

The impact of personal value (halal & haram) on the investor's investment decision

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Abstract:

Environmental operations and obligations, often known as halal and haram activities, are now required to be reported to a company's stakeholders. This study investigates how halal and haram notions influence an investor's financial decisions. To obtain data, a representative sample of Pakistanis (n=475) was given a questionnaire. The methods of analysis used in this study are descriptive statistics, correlation, and regression. Behavioral biases have a significant impact on an individual investor's financial decisions, according to our research. According to the data, high halal and haram differentiating firm engagement tends to over-invest. Both the Defend and Prospect strategies can help to prevent over-investment, according to our findings. The data show that a company's halal and haram propensity strategy has a big impact on investors' decisions. Further analysis can apply psychological bias and other accounting data indicators such as Earnings per Share to assess other behavior in investment decision-making (EPS).

Keywords: Behavioral finance, personal value, halal and haram, investment decision, psychological factors, Islamic financing

1. Introduction

Islamic activities are viewed as an attempt by a firm to obtain, preserve, or reclaim legitimacy in the community. The legitimacy of the community as stakeholders is just as important as other resources for the company's long-term success. Fernando and Lawrence are a couple (2014). The interests of the many stakeholders must be aligned in order to produce value for the enterprise and society. A company's environmental efforts and responsibilities must be conveyed to its stakeholders. Additional information, such as halal and haram initiatives not reported in financial reports, can help investors make better decisions (Naqvi et al., 2021). "Information cascades" are when investors have access to public information that is used by others. A cascade of information occurs when investors neglect their own facts and replicate others in the financial markets. In industrialized countries, a comprehensive study was done to explain the impact of Halal and haram activity on the stock market (Sharma & Kumar, 2019). There has been a lot of research into how investors make investment decisions. Academics are interested in how investors make investment decisions, according to research; nevertheless, many studies have focused only on the impact of psychological factors on investment decisions (Xu & Wan, 2015). When it comes to making investment decisions, humans are irrational. To become a good stock market investor, you must follow the right, natural, and logical patterns of conduct. However, investors that follow a conventional pattern of decision-making and rational action with a decision always in their favor, with gains and profits, are extremely unusual, if not non-existent only (Zahera & Bansal, 2018). Even still, according to Nalurita (2020), there is a scarcity of data from developing countries. In Pakistan, the majority of current studies are survey-based, with the purpose of detecting biases that influence investor decision-making. However, in determining the impact of any particular bias on the stock market, they are either unhelpful or inconclusive. This leads to a psychological proclivity when used. There are various reasons why people choose behavioral biases without recognizing whether they are rational or irrational. Following others' behavior appears to be separate from one's own decision-making process, but it is critical to the atmosphere and corporate environment. (Lin 2011).

The literature has several discussions and assessments of the halal and haram distinctions, as well as investment choice linkages. In the two literature review subsections below, the two relationships are explored independently. It has the potential to have a significant impact on business

investment decisions by modifying the company's financial limitations. In theory, businesses with superior Islamic products that perform successfully help them acquire access to external money, allowing them to complete all of their planned investments (Kudak et al., 2018). According to the study, companies with higher Islamic activity rankings had lower equity financing costs Masud et al., (2019). This is especially true in companies where employee relations are better. Similar findings have been seen in other studies on Islamic activity profits and voluntary disclosure. They discovered that companies with a high level of worldwide participation outperform their rivals.

Investment decisions have become increasingly important in our daily lives as a result of the global financial crisis (2007-2008). Understanding the multiple elements that influence individual investors' investment decisions is crucial. Researchers have looked at the actions of investors and the agents who monitor investments using a variety of methods. When it comes to investment decision-making, however, the existence of psychological elements and individual behaviors is a point of contention. According to Yan et al., future research should look at the role of psychological and demographic factors in determining their impact on investor behavior, such as decision-making (2020). In the published literature, studies on topics like psychology and financial decision making have yielded varied results. On the other hand, little has happened. The current study examines investors' social psychology as well as their personal values, both of which have an impact on their objective view of investment. This research, which focuses on the subject of finance, could be crucial.

Islamic financing and firm strategy according to previous research, this has an effect on investment efficiency. According to studies, Islamic financing and equity have a substantial impact on investment efficiency, with high (low) enterprises more likely to over- (under-)invest (Yuan, 2020). Other research, on the other hand, shows that a company's business strategy has an impact on its investment efficiency by affecting its financial performance. (Nardi et al., 2020). Investment efficiency suffers when businesses with high (low) Islamic finance over-invest (under-invest), which has a negative impact on financial performance and corporate decisions. We suggest that Islamic finance and corporate strategy are linked because business strategy has a substantial impact on financial performance and corporate decisions. As a result, the three variables are expected to be intimately intertwined. Our article is the first in the Islamic finance literature to examine and document this link in Pakistan, to the best of our knowledge.

The importance of the company strategy, dictates the firm's long-term planning and vision, is emphasized in management competence.

According to recent research (Hasan et al., 2018) on the impact of company strategy on financial performance and decision making, numerous types of strategies, including Prospector, Defender, and Analyzer, has an impact on corporate decisions. The mismatch between company strategy and long-term incentive plan has a negative influence on firm performance, according to Chen et al. (2020). According to Hanlon (2008), 10-K readability is tied to corporate strategy. They find that environmental uncertainty and management opportunism have an impact on the level, phrasing, and complexity of disclosures, as well as 10-K readability, which has an impact on corporate strategy.

Abd Rahman et al. conducted a research investigation (2011) Different features of Islamic finance, as well as their effects on investment behavior, were investigated. Investors with more expertise and experience rely on their own information more than the conduct of others, and they pay attention to their own situations, according to their research. The investors who were less experienced and knowledgeable, on the other hand, relied on their intuition because they couldn't afford to make any mistakes. As a result, the study recommends:

H₁: Halal and haram notion has significant impact on investment decision.

There is a dearth of study on the connection between halal and haram notions and investment decision-making. The relationship between the above-mentioned investment decision-making variable and the above-mentioned investment decision-making variable is examined in the current literature. This study is unique in the context of Islam since it broadens the search for an investment decision. By combining all of these variables in this study, investors will be able to see how much profit they may obtain from each of these separate variables while making financial decisions.

2. METHODS

2.1 Research Design

The authors prepared a survey questionnaire with demographic characteristics of respondents such as gender, age, investment experience, education, and income for quantitative data. Investment behavior and behavioral errors are heavily influenced by demographic factors (Kumar & Goyal, 2015). The key factors of the study are covered in the second section. A questionnaire with a Likert scale was used. Demographic data such as gender, age, experience, and education were also mentioned in the questionnaire to know the outcomes in substantiation of these demographics. The responses to the questionnaire were evaluated, and the findings were acquired by processing the data using various techniques and procedures.

2.2 Participants

The participants in this study were investors on the Pakistan Stock Exchange who encountered the biases explored in this study when making investment decisions. A total of 475 Pakistan Stock Exchange investors were employed in the study. A purposive sampling approach was utilized to obtain a sample. The target demographic was individual investors who have traded on the PSX. The purposive sampling technique used for sample selection was appropriate because the PSX is made up of brokerage houses. As a result, it was used to gather information.

2.3 Data Collection Tool

Pasewark & Riley provided the questionnaire items used to assess the investment choice (2010). In terms of decision-making, it contains five things. The questionnaire on the impact of halal and haram concepts on individual investment behavior, on the other hand, is sourced from (Ali, 2007) There are four things in this section that deal with halal and haram stock market principles. Cronbach's Alpha is a test that determines how reliable a measurement device is (internal consistency). Internal consistency is also measured using composite reliability. In this study, the average variance is calculated using convergent validity on the latent variables. Discriminant validity is also taken into account. Using descriptive analysis, we were able to determine the health of the collected data. The structural equation modeling (SEM) methodology is used to obtain data related to the study hypothesis.

3. Results

The internal consistency (reliability) of the theoretical model is first determined. Cronbach's alpha and composite reliability were used to ensure each latent variable's internal consistency. Cronbach's alpha is the primary criterion for determining internal consistency. Cronbach's alpha is a way for determining reliability based on variable correlation. Cronbach's alpha for all latent variables ranged from 0.574 to 0.911, according to the findings. As Cronbach's alpha is more than 0.50, all latent variables have strong internal consistency, as recommended by (Fornell & Larcker, 1981).

The second criterion for determining the internal consistency of all latent variables is composite reliability. Composite reliability (CR) evaluates the internal consistency of all variables by using the outer loading. In CR, the correctness of the constructs is specified, whereas in AVE, the amount of variance allocated to the build is determined rather than the amount owing to measurement error. Each construct's composite dependability is calculated and compared to a cut-off value of 0.6 (Bagozzi & Yi, 1988). According to the authors, the latent variable's composite

reliability has a strong internal consistency, with a composite reliability of better than 0.70 (Arnold & Reynolds, 2003).

The process of assessing the link between all observable variables of a single variable is known as convergent validity. The average variance extracted (AVE) approach is used to determine convergent validity of latent variables. All latent variables' convergent validity was found to range between 0.511 and 0.849. With a cutoff threshold of .50, AVE was utilized to test convergent validity. As AVE is greater than 0.50 thresholds, all latent variables have good convergent validity. Table 1 shows the convergent validity results for each latent variable. Discriminant validity determines the differentiation between all latent variables. The AVE values were compared to the square of the correlation between the components to determine discriminant validity. AVE greater than the coefficient of correlation between components, according to the Fornell & Larcker (1981) rule is indicating discriminant validity.

Table 1. Results of Cronbach's Alpha, Composite Reliability & Convergent Validity

<i>Construct</i>	<i>Cronbach's Alpha</i>	<i>Construct Reliability</i>	<i>Convergent Validity</i>
Halal & haram Notion	0.867	0.904	0.653
Investment Decisions	0.574	0.776	0.542

The average extracted variance of the square root is bigger than the correlations between latent variables, according to the findings. The outcomes are shown in table 2.

Table 2. Discriminant Validity (Fornell-Larcker Criterion)

Construct	Halal_Haram	Inv_Dec
Halal and haram Notion	0.808	
Investment Decision	-0.442	0.736

*The highlighted diagonal values shows the square root of AVE

3.1 Descriptive Statistics

Halal and haram

The replies of 475 respondents to the current study variable, Personal Value, are shown in the table below (Halal and haram). Investors have a range of reactions when they select personal value over market value. The first variable item has 49 people who strongly disagree, 172 people who disagree, 145 people who agree, 77 people who strongly agree, and 32

people who are undecided. On the second problem, 9 out of 475 respondents severely disagree, 65 disagree, 215 agree, 77 strongly agree, and 109 are neutral. There were 475 responses to the third question, with 18 people strongly disagreeing, 95 disagreeing, 203 agreeing, 108 agreeing strongly, and 51 indifferent. On the fourth issue, 22 people disagreed strongly, 156 people disagreed, 171 people agreed, 83 people strongly agreed, and 43 people were indifferent. The table above also includes the mean values for all four aspects of the anger variable. 3.06, 3.60, 3.61, and 3.29 are the mean scores for five anger-related issues, respectively. The mean values of all the variables are positive, indicating positive investor responses.

Table 3. Descriptive Statistics and Frequency Distribution with respect to Halal & Haram Notion

Items	Item-wise Frequency and Descriptive Statistics (N=475)						
	SD	D	N	A	SA	Mean	Std. Dev.
PV_1	49	172	32	145	77	3.06	1.315
PV_1	9	65	109	215	77	3.60	.976
PV_1	18	95	51	203	108	3.61	1.150
PV_1	22	156	43	171	83	3.29	1.222

Note: SD is strongly disagree, D is disagree, N is neutral, A is agree & SA is strongly agree

Investment Decision

Investment Decision, elicited 475 responses from respondents for five items. When investors make investment decisions, they experience a wide range of emotions. On first item of variable Investment Decision, 55 individuals strongly disagree, 155 people severely disagree, 133 people agree, 46 people strongly agree, 86 people are neutral. 71 out of 475 respondents strongly disagree, 96 disagree, 206 agree, 58 strongly agree, and 44 are indifferent on the second item of Investment Decision. There were 475 replies to the third question for Investment Decision, with 72 strongly disapproving, 104 strongly disagreeing, 171 agreeing, 54 strongly agreeing, and 74 indifferent. There were 48 people who severely disagreed, 81 people who disagreed, 150 people who agreed, and 67 people who highly agreed out of 475 responses only 129 were indifferent on the fourth item for Investment Decision. The fifth item of Investment Decision had 475 responses, with 43 strongly disagreeing, 76 disagreeing, 176 agreeing, 54 strongly agreeing, and 126 neutral. The mean values of all five items of the Investment Decision variable are 2.92, 3.18, 3.07, 3.23, and 3.26 are the mean values for five Investment Decision elements.

Table 4. Descriptive Stats & Frequency Distribution w.r.t Investment Decision

Items	Item-wise Frequency and Descriptive Statistics (N=475)						
	SD	D	N	A	SA	Mean	Std. Dev.
Invest _Dec1	55	155	86	133	46	2.92	1.205
Invest _Dec2	71	96	44	206	58	3.18	1.302
Invest _Dec3	72	104	74	171	54	3.07	1.280
Invest _Dec4	48	81	129	150	67	3.23	1.186
Invest _Dec5	43	76	126	176	54	3.26	1.133

Note: SD strongly disagrees, D is disagreeing, N is neutral, A is agreed & SA is strongly agreed.

3.2 Correlation Analysis

Table 5 below indicates the correlation matrix. As it can be seen from the correlation matrix, Halal and Haram carries a moderate association with investment decision.

Table 5. Correlation Analysis

Variable	PV	Investment Decision
PV	1	
Investment Decision	.395**	1

PV, which stands for "halal and haram," is an exogenous and latent variable in this study. PV, according to Sherif (1966), is an assessment of individual or institutional conduct that contributes to society and influences decisions. To assess if anything is Halal or Haram, four considerations are considered. The concept of Halal and haram was examined using these four elements. The halal and haram concepts are founded on. Investment Decision was the endogenous variable (dependent variable) in this study. The dependent variable in this study is "INV DEC," which stands for Investment Decision. Investment decision based on (Avram et al., 2009) a decision or an outlay made today in order to reap future benefits Five factors were used to evaluate the investment decision. Because the outer loading of two items was less than 0.5, they were omitted. As a result, three factors were considered in the investment decision. These three factors were considered when making an investment decision. The investment decision is indicated as "INV DEC" and is based on the average score of three items.

3.3 Path Coefficient of Structural Model

The structural model was used to examine the following research assumptions.

H1: Halal and haram Notion have a significant impact on the Investment Decision.

The hypothesis proposed that Halal and haram Notion had a strong relationship with investment decisions. The P-Value is 0.002; the hypothesis is accepted because the P Value is less than 0.05 according to the criterion. The results showed that Halal and Haram had a considerable impact on investment decisions, with a value of -0.157.

Table 6: Testing of Structural Model

Structural Path	Estimate	T Score	P
Personal Value -> Investment Decisions	-0.157**	2.871	0.002

Note: ** Represents significant at 1percent, whereas * represents significant at 5percent

4. Discussion and Conclusion

Due to institutional investors' dominance and, secondly, individual investors' low market involvement, the authors' findings show that halal and haram have a significant impact on individual investors' investment decisions in the Pakistan stock market throughout a decade of diverse market cycles. The report acknowledged the existence of halal and haram assets. As a result, in the context of Pakistani society, the Halal and haram Notion has a favorable relationship with investment decisions. People in Pakistan evaluate their personal principles and strive to assess firms' Islamic activities while deciding on an investment scenario. Personal valuing behavior is the subject of this phenomenon. The research is based on Pakistan Stock Exchange investors (PSX). These prejudices affect investors as well, with gender and experience playing a substantial role. Males are more affected by things like anger, fear, herding, and stress than females. Females, on the other hand, are more affected by some factors, such as mood and social engagement, than males.

According to this study, Islamic financing improves customer loyalty, willingness to pay higher prices, and reduces reputational concerns during times of crisis. Each of these marketing results has the ability to boost your bottom line. Islamic financing has an impact on investors' investment decisions, according to the methods used in this study. The other outcomes are either positive or unfavorable, depending on the previous research technique and conclusions. The current study advises that enough attention be paid to the consequences of prejudices that investors frequently succumb to without even realizing it. These misconceptions have far-reaching consequences that can lead to severe financial failures. Other personal and psychological biases have both beneficial and negative effects;

nevertheless, the negative aspects should be weighed carefully in order to ensure more secure future outcomes.

A successful investor must be able to adapt and respond to shifting market conditions using effective investing approaches. In order to encourage higher investment returns, stock exchanges organize training sessions on a regular basis to increase financial literacy and investor comprehension of the firm's corporate social responsibility efforts. According to the findings, this learning program should be tailored to each student's unique experiences in order to motivate them to study. As a result, they'll be able to learn quickly from previous trading experiences, minimizing their sensitivity to behavioral biases when trading stocks.

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