



RESEARCH PAPER

The Impact of Personal Religiosity on Individuals' Investment Decisions

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ABSTRACT

This study has investigated the impact of personal religiosity on individuals' decision on real estate investment opportunities in Pakistan. The Islamic religiosity has been operationalized into its four determinants including religious knowhow, current religious issues, sensitive input for goods and services, and Islamic financial instruments. Primary data has been collected from the individual real estate investors in Pakistan capital city, Islamabad. Analysis of the data reveals that religious knowhow negatively impacts the investing decisions, knowledge of current religious issues and views about the Islamic financial instruments impact the investing decision positively. While opinion about sensitivity of the inputs into to goods and services does not impact the investing decisions. The stakeholders including the investors, developers, and the regulators in the real estate sector are recommended to allow due weightage to the elements of religiosity while investing, developing, and regulating real estate investments.

Keywords: Investments, Real Estate, Religiosity

Introduction

The Investments are important component of economic growth (Dinh, Vo, & Nguyen (2019). The importance grows many folds for the developing countries like Pakistan, where investments not only act as a cushion against political and economic turbulence, but also provide timely cash flows in much needed times (Khan, et.al., 2019). The availability of stable investment avenues in these countries not abundantly available as in the developed countries (Shabbir, Kousar, & Batool, 2020). This non abundant availability is further restricted when the regulatory framework for the financial markets gets influences by religious code about what is forbidden (haram) and what is not (halal). This restriction further tightens when seen in lens of religious beliefs, understanding and practices (Alzahrani, 2019).

This study has investigated the impact of Muslim religiosity on the investment decision of the investors in real estate sector of Pakistan. This might sound a niche' form investments research point of view, but does deserve attention of academic researchers. The importance of such research is amplified in the backdrop of the absence of formally organized investment platforms. Developing economies are characterized by flourishing securities markets (Miloş, et.al., 2020). These markets offer trading of the securities for financial instruments including equity, debt, and derivatives. Typical markets would include stock exchange, commodities exchange, and currency markets (Ali, et.al.,2020)

The understanding of Muslim religiosity has gained importance since 9/11, since when an element of extremism has been attached with the Muslim population in the world. Muslim religiosity has been researched from various dimensions, most of which pertains to determining motives behind violent actions causing social fear and disturbance (Adnan & Amaliyah, 2021). A little has been researched around the impact of Muslim religiosity on their investment decisions. A deeper understanding of the same may provide an insight to whether Muslim religiosity impacts their investment decisions, and if it does, what triggers the investment behavior, and what deters the same.

In addition of having an insight, its significance gains importance in the backdrop of the absence of formal trading platform for over-the-counter trading of the real estate investments. Pakistan has just initiated first of its real estate investment trusts (Canbaz & Ahmed 2022) The real estate sector in its entirety is informal, as in many developing countries. Despite being among the largest sectors attracting investments from masses, the requisite legislation seems to be far from being framed. Non-financial triggers are likely to gain importance, of which religiosity is one. This trigger has gained importance in past few decades, given the initiation of Islamization late 1970s. One may tend to differ, but the manifold growth in Islamic banks in Pakistan is evident of the economic opportunities, based religiosity in Pakistan (Shahzad, Malik, & Irfan, 2019). A deeper understanding of the same might allow the economic actors to capitalize on the prospective opportunities.

It is unlikely to agree on a uniform scale for religiosity, as different religion operationalize religiosity in different meanings (Villani, et.al.,2019). This study has considered Muslim religiosity, for which a uniform scale is non-existent on account of existence of different sects and schools of thought. However, the religious know how, knowledge of religious issues, view of halal and haram, and investment in Islamic financial instruments have been selected as the key determinants of Muslim religiosity for this study.

Literature review

Religion is an important facet of human life, history, civilization, and future outlook (Hanegraaff, 2020). Moral beliefs, ethical conduct, and human behavior is influenced by religion to a larger extent. It provides a sense of connectivity among masses, nevertheless has also been the reason for differences which could not be settled less than wars. Religions may be segmentized into four key components, which are social organization, practices, mythology, and beliefs. Muslims believe in one God, and are often known as monotheists (Zarepour, 2022).

Religiosity may not have a standard definition, but found to be synonymous with devotion, holiness, faith, belief, piousness, and orthodoxy. It is broadly comprised of the degree to which an individual gets involved in religious practices, is influenced by religion, and draws hope based on the religious teachings (Aman, et.al., 2019). it may be divided into three types, i.e., pragmatic religiosity, gnostic religiosity, and experiential religiosity. Its importance may not be undermined as the believers draw divine comfort and guidance from religiosity. Some make it a source of taking important decisions, may those be social decisions or financial decisions (Singh, et.al.,2021)

This study has taken into account the quantum with which religiosity impacts individual investment decisions of the real estate investors. Measurement of religiosity is relative, suggesting numerous indicators such as the power of religious institutions within a society, number of people engaged in religious rituals, the time they devote to such activities, and the strength of religious beliefs (Aman, et.al., 2019). Various scales have been developed by scholars keeping in view the purpose, scale, and scope of the need to develop the same. This study has taken the religious know how, knowledge of current religious issues, view of halal and haram, and investment in Islamic financial instruments, as the key

determinants of Muslim religiosity influencing the real estate investment decision of the individuals.

Shahid, Patel, & Pan (2022) examine the influence of intrinsic Islamic religiosity on investment decisions in the wake of firm facing alleged environmental degradation in Pakistan, while operationalizing the Islamic world view. The findings, based on a sample of 176 junior business executives, reveal that investor high on score for the Islamic world view are less likely to invest in profitable firms involved in environmental degradation, than the ones low on score for Islamic world view. It presents a case for positive impact of the religious knowhow on investing behavior of the individual investors.

Chircop, Johan, & Tarsalewska (2020) investigate the relationship between geographical religiosity and venture capital investment decisions. Using a sample of over 90,000 venture capital investments in the United States, the study finds a positive relationship between religiosity and risk aversion, which stands in conformity with the prior literature. They elaborate the findings by concluding that the venture capitalists located in countries with high religiosity are more likely to invest in expansion stages of the portfolio companies. Also, the venture capitalists in religious countries tend to be more risk averse than the ones located in countries with less religiosity.

Mehta, Singh, Mittal, & Singla (2022), while investigating the relationship between religiosity and socially responsible investing in India, find that religious minded individuals are more likely to indulge in socially responsible investing. India, having geographical and cultural similarity with Pakistan, and having Muslim population larger than Pakistan, provides meaningful input in terms of the context, setting, and unit of analysis for the research studies.

Same issue has been taken up by Shahid (2022) in a doctoral dissertation providing empirical evidence of the Islamic religiosity's impact on socially responsible investing. The study addresses the controversies about child labor in Pakistan in the back drop of socially responsible investing on the part of investor, segmented as religious minded, and non-religious minded investors. The findings suggest that the religiosity has a positive relationship with socially responsible investing.

Li (2022) documents the relationship between the financial risk taking and religiosity in the setting of Europe's geographical settings. The findings suggest that religious households are less likely to indulge in the risk taking, particularly where Protestantism is wide spread as compared to Catholicism. The results have also been verified in the Chinese setting through a lab experiment. The study confirms that the content of religious doctrines rather than religiosity per se risk-taking.

Sunesti and Putri (2022) study the rising trend of opting for sharia (Islamic faith-based) housing finance among Muslim youth in Indonesia. The demand for sharia compliant housing has grown exponentially for past five years in Indonesia, especially in last two years. The interview-based study finds that economic reason for opting for the sharia compliant housing prevails over ideological reasons, among the millennials. This dispels the impression of youth investing in housing is driven by religiosity. Furthermore, there is a need to see economic proposition and religiosity as two distinct factors. Though both may form buying behavior, but the intersection in terms of commonality and contrast between both, needs to be investigated.

Ramazani and Kermani (2022) study relationship between conspicuous consumption and Islamic religiosity in Mashhad, the second most populous city in Iran, and a popular destination for religious tourism among Shia Muslims. The study, unlike the former investigations, shows a strong association between Islamic religious commitment and conspicuous consumption. It also identifies the gender, social media, and income level

as important determinants of the conspicuous consumption. The study poses a challenge to the conventional understanding about the issue, and justifies the findings by validating the same in rich middle eastern Islamic countries. The findings are of material significance when Islam disapproves excessive consumption by notion of *Israf*.

Kahsay, Kassie, Medhin, & Hansen (2022) review the growing evidence that socio-economic settings are affected by religiosity in Ethiopian settings. The study investigates the individual farmers' risk preferences in rural Ethiopia, through combination of a lab and in the field experiment. The findings reveal that religious farmers are risk takers. Their risk taking is based on the belief that God has the ultimate power in determining an out come to be certain or uncertain. The findings are confirmed through a focus group.

Independent audit verification in an integral part of financial reporting and responsible investing. Adeel, Patel, Bennie, & Ying (2022) extend the existing literature by providing evidence for the importance of Islamic religiosity for auditors to frame their judgement in Pakistan. The study uses construct of the Islamic worldview (IW). The findings support that the auditors with low IW score are more likely to take clients with uncorroborated low-reliability client -provided evidence. This supports the study hypothesis that auditors with low IW score prefer to exercise more judgement.

The triangle of religion, science, and politics has attracted substantial attention from the researchers, historically. The political economy of science, religion, and growth has been discussed by Bénabou, Ticchi, & Vindigni (2022). The study uncovers a negative relationship between a patent's per capita and religiosity. This relationship is then combined with scientific discoveries that raise productivity but erode religious beliefs, government's incentives to diffuse / allow innovations, and religious institutions investing in doctrinal reforms. The findings reveal that the Western-European secularization regimes have declining religiosity, the theocratic regimes involve knowledge stagnation, and the American regime combines scientific, unquestioned dogma, and religious public goods spending.

Investing necessitates the need for financial instruments, financial markets, requisite legislation, and legitimate regulatory framework. The increase or decrease in the demand of religiosity based financial instrument may also be considered as one of the triggers to establish any role religiosity has in setting the investment preferences for the investors. Iqbal (2020) seek to analyze the personal religiosity in conjunction with financial literacy, as a determinant for consumers demand for Islamic financial products in Pakistan. One may contest the sample being collected from Peshawar, a religious centric city in Pakistan, but the findings reveal that religiosity and financial literacy materially influence consumer demand for Islamic financial products.

The discussion in previous para presents a brief view about the role of religiosity on financial decision making. This study has investigated the impact of personal religiosity on individuals' real estate investment in Pakistan. keeping in view the dimensions of personal religiosity, selected for this study, the hypotheses are framed as follows

- H1: Religious knowhow impacts an individual's investing decision.
- H2: Opinion on current religious issues impacts an individual's investing decision.
- H3: Opinion on controversial inputs impacts an individual's investing decision.
- H4: Views on Islamic finance impact an individual's investing decision.

Material and Methods

Primary data has been collected from 296 investors within Islamabad, the capital city of Pakistan. Investment limit has been confined between \$100,000 to \$1000,000 for the purpose of drawing a relative inference, removal of subjective bias, and developing a measurable point of reference. The investments option has been kept as a piece of land, a constructed property in form of an apartment either detached or semidetached, commercial or domestic. The geographical vicinity of investment has been kept as anywhere within Pakistan. 400 questionnaires were distributed using google forms online platform. The confidentiality of participants has been insured through anonymity, where participants opted for it. 104 responses were rejected on account of incomplete, insufficient or conflicting responses. SPSS has been used to analyze the data for the input variable collected on a Likert scale. The model has been developed as follow

$$ID_{it} = \alpha_i + \beta RK_{it} + \beta CI_{it} + \beta SE_{it} + \beta IF_{it} + \mu_{it}$$

Where;

ID_{it} = Investment decisions as the dependent variable

RK_{it} = Religious knowledge about key elements and rituals

CI_{it} = Current religious issues of significance

SE_{it} = Sensitive elements / ingredients in term of inputs for products and services

IF_{it} = Islamic financial instruments

Results and Discussion

Brief results and presents below along with the findings

Table 1
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	.305 ^a	.093	.081	.41352

a. Predictors: (Constant), IFS, PWSE, CI, RE

Regression analysis is used for analyzing the relationship between independent and dependent variables, narrating the extent of in dependent variable occurs due to change in independent variables. The above table shows that value of R is 0.305 that is for all four variables. It depicts that one-unit change in all four independent variables will bring 30.5% increase in decision making.

Table 2
ANOVA^a

Model	Sum of Square	df	Mean Square	F	Sig.
Regression	5.102	4	1.275	7.459	.000 ^b
Residual	49.761	291	.171		
Total	54.862	295			

a. Dependent Variable: DM

b. Predictors: (Constant), RK, CI, SI, IF

The above ANOVA table is used for testing that whether or not the relationship between independent and dependent variables is significant. As the value of F is greater than 2 and significance level is less than 0.05. This depicts that the relationship between all four independent and one dependent variable is significant.

Table 3
Coefficients ^a

Model	Unstandardized Coefficient	Standard		T	Sig.
	B	Error	Beta		
Constant	2.448	.232		10.565	.000
RK	-.293	.076	-.251	-3.854	.000
CI	.245	.056	.270	4.343	.000
SE	.109	.078	.082	1.401	.162
RF	.216	.069	.180	3.128	.002

a Dependent Variable: DM

The Coefficient table is used to test all set hypotheses. In this study the relationship between Religious Knowledge (RK) and Decision Making (DM) is significantly negative (-3.854, 0.000). As value of beta is -.293 so it means with one unit increase in religious education, the decision making will be reduced by 29.3%. Moreover, the relationship between Current Issues (CI) and DM is significantly positive. As value of beta for CI and DM is 0.245 that means one unit increase in CI will result in 24.5% increase in DM. In contrast to this, in case of the relationship between Sensitive Inputs (SI) and DM, there is insignificant relationship between these variables as value of t is less than 2 and significance value is greater than 0.05. In addition to this, there is a significant relationship between Islamic Financial Services (IF) and DM, as value of t is greater than 2 and significance value is less than 0.05. On the basis of above analysis, H1, H2 and H4 are accepted and in contrast to this, H3 is rejected.

Table 4
Reliability Statistic

Cronbach's Alpha	No. of Items
.802	66

Reliability statistics is used for testing that whether or not the research instrument used in the study is consistent with the research topic. When value of Cronbach's alpha is more than 0.6, then it shows that questionnaire is reliable. As the value of Cronbach's alpha is 0.802, so, it means the questionnaire is reliable.

Table 5
Summary Statistics for IV

		Minimum	Maximum	Mean	Std. Deviation
RK	96	1.23	2.86	2.09	0.32
CI	96	1.67	2.35	1.97	0.30
SE	96	1.08	3.00	1.74	0.34
IF	96	1.00	2.56	1.49	0.35
Valid N (listwise)	96				

The above table includes descriptive statistics for the independent variables. The maximum value, minimum value, mean value, and the standard deviation for these variables are presented above.

Table 6
Results of Hypotheses

Hypotheses	Results
H1: Religious knowhow impacts an individual's investing decision.	Accepted
H2: Opinion on current religious issues impacts an individual's investing decision.	Accepted
H3: Opinion on controversial inputs impacts an individual's investing decision	Rejected
H4: Views on Islamic finance impact an individual's investing decision	Accepted

The findings based on the results have been discussed in the previous section, along with the summary about acceptance / rejection of the study hypotheses. The findings reveal that the respondents' religious knowhow, opinion about current religious issues, and their views on the Islamic financial instruments impact their investing decisions. While their opinion about controversial / sensitive inputs in the goods and services does not impact their investing decisions. Pertinent to mention that this study has taken real estate investment into consideration to elaborate the investing decisions.

Important to note that out of the three of four study independent variables impacting the individuals' investing decisions, the religious knowledge negatively impacts, while the opinion of current religious issues, and views about Islamic financial products positively impacts the individuals' investing decisions.

Only variable not impacting the investing decision is the respondents' opinion about controversial input in goods and services. This does make a rationale, once seen in the backdrop of real estate investing. The instances of controversial input may be use of haram ingredients in food products, which clearly shows no impact when it comes to investing in the real estate investment opportunities.

Conclusion

Based on the analysis and discussion it may be concluded that religiosity impacts investing decisions of the individuals. Portfolio managers may be advised to keep the same in view while crafting out the investment opportunities, may the opportunities be in real estate sector or any other.

The rise of Islamic banks in countries with Muslim majority population is evident of the finding that religiosity is being kept in view while attracting investment from the investors. The recent development of real estate investment trusts (REITs) in Pakistan is a tangible example of the same.

This study has taken only four of the religiosity's determinants into account for the reason of specific unit of analysis. future studies are recommended to use more variables or established scales in different unit of analysis. further this study has used real estate investing only, while more investing avenues may be used in the future studies.

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