

Sustainable and Responsible Investment: Concept and the Commonalities with Islamic Financial Institutions

Muhammad Zarunnaim Haji Wahab^{1*}, Asmadi Mohamed Naim²

*Corresponding author

Abstract. *This paper aims to highlight the Sustainable and Responsible Investment (SRI) concept, similarities, and opportunities with Islamic financial institutions (IFIs), especially in Malaysia's perspectives. This paper is conceptual, thus the methodology used in this paper is qualitative, focusing on document analysis method by analyzing previous literature, books, reports, official website, and articles. Based on the analysis, SRI and IFIs share the same fundamental aim, which is to utilize the funds with high morals and ethics. Besides, the analysis also indicates that SRI and IFIs have shown significant growth over the last two decades and became the most rapidly growing sectors. In the context of the opportunities, both concepts can become a new value proposition and product innovation in order to capture the future preferences of investors and customers. The IFIs and SRI are capable of bridging the gap both entities considering their fundamental mutual aim, which is to utilize the funds through high morals and ethics.*

Keywords: *sustainable and responsible investment, Islamic financial institutions, product innovation*

JEL Classification: E22, G20

Abstrak. *Penelitian ini bertujuan untuk menyoroti konsep Investasi Berkelanjutan dan Bertanggung Jawab (SRI), persamaan, dan peluang dengan lembaga keuangan Islam (IFI), terutama dalam perspektif Malaysia. Studi ini merupakan artikel konseptual, sehingga metodologi yang digunakan dalam makalah ini adalah kualitatif, dengan fokus pada metode analisis dokumen dengan menganalisis literatur sebelumnya, buku, laporan, situs web resmi, dan artikel. Berdasarkan analisis, SRI dan IFI memiliki tujuan dasar yang sama, yaitu memanfaatkan dana dengan moral dan etika yang tinggi. Selain itu, analisis juga menunjukkan bahwa SRI dan IFI telah menunjukkan pertumbuhan yang signifikan selama dua dekade terakhir dan menjadi sektor yang paling cepat berkembang. Dalam konteks peluang, kedua konsep dapat menjadi proposisi nilai baru dan inovasi produk untuk menangkap preferensi masa depan investor dan pelanggan. IFI dan SRI mampu menjembatani kesenjangan kedua entitas dengan mempertimbangkan tujuan bersama yang mendasar, yaitu untuk memanfaatkan dana melalui moral dan etika yang tinggi.*

Kata Kunci: *investasi berkelanjutan dan bertanggungjawab, lembaga keuangan syariah, inovasi produk*

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^{1,2}Islamic Business School, Universiti Utara Malaysia, Sintok, Kedah, Malaysia.

E-mail: ¹zarunnaim@yahoo.com, ²asmadi@uum.edu.my

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Introduction

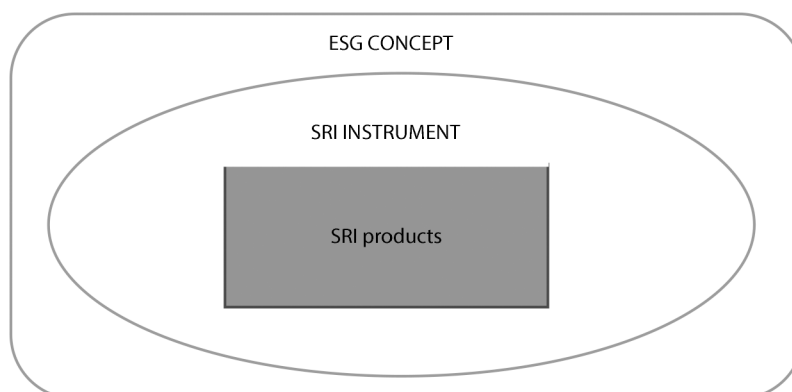
The Sustainable and Responsible Investment (SRI) concept has been gaining interest in the past few years, especially in developed countries. The United States of America (USA), Canada, Australia/New Zealand, and Japan are among the countries that show the significant growth of SRI assets in the world. For example, SRI represent USD 6.57 trillion, which is about one-sixth of funds in the USA until mid-2014, the assets including hedge funds, private equity, and over 300 mutual funds (Joan & Thomas, 2015), increasing 76% since 2012 (William et al., 2016). On the global performance, UN-PRI recorded over 1400 signatories under their management that amounted to USD59 trillion of the asset until April 2015 (PRI, 2015).

However, the excellent performance of SRI asset in developed-countries is not synchronizing with developing and under-developed countries where the practices and impacts of SRI have not been sufficiently explored yet from emerging economies countries (Ruhaya et al., 2018). Although the performance of the SRI asset is increasing, the number of growth relatively still small and inconsistent. In Malaysia, for example, until the end of 2018, the green SRI issuers under SRI Sukuk frameworks amounted to RM 2.4 million or around USD 0.59 million compared to 2017 amounted to RM 1.9 million, which increase around 44%.

Generally, the SRI concept promotes any investment portfolio that preserves the issues of environment, social, and governance (ESG) in the investment decision process without side-lining investors' financial objectives. This integration takes place via various approaches such as investment decision-making, transparency, collaboration, active ownership, and broader support for these practices from the entire financial services industry (Organisation for Economic Co-operation and Development (OECD), 2007).

There are several acronyms for "SRI," such as Social Responsible Investment, Sustainable, Responsible, and Impactful Investments; Socially Responsible Investments; and others. However, regardless of the term used, it reflects the same fundamental aims and goals. SRI is a generic terminology that includes any type of investment process that combines the concerns toward issues of ESG and the investors' financial objectives (Moghul & Safar-Aly, 2014).

Figure 1. Relationship between ESG concept and SRI instrument



Source: self-constructed

Therefore, in driving the ESG concept, SRI are the main instrument or approach that has used to fulfill the ESG objectives. Besides, there are many investment products have been launched to support the SRI approach. Figure 1 shows a clear diagram about the structure between the ESG and SRI instrument.

On the other hand, with regards to the Islamic Financial Institutions (IFIs), Maqasid Shariah and Maslahah stands as the main objective to achieve while the operation and services of Islamic banks is the manifestation of the objective. The impacts of ignoring Maqasid Shariah and Maslahah will bring Islamic financial products to lose their intrinsic values and will become unacceptable in the global market. The application of the SRI concept has been practiced directly and indirectly by IFIs through several names and products offering since their establishment. It is because the main objective of IFIs services is to provide justice and social-welfare to society and human life (Dangulbi, 2012). Profit maximization not only to the main goals of IFIs, but it should attempts together with responsible, justice, and fair play at all levels of human interaction (Khan, 2002).

Islam is a divine revelation that embraces the whole aspect of human life, including economic and financial aspects. Islam also promotes a comprehensive and balanced development of the economy and emphasizes social welfare (Abbas & Askari, 2010; Mohamad et al., 2016). Moreover, this concept is in line with Maqasid Shariah (objective of Shariah) in Islam, which is to preserve the public good (maslahah) and promote the well-being of all humankind. At the same time, it is equally essential to omit evils or mischief (mafsadah) either from an individual or society because the maqasid will not consider valid unless it brings good and eliminates evils.

Since the SRI instruments are based on western philosophical perspectives while IFIs based on Islamic teaching, it is of considerable significance to investigate both concepts (SRI and IFIs) in terms of their commonalities and opportunities, therefore, this research is essential to bridge the two concepts, and in aspects alone they can work together to strengthen each other. Besides, the analyses in those matters are essential to ensure the future growth of SRI and IFIs are precise and guaranteed.

Moreover, this paper able to provide a clear understanding of another critical issue that should consider by IFIs, which refers to whether the practices of the concepts will fulfill the Shariah requirement or otherwise. Besides, this concern is in line with the views of Mohamad et al. (2016) and Marwan & Rabiah (2016), which mentioned that the IFIs requires careful identification and investigation regarding the desired social outcome. Overall, further work is needed to answer the issues considering that the SRI instrument cannot be simply adopted because it may raise the Shariah issue that will affect product offerings.

Based on the analysis in previous studies, there is a limited paper that links both concepts to analyze further. Most of the studies are based on one-dimension of views whether on SRI perspective or IFIs point of views such as studies by Wilson (2000); Shaikh (2014); Hebb et al. (2014); Joan & Thomas (2015); Ng (2019); Talan & Sharma (2019); and Ivanisevic (2019). Up to now, far too little attention has paid to the integration of more than one concept. Hence, this indicates that only a few published studies, which include the study

of Michael & Iqbal (2013) and Saeed and Kabir (2013) that conducted an analysis based on the views of SRI and Islamic finance perspectives. However, no research has found that explored the commonalities and opportunities of SRI and IFIs practices. Thus, this paper will analyze the integrations of SRI and IFIs, especially in terms of their commonalities and opportunities for those concepts.

Besides, SRI are a relatively new concept in the Islamic finance industry. Hence there are scarce sources of information regarding the concept with limited knowledge detailing its exact characteristics and practices. Besides, most of the people, including the industry players and academicians, are still not familiar with the SRI concept (Marwan & Rabiah, 2016). Hence, further research is needed to strengthen the current literature by providing empirical findings to support the past literature on SRI from the global and Malaysia's perspective. Proper findings on the current practices of SRI will provide a significant influence on the industry towards better management of these products. Thus, this paper also enlightens some aspects of the SRI concept from the global and Malaysian perspective.

The contribution of this research, such as, first, on behalf of the regulatory bodies (policymakers), this paper can offer the current data and information in the SRI and IFIs industry. Thus, policymakers can utilize the outcome of this research to make a better decision-making process. Moreover, the present study perhaps will help the regulatory bodies and policymakers to formulate strategies to develop and improve the current growth rate of SRI and IFIs industry by offering several initiatives such as through tax deduction, budget allocation, comprehensive guidelines, and others. Second, on behalf of the investors, the findings of this paper will provide valuable inputs in guiding them to make investment decisions. For example, information such as opportunities for both concepts will give valuable knowledge in choosing the right investment portfolios. Third, on behalf of the academicians, this paper will help to add the current academic literature specifically on the SRI concept that is still limited today.

Therefore, the paper organized as follows: after the introduction section, the next section discusses the methodology used in the present paper. While, next section is the finding and discussion part including definition of SRI concept and its performance around the world, SRI development as well as the current performance of SRI in Malaysia. Besides, this section also discuss related to the commonalities and opportunities between SRI and IFIs. The final section presents the conclusion and implication of the study.

Methods

The research methodology is a systematic way to solve a problem. In other words, it is a science of studying how research should carry out. Essentially, the procedures whereby researchers carry out their work of describing, explaining, and predicting phenomena are called research methods. Subsequently, the qualitative employed in the present study. According to Creswell (2013), qualitative research explains everyday, problematic moments, and meaning in individual lives through empirical materials such as case study, personal experience, interview, observational, visual text, and others. Meanwhile, it is essential to note

that all sources of data can be in the form of manuscript, newspaper, diary, picture, official and personal letter, and artifact. Moreover, it can also describe people using the method of the interview, which is then analyzed using ethnography (Bruce, 2001). Therefore, this paper applied the qualitative research method through document content analysis approach in order to answer the objectives of the current paper progressively.

More importantly, this approach allows the present study to collect data in the form of appropriate books, journals, reports, and other publications. Besides, data collected from recognized websites that discuss several issues related to the research objectives: *inter alia*, ESG, and SRI concepts which are associated with the Islamic teaching, links between the objectives and principles of ESG, SRI and Islamic financial institutions, the similarities between SRI and IFIs practices, and the opportunities for product innovations in Islamic financial products and services. The researchers were also engaged in seminars, forums, and various industry talks in order to understand the subjects of the present study further.

Result and Discussion

This section discusses six sub-topics, which are the definition of SRI and its performance around the world, the development of SRI in Malaysia, the current performance of SRI in Malaysia as well as similarities and the prospects between SRI and IFIs that can identify in this paper.

Definition of SRI Concept

No fixed term of SRI has achieved, despite the various acronyms that have been proposed by previous studies. The term of SRI has adopted several acronyms such as socially responsible investments (Syed, 2017; Michael & Iqbal, 2013; Endl, 2012; Renneboog et al., 2008; Statman, 2008; Abramson & Chung, 2000), sustainable, responsible and impactful investments (Centre for Islamic Wealth Management, 2015), and sustainable and responsible investment (Securities Commission Malaysia, 2014; Marwan & Rabiah, 2015). However, whichever term is using reflects the same fundamental aims and goals involving any type of investment processes underlined by investors' financial objectives and concerns toward the issues of ESG (Moghul & Safar-Aly, 2014).

This paper concluded to use sustainable and responsible investment (SRI) as the sole term due to several reasons. Firstly, most of the global institutions, authority' bodies such as Bank Negara Malaysia (BNM), referred to SRI as a sustainable and responsible investment. The term deems as suitable to accept for the international readers, and any changing a well-known acronym will inflict conflict on the reader. In detail, a standard definition of SRI is: "Integrating personal values and societal concerns with investment decisions" (Joan & Thomas, 2015; Statman, 2006; Shank et al., 2005; Schueth, 2003). SRI also has defined as an investment strategy that emphasizes the combination of financial return with other social and environmental benefits (Kassim & Abdullah, 2017; Brzeszczyński & McIntosh, 2014; Fung & Yau, 2010).

On the other hand, sustainable investing is an investment approach that combined

financial objectives with the concerns on environmental, social, and governance (ESG) factors in portfolio selection and management (Saeed & Hassan, 2013). SRI refer to investing based on social criteria, such as avoiding controversial industries involving tobacco, alcohol, or gambling. Generally, SRI has developed to enhance the investment decision-making by considering social well-being as well as profit factors. Endl (2012) and Ruhaya et al. (2018) stated that SRI had encouraged corporate practices that promote issues such as environmental stewardship, sustainable use of natural resources, customer protection, quality of labor, and jobs.

Therefore, SRI can conclude as an investment instrument with specific unique purposes. Generally, the main aim of SRI is to rollout the projects related to the ESG and provide more concerns towards the issues. Besides, the objectives of the investors remain as one of the goals for the project involved.

Snapshot of World Performance on SRI

Currently, SRI shows significant growth, especially in developed countries. According to the Global Sustainable Investment Alliance (2016), the total asset managed by SRI globally reach USD 22.9 trillion in 2016, increased by 25.2% compared to USD18.3 trillion in 2014. From the total global assets, Europe still leads at USD12, 040 billion in 2016. This condition follows by United States (USD8, 723 billion), Canada at USD1, 086 billion, and Australia/New Zealand amounted to USD247.5 billion, respectively. The SRI global asset estimates could reach around USD 34 to USD53 trillion by 2025 (Barclays Report, 2014) with the popular areas in the environment and its preservations (World's Islamic Finance Marketplace Report, 2016).

In terms of growth, which recorded SRI assets from USD7 billion in 2014 to USD474 billion in 2016 and the compounded annual growth rate of 724%, Japan is the world's fastest-growing country in SRI. One of the exciting trends in Japan is that the participation of individual (retail) investors' higher than the participation of institutional investors. In 2016, the SRI asset of Japanese institutional investors was ¥56.25 trillion, while the individual investors were ¥57.05 trillion (Japan Sustainable Investment Forum, 2015). Besides, Australia/New Zealand also shown a clear shift towards SRI instruments is where the total managed asset increased substantially from only 16.6% in 2014 to 50.6% in 2016.

In terms of the type of investors, Michael & Iqbal (2013) stated that the highest demand of the SRI industry comes from institutional investors that driver of market growth. However, this trend has slowly switch when the growth of retail investors' assets has increased from 13.1% in 2014 to 25.7% in 2016. While, the institutional investor owning reduced from 86.9% in 2014 to 74.3% in 2016 (Global Sustainable Investment Alliance, 2016). Based on the data, it can conclude that the performance of the SRI asset is increasing significantly all over the world. Besides, this growth also indicates that the future of SRI a bright, and the investors and stakeholders nowadays became more aware of the ethical investing, especially to overcome the issues of environment, social, and governance to ensure future sustainability.

The Development of SRI in Malaysia

In Malaysia, the SRI was concept that officially announced by the former sixth prime minister of Malaysia in 2014's Budget Speech on 25 October 2013. In his speech, the prime minister affirmed Malaysia's aspiration to become a home for SRI through Sukuk products. He also called for enhancement efforts to promote the country as a home for SRI in order to maintain Malaysia's position as a leader in the Islamic capital market and improve the country's competitiveness in the global ranking. The efforts included RM1 billions fund allocated for companies with high ESG Index (Wahab & Naim, 2019).

Thus, the Securities Commission (SC) revised its Sukuk guideline in August 2014 by incorporating new requirements for the issuance of SRI Sukuk. Part E, Chapter 20 of the Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors clearly explains the objective of SRI Sukuk for projects that aim to preserve and protect the environment and natural resources, conserve the energy use, promote renewable energy, reduce greenhouse gas emission, and improve the quality of life for the society. The guideline also highlighted the details of the project for each component, as well as the assessment and disclosure requirements for the issuer (Securities Commission, 2015).

Among the objectives of the launched SRI Sukuk guideline are to meet the demand of retail and investors' needs, which is to access a broader range of investment products and facilitate greater participation in the Sukuk market. Besides, the guideline also plays a role as an indication of growing concerns over the environmental and social impact of business; and higher demand for more robust governance and ethics from businesses. Besides that, this SRI Sukuk also to facilitate the creation of a conducive ecosystem for the SRI investors and issuers (Securities Commission Malaysia, 2014).

On 22 December 2014, the SRI Index launched by Bursa Malaysia that known as the FTSE4Good Bursa Malaysia (F4GBM) index alliance with the Financial Times Stock Exchange as part of the worldwide FTSE4Good Index Series. The index also aligned with other leading global SRI frameworks such as the GRI and the Carbon Disclosure Project. Through this initiative, the player in the industry, such as the investors, shareholders, and clients expect the companies will provide a greater responsibility and transparency in their investments. Furthermore, government Malaysia through Valuecap Sdn. Bhd. Which is one of the government-linked investment holding company allocate RM one billion to create an SRI fund used to buy shares from the Bursa Malaysia SRI index (Ruhaya et al., 2018).

The development of SRI in Malaysia continues when the Malaysian Government through their agencies such as SC, Bank Negara Malaysia (BNM), Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) and GreenTech Malaysia actively launched several initiatives to promote SRI as a new hub of investment instrument to the local and international investors. Among the initiatives were introduced as the guidelines and frameworks, tax deduction, tax incentives, and financing incentives scheme.

Current Performance of SRI in Malaysia

The SRI industry has grown immensely, as illustrated by the increase in the number of investors and the number of assets under its management (Marwan & Rabiah, 2015). Besides, financial products based on the SRI concept have strong demand and good growth potential. This argument support by Marwan & Rabiah (2015) and the World's Islamic Finance Marketplace Report (2016), which stated that the global SRI has a massive potential due to the rapidly growing demand despite still being a nascent industry.

In Malaysia, SRI through Sukuk products has shown rapid growth. On 18 June 2015, Khazanah National Berhad (Khazanah) issued Malaysia's first SRI Sukuk with a value of RM100 million and a periodic distribution rate of 4.30% per annum. The structured Sukuk offer under a new method of "Trust Schools Programme" fund under the capital market. Funding from the SRI Sukuk has utilized to fund 20 schools under Yayasan AMIR's (YA) Trust School Programme. YA is a non-profit organization under Khazanah, which establish to improve the quality of education in Malaysian public schools (World's Islamic Finance Marketplace Report, 2016). Khazanah, on 13 June 2017, announced its intention to issue another RM100 million of SRI Sukuk as a continuation of the first SRI Sukuk to roll out more schools under the Trust Schools Programme. The second SRI Sukuk is part of Khazanah's continuing efforts to push innovation in Islamic finance and support Malaysia's position as a global Islamic financial center.

In July 2017, Tadau Energy Sdn. Bhd. is one of the renewable energy and sustainable technology investment firm issued the world's first green Sukuk under SC's SRIs Sukuk Framework amounted to RM250 million. This project indicated that the successful collaboration between SC, Bank Negara Malaysia, and the World Bank in their efforts to facilitate the growth of SRIs Sukuk and bring more awareness to the market.

Following the success of Green SRIs Sukuk Tadau, Quantum Solar Park Malaysia Sdn Bhd launched the world's largest green SRI Sukuk amounted to RM1 billion in October 2017 to fund the construction of Southeast Asia's largest solar photovoltaic plant project in three districts: Kedah, Melaka, and Terengganu. This project is the largest solar power project of its kind in South-East Asia and will generate about 282,000MWh of electricity to Tenaga Nasional Bhd yearly for 21 years. By the end of 2017, Malaysia saw the issuance of four green SRI Sukuk, totaling RM3.5 billion to finance solar projects and green buildings (Capital Market Malaysia, 2018).

The growth of SRI in Malaysia continues when the companies such as PNB Merdeka Ventures Sdn Bhd (December 2017), Sinar Kamiri Sdn Bhd (January 2018) and UiTM Solar Power Sdn Bhd (April 2018) starts to issuer their projects under the SRI Sukuk guideline. Until the end of 2018, the Sukuk issuers under SRI Sukuk frameworks up to RM882.3milions from the issuers of three megaprojects (Securities Commission Annual Report, 2018). This achievement indicated that SRIs in Malaysia have a bright future to be grown.

The Commonalities between SRI and IFI

Generally, SRI and Islamic finance share the same fundamental aim, which is to utilize the funds with high morals and ethics. SRI use funding and investment activities to express

individual and institutional values or advance the institution's mission (Caplan et al., 2013). Besides, SRI investing also aims to improve investment performance, outcomes and the benefits to the society through varieties of the social program such as to overcome the issue of poverty, unemployment, homeless, healthcare, criminal offending and others (Marwan, 2015). This motion contradicts the traditional conventional finance practice, which mainly focuses on maximizing the profits. However, the contradiction with conventional practice does not mean SRI and Islamic finance practices sidelined the profits generation purposes. Both concepts do not only focus on economic returns but also emphasize on the social returns from the practices that are compliant with their beliefs and ethics.

SRI is a moral investment initiative based on the belief system that an institution should be observed the ESG issues despite the financial consequences. These approaches will use the specific fund to solve the societal problem (Kassim & Abdullah, 2017). Hopefully, it will give positive impacts to the environment in particular and the society at large such as pollution control, alleviating poverty, providing necessary infrastructures, among other schools and hospitals, avoiding corruption and other social problems. Besides that, Caplan et al. (2013) added, SRI investing activities on social criteria also refers to avoiding controversial industries/investment such as tobacco, alcohol or gambling based on specific moral or ethical guidelines. Therefore, SRI has developed to enhance the investment decision making to consider the factors ESG issues, social well-being as well as profit generated through a set of approaches included a selection of specific investment, retention and rejection process.

On the other hand, IFI derives from Islamic law that comprises a set of principles and requirements that should be followed by the followers. IFI very concerns with the specific principles that embedded in their daily operation such as fairness, equality, and ethics that led to social well being (Ziauddin, 2003; Laldin & Furqani, 2013; Syahiza et al., 2015). Besides, IFI also emphasizes social justice and economic prosperity for the society as well as encourages sustainable economic activity.

Besides, the establishment of IFI also aims to fulfill the Maqasid Shariah (Objectives of Shariah) and *maslahah* (public good). Maqasid shariah can divide into two elements, which are attracting the benefit and maintaining those benefits. Another dimension for Maqasid Shariah by determining the focus of maqasid on human lives is to the protection of religion, lives, intellect, lineage, and wealth (Al-Kaylani, 2009; Laldin & Furqani, 2013). In this context, IFI closely related to the protection of religion and wealth. The functions of IFI, among others, to ensure the circulation of Muslims' wealth are secured, justice distribution, well managed, and others. Besides, in the context of religion protection, IFI also responsible for ensuring that any transactions manage by them are free from any elements that prohibited in Islam, such as the elements of usury, gambling, and uncertainty. Through this approach, the IFI able to guaranty that the protection of wealth and religion always became their priority in dealing with daily operation transactions.

Therefore, the objectives of SRI and IFI have clearly illustrated as a socially responsible financial tool that is in line with the Islamic concepts of Maqasid Shariah and *Maslahah* (Dusuki, 2005; Laldin & Furqani, 2013). Regarding this matter, issues such as the preservation

of life, improvement of life quality, and preservation and promotion of mind/intellect of youth directly related to the Dharruriyat (necessities) of Maqasid Shariah. Apart from that, the SRI concept also denotes the principles that promote socio-economic justice, repulsion of harm, and encouragement of the practice of ethics and morality in financial practice, which is in line with Islamic principles (Wahab & Naim, 2018).

Next, SRI and IFI also shared the similarities in terms of growth rates. Islamic finance and SRI have been two of the most rapidly growing areas of finance over the last two decades. During this period, those industry's growth rates have substantially exceeded the financial market's growth rates as a whole (Michael & Iqbal, 2013). The total current assets of IFI globally have increased from USD1.4 trillion in 2015 to USD1.5 trillion in 2016 (Islamic Financial Services Board Report, 2017). The total current assets are estimated to continue growing and will reach USD1.8 trillion by the end of 2020, recording 16% to 17% year-over-year (y-o-y) growth. The Islamic banking sector has been leading the growth with almost 93% share of the global IFI in 2020 (Islamic Financial Services Board Report, 2017).

There is the same correlation with the growth of SRI assets. For example, in 2013, the total volume of assets held by explicitly SRI investors exceeded US\$3 trillion, having increased by more than 30 percent since 2005. At the end of 2015, the total asset managed by SRI globally has reached USD22.9 trillion, increased by 25.2% compared to USD18.3 trillion in 2014 (Global Sustainable Investment Alliance, 2016). In both instances, the growth indicates that investors seek to achieve a healthy return on their investments; and similarly, they also concern about social returns to society and not only real economic return. Thus, SRI and IFI could broaden its investment portfolio by connecting these overlapping core values in order to access a large amount of SRI and IFI funds globally available today.

The Opportunities

In ensuring that the IFI will continue to grow in a highly competitive market, a new value proposition needs to formulate to capture the future preferences of investors and customers. Product innovation is one of the tools created in the new value proposition for IFI. The continuous and concerted efforts needed in order to provide a new direction for the Islamic finance industry through innovative financial propositions. It will bring the industry towards contributing to the social responsibility-based activities development agenda. This effort will not only from the introduction of innovative products but would also help in sustaining its growth by participating in the various portfolio.

Currently, IFI expects to play more effective intermediation functions, display better asset quality, and not only focus on managing funds. IFI asks to serve a better outcome to human well-being, such as providing sufficient efforts in risk-sharing and socially responsible activities, including responsible financing, embracing ethical investment, social impact financing, helping to alleviate poverty, and providing socio-economic security to the people. IFI has also asked to give more focus on Islamic social paradigm activities instead of being stuck in commercial intermediary functions.

In this regard, SRI Sukuk has a high potential to be developed as an innovative Islamic

financial instrument that can use to address specific community and social issues. Besides, SRI Sukuk also would help to enhance Islamic finance towards realizing its underlying philosophy of economic justice and social balance. Therefore, the SRI concept can be one of the new value propositions for IFI. Some researchers claimed SRI as one of the best product innovations in the Islamic capital market (Marwan & Rabiah, 2015; Mohamad et al., 2016).

However, the Islamic finance industry should make a proper decision before actively involved in these concepts, although the global practices highly encourage SRIs and green bond concepts in their investment portfolios. IFI should consider the Shariah risk issue as to whether the practices of those concepts will fulfill the Shariah requirement. For example, Mohamad et al. (2016) mention that the IFI need to conduct careful identification and investigation of a desired social outcome. Simply adopt the SRI concept may raise Shariah issues that will affect the product offerings.

Conclusion

The Islamic finance industry has shown rapid growth over the last two decades. However, there are still enormous rooms for improvement to achieve the industry's full potential. This condition is possible by raising their efforts to improve society and address issues such as poverty and socio-economic security besides the initial effort to achieve profits. The emergence of innovative financial tools such as SRIs that promote social impact on top of financial returns may become an avenue for Islamic financial institutions to improve. On the other hand, SRI can be one of the tools to diversify the financial portfolio in Islamic financial institutions. Moreover, SRI also contributes towards the social impact project and strengthens the Shariah requirement by fulfilling the principles of Maqasid Shariah and Maslahah. Hence, continuous efforts are needed from the authorized body in the Islamic financial industry to facilitate the development of SRI. The ideas and objectives of SRI need to be promoted further in order to create greater awareness and attract more interest in the market.

Thus, this paper concluded that SRI and IFI have their strength and opportunities that can utilize each other. For IFI, it is the right time for them to bridge the gap between Islamic financial theory and practice by developing and utilizing tools that embody the principles of Islamic finance through the SRI concept. For SRI perspectives, as the newcomer to the industry with the excellent growth rate especially in developed and developing countries, SRI can play the vital roles to educate and create awareness among the investors, managers, and others to consider the issues of ESG in their investment decision portfolios.

Several limitations can identify in this study. First, in the broad idea, this research focuses on Malaysia's perspective, but undeniably, the finding might be useful to international practices. However, many data obtained from previous studies generate from international papers due to the lack of data from local research. Second, this paper purely bases on previous studies in nature. Thus it is possible to the researches that might be overlooking the more precious papers that very related to the topic.

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