm	
	Religiosity	
X4.1	Religious obedience	(Misra et al., 2019; Farooq, 2019;Arli Denni, 2016)
X4.2	Knowledge of religious allowance	
X4.3	Knowledge of religion forbidden	
X4.4	Investing in line with religious value	
X4.5	Religiosity affects investment decision	
	Intention to be SRI	
Y1	Intention to invest in the firm with strong social value	(Chatzitheodorou, Skouloudis, & Evangelinos, 2019)
Y2	Intention to invest in the firm with CSR	
Y3	Intention to invest in green companies	
Y4	Intention to invest in renewable energy	

3. Research Methods

3.1 Data

This paper aims to investigate the determinant factors for Muslims to be socially responsible investors. We use primary data in this paper and the data was collected through a self-administered questionnaire divided into two parts. The first part of the questionnaire asked about the demographic information of respondents. The second section of the questionnaire asks about 22 questions relating to the variables used in this paper. A Likert Scale is used to measure the data ranging from 1 to 4 (strongly disagree and strongly agree), the use of an even number is to avoid biased choices such as neutral or undecided (Pimentel, 2019). Then random sampling technique is used to select the samples where the population are Muslim investors in Indonesia. After that, the questionnaire was distributed through the online form; such as email, messaging apps (WhatsApp and Telegram), and in-person surveys in three months. Finally, 205 people responded to the survey.

3.2 Methodology

After the data is collected through the online form, it is examined with PLS structural equation modeling (PLS-SEM). According to (Hair et al., 2011), two-step estimations are used in the PLS-SEM model. The first estimation is the outer model which estimates the reliability and the validity of the constructs. The second estimation is the inner model which estimates the hypotheses testing and the R^2 value.

Moreover, the constructs that are estimated must be greater than 0.70 in composite reliability value and greater than 0.60 in Cronbach's alpha value to identify that the constructs are reliable. On the other hand, the validity testing of the constructs is determined by the value of average variance extracted (AVE). in addition, the value of AVE in every construct must be greater than 0.50 (Hair et al., 2011).

After ensuring that all the constructs are reliable and valid, the data is estimated in the outer model to estimate the hypotheses testing and the R^2 value. The hypothesis is accepted if the t-value is greater than 1.98 or the p-value is lower than 0.05 at a 5% significance level. Moreover, the R^2 indicates the strong influence of endogenous constructs on exogenous contracts at 0.25, 0.50, and 0.75. These R^2

values indicate the level of prediction as weak, moderate, and strong respectively (Hair Jr, Hult, Ringle, & Sarstedt, 2017)(Hair, Ringle, & Sarstedt, 2011).

4. Results and Discussion

4.1 Results

This study involved Muslim investors as respondents. The total number of respondents who have been collected is 205. The majority of respondents are dominated by males (52%), while female respondents are 98 people (47%). For the age category, the majority are 17 to 25 years old (65%). It related to college students as the most occupation category in this study (57%). It means that millennials and the z generation have more investment knowledge. Even though their monthly income is still less than Rp 3.000.000 (71%). (See Table 2 for details)

Table 2. Demographic Respondents

Gender	N	(%)
Male	107	52,2
Female	98	47,8
Age		
17 - 25	134	65,36
26 - 33 years old	55	26,83
34 – 40	11	5,37
> 40	5	2,44
Occupation		
Private Employee	32	15,6
Civil Servant	34	16,6
College Student	117	57,2
Entrepreneur	6	2,9
Other	16	7,8
Monthly Income		
< Rp 3.000.000	146	71,22
Rp 3.000.000 - Rp 5.000.000	29	14,15
Rp 5.100.000 – Rp 7.000.000	12	5,85
> Rp 7.000.000	18	8,78

Source: Primary Data (2021)

This study attempted to examine the determinant factors for Muslims to be socially responsible investors. Socially oriented investment, environmentally oriented investment, financially-oriented investment, and religiosity were used as exogenous latent variables, while the intention to be a socially responsible investor was an indigenous latent variable. PLS-SEM was used to estimate the data collection and to calculate the inner and outer models. The validity and reliability of the data were examined in the outer model, while hypothesis testing measured the inner model.

4.1.1 Outer Model

In the outer model, the validity and reliability of the data were estimated. The reliability of the data is explained by Cronbach's alpha and composite reliability, which describe the internal consistency of the data (Hair et al., 2011). The value of Cronbach’s alpha must be higher than 0,60 to assure the reliability of the data. The validity is represented by the value of AVE, which describes the convergent validity of the data (Hair et al., 2014a). The result of AVE must be higher than 0,50 to indicate the convergent validity of the data. For discriminant validity testing, we used cross-loading values which the loading value of all items toward construct greater than cross-loading values.

The table above describes the outer loading value. the outer loading value is used to identify the internal consistency of the reliability of the constructs. According to (Hair et al., 2011), for explanatory research the value of outer loading from 0,60 to 0,70 is acceptable, and the table above shows that all indicators have values between 0,60 to 0,80. This shows that the indicators have internal consistency. Table 3 also shows the result of discriminant validity testing in which the outer loading of all items is greater than cross-loading values. Moreover, the reliability of the constructs can be explained by the value of AVE below (see Table 3).

Table 3. Outer Loading dan Cross Loading

Item-item Variable	SC	EV	FN	RL	INTSRI
I invest in firms which aware of the social condition	0,834	0,510	0,009	0,269	0,525
I invest in firms that have CSR distribution	0,729	0,440	0,080	0,317	0,445
My investment decision is influenced by CSR distribution	0,605	0,275	0,116	0,369	0,522
My investment decisions are influenced by the social value of the firm	0,717	0,595	-0,062	0,081	0,364
My investment decisions (buy/sell shares) are influenced by the company's CSR (social funds)	0,765	0,675	-0,060	0,179	0,391
My investment decisions (buy/sell shares) are socially oriented	0,591	0,284	0,143	0,403	0,497
I am an environmental activist	0,465	0,798	-0,061	0,138	0,248
I became an active member of an environmental organization	0,459	0,798	-0,096	0,133	0,275
I invest in green companies	0,488	0,774	-0,140	0,187	0,397
I invest in renewable energy stocks	0,432	0,625	0,132	0,136	0,395
It's important to me to invest in green firms	0,593	0,640	0,129	0,364	0,526
In my opinion, companies need to be environmentally responsible for their business activities	0,426	0,603	0,017	0,154	0,238
I am Looking for profit in my investment	0,012	-0,059	0,816	0,174	0,130
I am concerned about the financial performance of the firms	0,019	0,018	0,741	0,216	0,128
The financial return is the main objective of my investment	-0,046	-0,101	0,819	0,201	0,092
My investment decisions are influenced by the profit of the firm	0,157	0,093	0,758	0,300	0,195
I believe that Allah is the almighty God	0,271	0,267	0,270	0,823	0,371
I invest in a stock based on Islamic values	0,222	0,098	0,278	0,849	0,386
I do not invest in stocks that contradict the Islamic value	0,250	0,096	0,292	0,855	0,392
My religion (Islam) influences me in my investment decision-making	0,408	0,331	0,135	0,715	0,429
Religiosity affects investment decision	0,299	0,234	0,068	0,596	0,367
I intend to invest in a firm with strong social value	0,608	0,427	0,176	0,534	0,872
I intend to invest in the firm with CSR	0,596	0,428	0,073	0,418	0,878
I intend to invest in green companies	0,569	0,432	0,124	0,410	0,907
I intend to invest in renewable energy	0,427	0,373	0,234	0,368	0,816

Table 4. Reliability and validity of the data

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Socially oriented (SC)	0,801	0,859	0,507
Environmentally oriented (EV)	0,801	0,858	0,506
Financially oriented (FN)	0,790	0,864	0,615
Religiosity (RL)	0,828	0,880	0,599
Intention to be SRI (INTSRI)	0,891	0,925	0,755

Table 4 shows the validity and reliability of the data. Based on the result, all variables are concluded valid and reliable. The first criterion, The AVE value is more than 0,5 (SC=0,507; EV=0,506; FN=0,615; RL=0,599; INTSRI=0,755). The second criterion, composite reliability value is more than 0,7 (SC=0,859; EV=0,858; FN=0,864; RL=0,880; INTSRI=0,925). The last criterion, Cronbach's alpha > 0,6 (SC=0,801; EV=0,801; FN=0,790; RL=0,828; INTSRI=0,891).

4.1.2 Inner Model

In the inner model, R^2 was estimated and the value is considered an accurate prediction. The results of R^2 0.25, 0.50, and 0.75 indicate a weak, moderate, or strong influence of exogenous variables on the dependent indigenous variables.

Table 5. The result of R^2

	R Square	Adjusted R Square
Intention to be SRI	0,676	0,666

The table above explains the result of R^2. The result showed that the value of R^2 is 0,666, represented by the moderate influence of exogenous variables. Therefore, the value indicates that 66% of the variable is influenced by exogenous variables, while 34% is influenced by non-estimated variables. It means that socially, financially, and environmentally oriented investments have a medium impact on the intention to be SRI. The hypothesis testing of the inner model was also estimated. The hypothesis is accepted if the p-value ≤ 0.05 or the t-value is higher than the t-table (t-value ≥ 1.98), and vice versa.

4.1.3 Robustness Test

Measurements such as non-linear effect and endogeneity can be used to perform robustness testing (Joe F. Hair et al., 2014b; Sarstedt, Hair, Nitzl, Ringle, & Howard, 2020). Figures 3, 4, and 5 demonstrate that the best-fit distribution of points is deformed and not a straight line. As a result, the premise of a non-linear relationship is satisfied, bolstering the robustness of the structural model results.

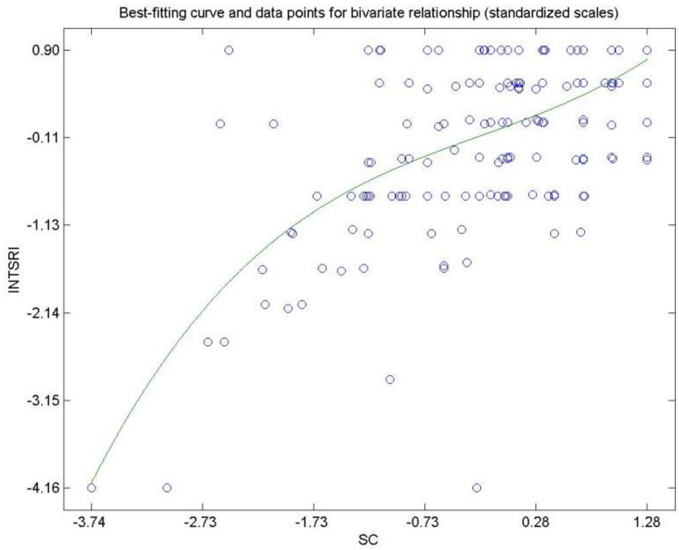

Figure 3. Non-Linear Effect (Socially-oriented and Intention to SRI)

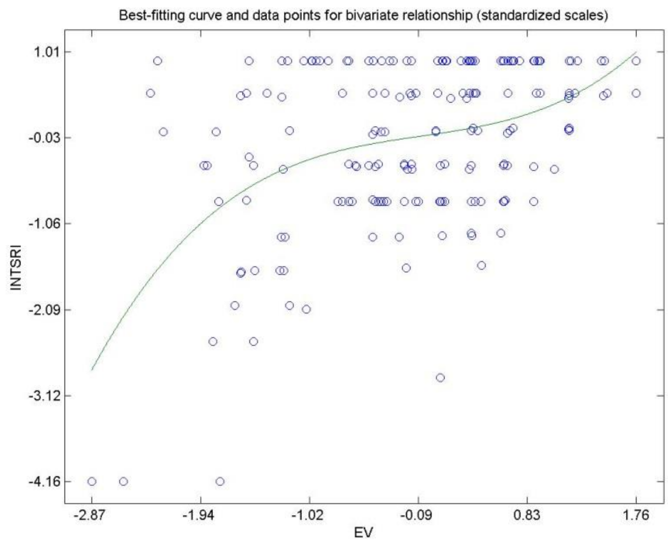

Figure 4. Non-Linear Effect (Environmentally-oriented and Intention to SRI)

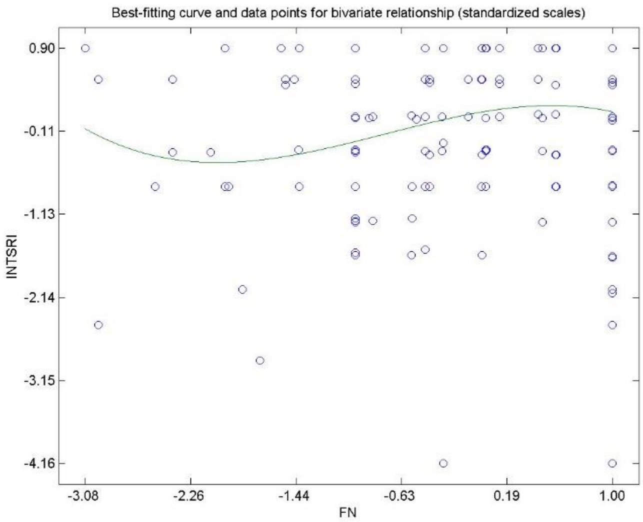

Figure 5. Non-Linear Effect (Financially-oriented and Intention to SRI)

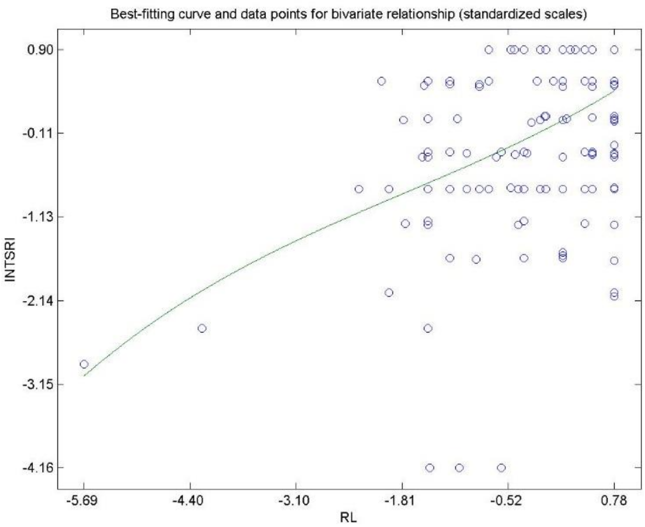

Figure 6. Non-Linear Effect (Religiosity and Intention to SRI)

Table 6. Endogeneity Test

Variable	SC	EV	FN	RL	INTSRI	e_INTSRI
SC						
EV	0.663					
FN	0.056	-0.001				
RL	0.391	0.275	0.273			
INTSRI	0.644	0.489	0.176	0.505		0.999
e_INTSRI	0.649	0.488	0.178	0.501		

Source: Primary Data (2022)

When the predictor construct is connected with the associated error dependent, endogeneity develops (Sarstedt, Ringle, et al., 2020). That is, the predictor construct explains not just the dependent construct but also its error term. The latent variable error value (intention to be SRI) is insignificant (p-value=0,999). It concludes that there is no endogeneity in this investigation, bolstering the robustness of the structural model results.

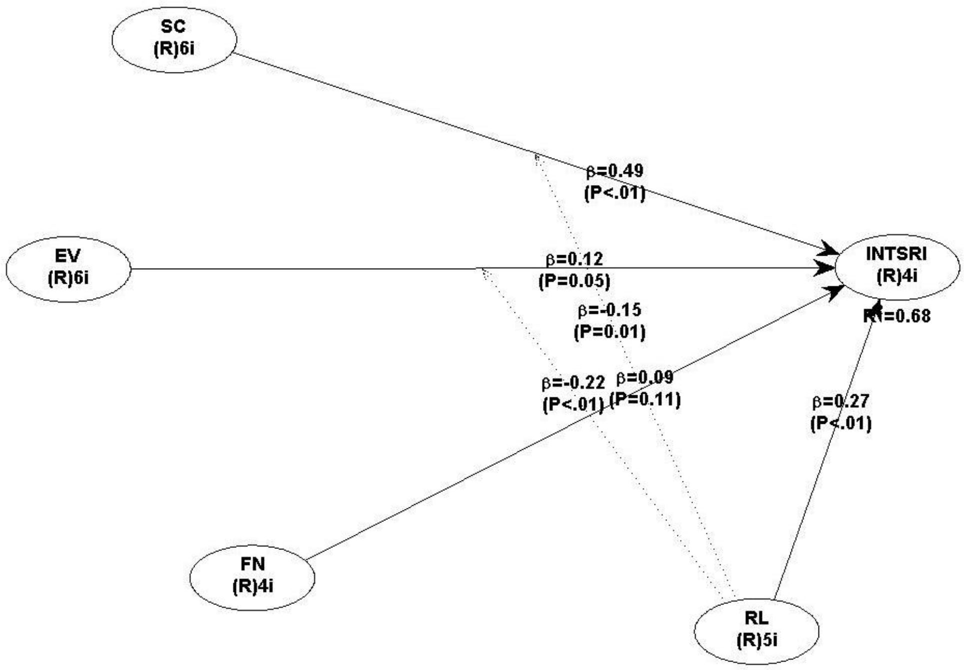

Figure 7. Structural Model Result

Table 7. Table of Hypothesis Testing

	Path Coefficients	P Values
SC -> INT SRI	0,488	0,001*
EV -> INT SRI	0,116	0,046*
FN -> INT SRI	0,085	0,108
RL -> INT SRI	0,270	0,001*
Moderating to SC -> INT SRI	-0,0151	0,013*
Moderating to EV -> INT SRI	-0,216	0,001*

The significant level at *5%

The results of hypothesis testing are shown in the table above. According to the findings, only financially oriented investment has an insignificant influence on the intention to be a socially responsible investor, whereas socially-oriented investment, environmentally-oriented investment, and religiosity have a significant positive influence on the intention to be a socially responsible investor. The intention to be a socially responsible investor is positively influenced by socially oriented investment (p-value 0.001 0.05), environmentally oriented investment (p-value 0.046 0.05), and religiosity (p-value 0,001 0.05). In contrast, financial investing does not affect the intention to be a socially responsible investor (p-value 0,108 ≥ 0.05). Religiosity as a moderator has a negative significant effect compared to socially oriented and environmentally-oriented investments.

4.2 Discussion

The topic of SRI gives attention to all stakeholders, including researchers. Historically, SRI began through religious group activities, before evolving into an investment philosophy (Sparkes & Cowton, 2004). Thus, religious people play a critical role in the development of SRI. Numerous studies have been conducted on this topic, however, the lack of research on investor behavior, and the motives behind that behavior, to be a socially responsible investor must be addressed. Therefore, this study attempts to direct some empirical evidence toward that topic.

As mentioned in the prior section, three of four variables have significant influence, while one is insignificant. The variable socially-oriented investment has a positive significant influence on the intention to be a socially responsible investor. This finding indicates that Muslim investors concern more concerned about social and ethical values (Nilsson, 2007; Nilsson, Nordvall, & Isberg, 2016). Social and ethical investment is about morality, and how the investor integrates social values into investment activities (Revelli, 2016). The socially oriented investment itself, for example, avoids any investment in an organization that contains elements such as alcohol, pornography, gambling, avoiding legitimate taxation, etc (Ullah et al., 2014b). People who do socially-oriented investments usually have an intrinsic motivation to invest in a socially responsible way (Riedl & Smeets, 2017).

Thus firms, authorities, and policymakers must build a good investment environment for socially oriented investors, such as reducing information asymmetry between investors and pro-social firms. Social, Ethical, and Environmental (SEE) values could be used as a guide for applying negative screening so that Muslim investors can avoid investing in sin stocks (Hoffmann et al., 2019; Sparkes, 2008). A labeling scheme is one way to enhance investors' willingness to invest in SRI. Authorities and policymakers can provide a label for each type of firm, such as an Islamic firm, SRI firm, or both (Gutsche & Zwergel, 2020), enabling investors to differentiate between the types of firms. Like other socially oriented investors, once Muslim investors become shareholders, they push listed firms to be more socially oriented through CSR or other social actions (Renneboog et al., 2008; Dyck et al., 2018; Sparkes, 2008). However, Muslim investor portfolio strategies rely on their behaviors (G. Williams, 2007), requiring firms to provide pro-social products along with strong financial performance, to target the financial seekers of social investment.

Meanwhile, the environmentally-oriented investment variable also has a positive significant influence on the intention to be an SRI. This result concludes that Muslim investors in Indonesia are strongly influenced by personal factors, such as motivation, characteristics of individuals, background, and availability of resources (Chatzitheodorou, Skouloudis, Evangelinos, et al., 2019). Some investors attempt to adjust their values with environmental product investment. The regulations and compliance cost regarding the environment is urged by the investors; thus it is correlated with their portfolio for saver investment (Pattberg, 2012; Solomon et al., 2011)Solomon et al., 2011).

Therefore, firms must have a good relationship with non-profit organizations, and building partnerships between non-profit organizations and pro-environmental firms could be a way to gain the attention of new customers. Organizations have the power to influence their members to align with their mission and be more environmentally oriented. Therefore, a regulation on pro-environment investment should be addressed by the government, to build a sufficient investment environment and behaviors, either in Muslim society or listed firms. This could include pushing the banking industry to finance renewable energy projects or mandating law enforcement to hold irresponsible firms accountable for the environment around their business location since some middle-up Muslims prefer to invest in firms focused on energy efficiency (Ramos et al., 2015). Dilla (2016) argued that environmentally oriented investors have a positive significant effect compared to non-professional investors. Therefore, it can be assumed that Muslim investors here are also non-professional investors (i.e., less experienced investors). Therefore, education and literacy about pro-environmental behaviors must be improved by firms, regulators, and policymakers in Indonesia.

Furthermore, another variable with a positive significant influence on the intention to be a socially responsible investor is religiosity. Since the topic of SRI was first introduced through religious group activities, religiosity plays a crucial role in shaping investor behavior. Religious societies always attempt to harmonize the value of religion with their investment activities (Arenas & Cranenburgh, 2012), and Islam is a religion that pays attention to SRI issues. Thus, a socially responsible investor who is Muslim is never in conflict with their religious rules (Ullah et al., 2014a). Managers and firms must promote SRI to religious groups, and soliciting a place on the preaching agenda of Muslim groups could be a way to gain their attention. Islam has a code of conduct regarding investment activities that are different from other religions (Ghoul, 2007) but the investor who performs negative screening is motivated by religious values (Renneboog et al., 2008). Therefore, policymakers should devise a labeling scheme, such as 'Halal Label' or 'Islamic Stock label', to help Muslim investors with screening to determine their investment decisions. However, the consequences of negative screening are financial performance trade-offs (Nainggolan et al., 2015), even though Islamic and SRI indicate have similar risks and returns in financial performance (Charfeddine & Najah, 2015; Castro et al., 2020a; Burchi & Włodarczyk, 2020). However, religiosity failed to moderate between socially- and environmentally-oriented investments. Therefore, when considering the direction of the hypothesis result, religiosity has a negative direction for socially oriented and environmentally-oriented investments. The level of religiosity can be a screening for investors to see whether the social and environmental investment products are following Sharia values. This study shows that religiosity weakens the influence of socially oriented and environmentally-oriented investment on the intention to be SRI. It can be some of the social and environmental investment products do not follow Sharia values.

On the other hand, this study also revealed that financially-oriented investment did not significantly influence the intention to be a socially responsible investor, even though previous studies found that socially responsible investors expect a financial return (Galema et al., 2008). By portfolio performance, there is no significant difference between socially responsible stocks and non-socially responsible stocks (Revelli & Viviani, 2014; A. Borgers et al., 2015; Renneboog et al., 2011; Jones et al., 2008). The empirical evidence from this study shows that Muslims who intend to be socially responsible investors focus on social, ethical, and environmental values, rather than financial returns. Some investors are willing to sacrifice financial performance to more focus invest with their social preferences (Riedl & Smeets, 2017). However, Erragraguy & Revelli (2015) stated that Muslim investors should consider financial returns, along with applying negative screening and collecting ESG information. For study showed that investor who expects pessimistic performance will reduce the likelihood of investing in a socially responsible way (Riedl & Smeets, 2017).

The discussion above implies that the intention of Muslim investors to be socially responsible is determined by their pro-social and environmental orientation and their level of religiosity. Managers and funds must retarget their markets to attract new customers. Promoting pro-social and environmental products to socially-oriented investors and religious groups could be a rational way of increasing funding. Entering investment and SRI topics into the preaching agenda could also be an effective way of attracting Muslim religious groups, as Islamic investment values and SRI values are similar. Also, managers and funds can partner with environmental organizations to attract pro-environmental investors, highlighting organizational behaviors that influence active members towards pro-environmental behaviors (Luu, 2019). Moreover, providing pro-social and environmental products, along with less volatile returns, is necessary to attract financial-seeking investors.

At the individual level, labeling is the most effective way for Muslim investors to screen for portfolios that agree with their social and religious values. For instance, some companies are pro-social and environmental, but nothing differentiates them from non-pro-social and environmental companies. To make the decision easier, investors could simply choose companies with a pro-social and environmental label, which also works for companies that are in line with religious values, such as ‘Halal Label’ or ‘Sharia label’, indicating that the companies operate according to the sharia code. Therefore, authorities and policymakers should devise labels based on company profiles, to ease the screening process for investors. Authorities and policymakers should also create indices, such as SRI indices, Islamic indices, and SRI plus Islamic indices, to determine whether a portfolio is outperforming or underperforming. Education and literacy related to investment and SRI topics remain important, especially in emerging countries, where SRI topics are relatively new to customers.

The majority of SRI research has been on industrialized countries like the United States and the United Kingdom. G. Williams (n.d.) on the other hand, emphasized that SRI has the potential to thrive in poor countries. Based on this, the findings of this study demonstrate the potential for social and environmental investment in emerging nations such as Indonesia. Furthermore, this study supports the assertion that one of the predictors of SRI growth in developing nations is the level of awareness of sustainable investment. (Hill et al., 2007; Vives & Wadhwa, 2012; Tripathi & Kaur, 2020b). In this case, it is distinguished by the favorable impact of social and environmental investment on the desire to become SRI. G. A. Williams (2011) Financial motive is also said to play a considerably smaller influence because investors are willing to accept lower financial rewards. This is consistent with the findings of this study, which show that the desire to become SRI is not driven by financial investment incentives. According to research, responsible investing will provide SRI with additional benefits (Webley et al., 2001).

5. Conclusion

There are a limited number of Muslim investor behavior studies examining SRI. To fill this gap in the literature, this study attempted to investigate the factors that drive Muslims to be socially responsible investors. Socially oriented investment, environmentally oriented investment, financially-oriented investment, and religiosity were used as exogenous latent variables, while the intention to be a socially responsible investor was an indigenous latent variable. Religiosity was also a moderation variable between exogenous and indigenous variables, to capture the role of religiosity in an investor's decision.

The study revealed that socially oriented investments, environmentally-oriented investments, and religiosity have a positive significant influence on the intention to be a socially responsible investor. In contrast, financially oriented investments have an insignificant influence on the intention to be a socially responsible investor. This implies that Muslin investors who are concerned about Socially responsible investment are driven by the social, environmental, and religious values that they have. Interestingly, Muslim investors do not consider the financial return of their consideration to investing in SRI products. The study also found that religiosity failed to strengthen variables between exogenous and indigenous variables.

The religious value of Muslim investors directly influences SRI investment and reduces the propensity to invest in SRI products. Possibly the SRI items are not Sharia-labeled, requiring Muslim investors to assess both SRI and Sharia products simultaneously. According to the findings, the authorities launched a Sharia investment product that is compatible with SRI or an SRI-shariah product to assist Muslim investors who consider both. Furthermore, the authorities can support the formation of Sharia-SRI indices in the capital market to determine which equities meet both screening criteria. According to the empirical findings, Muslim investors prioritize social, ethical, and environmental concerns over financial gains.

This study does have limitations, of which the first is the small sample size. Further analysis with a larger sample size is necessary to achieve a comprehensive understanding. Second, there were time limitations on collecting the data. Third, the PLS-SEM as the data analyzer was limited, as PLS-SEM is part of a non-parametrical method, which does not have a distributional assumption. However, a further empirical investigation relating to investor behavior towards socially responsible investment is needed. Future research could focus on comparative behavior among religious groups, with demographic variables such as gender, education, and culture also interesting topics for further examination. Also comparing SRI stock’s performance and Islamic stock's performance is needed to see whether SRI or Islamic has the best performance.

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