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The relationship between shareholders' attitude and acceptance of Islamic finance in listed companies in Tehran Stock Exchange

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Abstract

The aim of this study is that the stakeholders in the Tehran Stock Exchange willing to accept Islamic finance as one of the methods of financing or not. This applied research as well as correlation studies there. The population of the Tehran Stock Exchange's shareholders which 410 were selected by random sampling available. To test the hypothesis using structural equation modeling with helpe LISREL software was used. The results show that the attitude of the shareholders to accept Islamic finance is positive. But religious beliefs shareholders on attitude toward Islamic finance was not significant. As well as knowledge and awareness, cost benefits and business support stakeholders' attitude towards Islamic finance were affected.

Key words: financing, Islamic finance, stakeholders' attitude towards Islamic finance

Introduction:

Islamic finance refers to providing capital, financial services and instruments that are based on Islamic Sharia laws and regulations. Today, Islamic finance has emerged as a new source of economic growth but other methods have been used instead due to the lack of awareness among the industry and business players on Islamic financial system (Aida Jaafar and Mosa, 2014). In Islamic finance, the relationship between the financer and the applicant is like the relationship between a buyer and a seller, an agent and a

manager or an investor and an entrepreneur. This relationship is not like the relationship between the lender and the borrower as it is in Western banking. The participation-based methods will be able to eliminate one of the main sources of instability in the financial markets. Also, by connecting the profits obtained from the intermediaries' activities with the real income obtained from capital, the asset allocation for special projects will be done more easily. However, in recent years, with the predominance of the non-participatory approaches in Islamic banks, these benefits have decreased to some extent; however, the Islamic financial system is still superior to any other system in boosting the production of goods and services, the main factor being to provide the required opportunity for the formation of a real economy, an economy in which money is regarded as the intermediary of transactions, not as the goal. Pecuniary exchanges (as found in other traditional systems) look more like a game of chance and luck and do not have to do with production of goods and services. Prohibition of usury has made the money return to its original role, i.e. the medium of exchange and not be merely a means of gambling and chance (Hanif & Iqbal, 2010). The sector of small and medium enterprises, which constitutes an important part of economic development, is the most important source of financing, of banks' facilities provided either in the form of loans (common in the usury banking system) or in the form of facilities (Islamic contracts). However, besides banks, capital market plays a key role in large firms and massive industrial development. In this sector, the role played by banks increases from the loaner to the investor and banks help the capital markets regarding the financing of production (Gait & Worthington, 2009).

One's Attitude can play an important role in his life and how he does his activities with other human beings. If the person gets involved in buying shares at the Stock Exchange in the course of his investment, his attitude will have important results. Attitude is influenced by factors such as feelings, values and norms and attitude is a basis for a person's behavior. Shareholders' attitude plays a major role in promoting the production and services of the growing industries and organizations, and improving the health and well-being of human resources in workplaces (Robbins, 2008). Investigation of behavioral attitudes toward the behavioral sciences is a worthwhile research area which demands researchers' further attention. Theories and research findings have focused on the relationship between individuals' attitudes and behaviors. The studies conducted by Barron and Bern (1979), Warren and Jahoda (1973) and Taylor et al (1997) can be mentioned as a few examples of such studies. An organization's performance is the basis of the global and national performance from the economic, social and environmental aspects. If such a performance is positively or negatively influenced by the shareholders' behavioral attitudes, we need to broaden our understanding of the shareholders' type, way and conditions of work as well as of their financial attitudes. The financial resources of a firm can be supplied by the firm owners and its shareholders (internal resources - undistributed profit) or through external sources that are sources other than the shareholders' capital. Most firms usually turn to financial markets in order to continue their activities as well as for their growth and prosperity. These markets can provide entrepreneurs and owners of firms with a lot of financial resources with specific prices and provide their short- and long-term financial needs in different ways (Zimmerer & Scarboroagh, 1996).

Focusing on specific organizational tasks makes it possible for a unit to achieve a deeper knowledge of the field of work and efficiency of dealing with the problems in its specialized area. Instead, focusing on blind spots and prejudices that lead to erroneous interpretations and responses about the indicators of the organizational environment can be the beginning of a downtrend in this field.

Aida Jaafar and colleagues (2014) investigated in their article the relationship between shareholders' attitudes and the Islamic financing methods. They conducted an applied and survey-type study. The results indicate that shareholders do not have a positive view towards the Islamic financing methods. Also, only 18 percent of the shareholders of the companies listed in the Malaysia Stock Exchange are familiar with the Islamic finance methods and 82 percent of them do not have any knowledge of these methods.

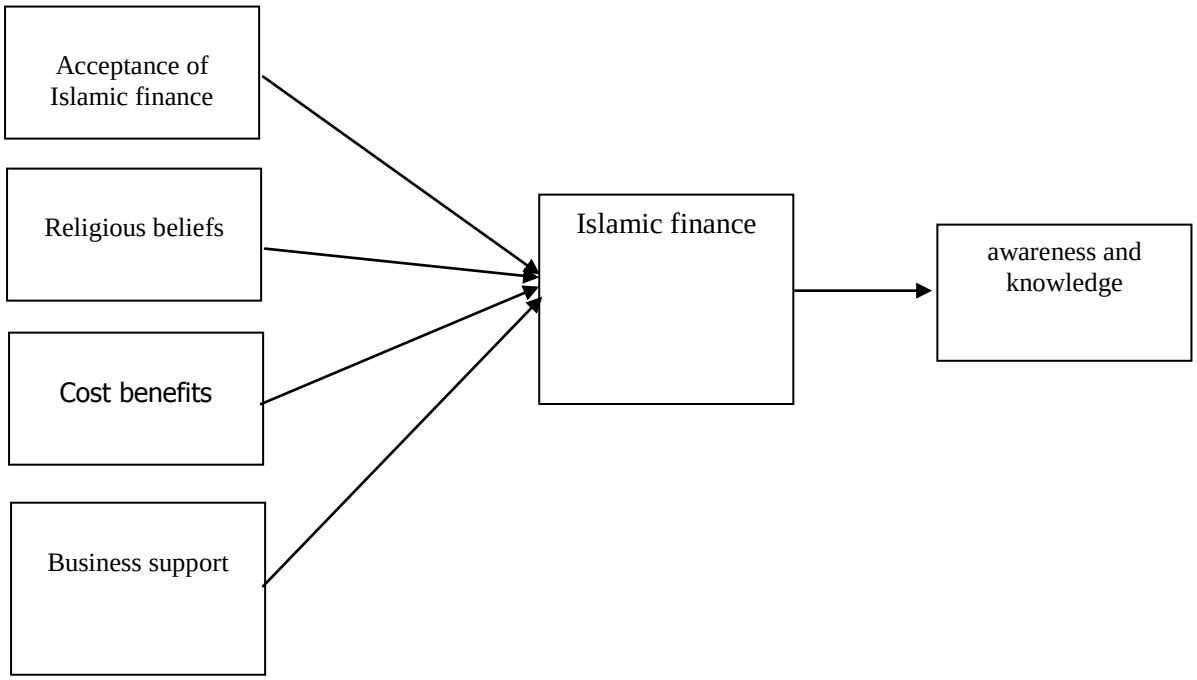
Idris and Ahmed (1997) dealt in their study with people's willingness to accept Islamic banking with the statistical population of 304 trading companies in Kuwait. Although Kuwaiti people are Muslims, they did not show tendency to Islamic finance and Islamic banking, because many people either did not know these methods or found the other methods of financing and banking more profitable for them.

Ahmad and Haroon (2002) investigated in a study the attitude of 385 companies in Libya toward the Islamic financing methods. The results showed that many Muslims in this country do not follow these methods due to lack of executive mechanism and others had no knowledge about this field because they were non-Muslims.

Gait & Worthington (2008) carried out a study in Malaysia to investigate the relationship between the acceptance of Islamic finance and the businessmen's attitudes. 72% said they were willing to follow these methods, and 18% had no knowledge about it.

Conceptual model

The conceptual model of this study has been adapted from the study conducted by Aida et al (2014). The indices of each variable and the items of the questionnaire have also been extracted from that study. With respect to the relationship among the variables, which is shown in the following Graph, this study seeks to investigate the shareholders' attitude in Tehran Stock Exchange toward the acceptance of Islamic finance.



Source: Aida Jaafar & Mosa,(2004)

The Research Hypotheses

- **The Main Hypothesis**

There is a significant relationship between the shareholders' attitude and the acceptance of Islamic finance of the companies listed in Tehran Stock Exchange.

- **The sub-hypotheses**

There is a significant relationship between the religious beliefs and the shareholders' attitude toward the Islamic finance of the companies listed in Tehran Stock Exchange.

There is a significant relationship between awareness and knowledge and the shareholders' attitude toward the Islamic finance of the companies listed in Tehran Stock Exchange.

There is a significant relationship between the cost benefits and the shareholders' attitude toward the Islamic finance of the companies listed in Tehran Stock Exchange.

There is a significant relationship between business support and the shareholders' attitude toward the Islamic finance of the companies listed in Tehran Stock Exchange.

Methodology

This is a cross-sectional study carried out to investigate the impact of shareholders' attitude on the acceptance of Islamic finance in Tehran Stock Exchange. The questionnaire was distributed in Tehran Stock Exchange. This is an applied study in terms of goal and a descriptive survey in terms of the data collection method.

This is a correlational study. Correlational studies include all studies that try to discover or determine the relationship between different variables using correlation coefficient (Delavar, 1380). The study population includes all shareholders of the companies listed in Tehran Stock Exchange, which refer to Tehran Stock Exchange during the interval of the present study.

We have also used the library studies and the field method in order to collect the required data. The questionnaire used in the survey has been adapted from the study carried out by Aida Jaafar and Mosa (2014). We used both descriptive and inferential statistics for data analysis. We used descriptive statistics to describe the demographic variables and used inferential statistics by help of regression coefficient and structural equation model to analyze the research hypothesis.

Results:

The data normality test

To use the statistical techniques, one should first determine whether the collected data have a normal or non-normal distribution. This is important because parametric tests can be used if the data have normal distribution, while nonparametric tests can be used if the data have non-normal dissertation. For this purpose, we examine at this stage the results of the Kolmogorov - Smirnov test for each of the dependent

and independent variables and choose the appropriate tests for the accuracy or inaccuracy of the research hypothesis based on the results obtained from Kolmogorov - Smirnov test.

Table (1): the normality test results of the independent variables

variable	Hypothesis confirmation	Error value	Level of significance	result
Acceptance of Islamic finance	H_0	0.05	0.408	normal
Attitude toward Islamic finance	H_0	0.05	0.096	normal
Religious beliefs	H_0	0.05	0.118	normal
Awareness and knowledge	H_0	0.05	0.112	normal
Business support	H_0	0.05	0.3	normal

(Source: the research data)

According to the results presented in the above table, as the significance level for all variables is greater than the error value of 0.50, these variables have a normal distribution and parametric tests are thus used to test the hypotheses.

Reliability of the questionnaire items

Cronbach's alpha was used to test the reliability of the questionnaire items. This method is used for calculating the internal consistency of the measurement tools and measure various attributes. The higher the alpha, the more reliability the scale will have. In other words, the closer it is to the number 1, the better it will be.

Table (2): results of the items reliability test

variable	Number of questions	Cronbach's alpha
Awareness and knowledge	4	0.755
religious beliefs	5	0.718
cost benefits	4	0.733
business support	4	0.810
attitude toward Islamic finance	7	0.752
Acceptance of Islamic finance	6	0.774

total	30	0.721

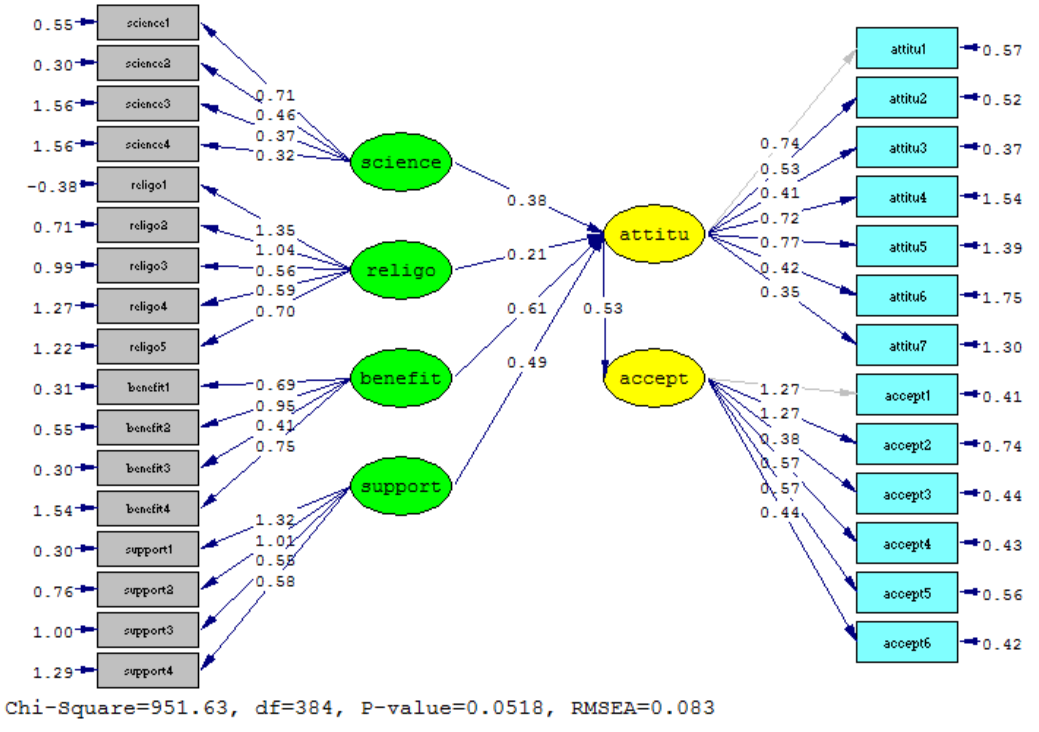
(Source: calculations made by the researcher)

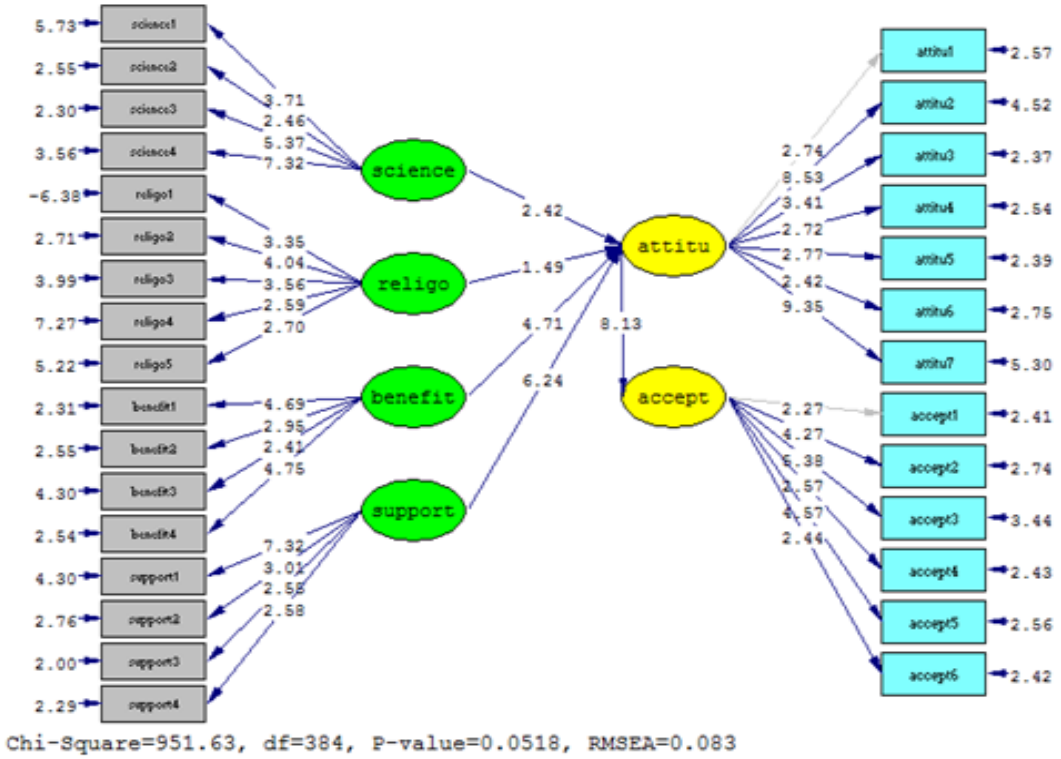
Based on the output obtained from the SPSS Software, the Cronbach's alpha values for all items are greater than 0.7, which shows their reliability.

Path analysis

By structural model is meant the causal relationship between the latent variables. The goal of this model is to discover both direct and indirect effects of the exogenous latent variables on the endogenous latent variables, or in other words, presenting the path analysis of the research model. We actually seek by the use of this model to reject, confirm or analyze the relationships between the independent and dependent variables based on the research hypotheses.
The structural equation modeling is a comprehensive statistical approach to test the hypothesis on the relationships between the measured variables and the latent variables. The measured variables are variables that can be directly observed and measured, and are referred to as observed or manifest variables or indicators. Latent variables are variables that are not directly observable and must be inferred from the measured variables.
Graph 1 shows the structural model of the research in a standard estimate mode.

Graph (1): standard coefficients of the path analysis (structural model)





As shown in Graphs (1), and (2), only the relationship between religious beliefs and attitude toward Islamic finance has the low value of 1.96 and the rest of the variables have higher values than 2. In other words, only the hypothesis regarding the effect of religious beliefs on attitude toward Islamic finance is rejected and the other hypotheses cannot be rejected and are thus accepted. The following table summarizes the results of testing the hypotheses test:

hypothesis	p- value	t-value	coefficient	result
1-Relationship between shareholders' attitude and acceptance of Islamic finance	0.0518	8.13	0.53	**accepted**
2-Relationship between awareness and knowledge and acceptance of Islamic finance	0.0518	2.42	0.38	**accepted**
3-Relationship between religious beliefs and acceptance of Islamic finance	0.0518	1.49	0.21	**rejected**
4-Relationship between cost benefits and acceptance of Islamic finance	0.0518	4.71	0.61	**accepted**

5-Relationship between business support and acceptance of Islamic finance	0.0518	6.24	0.49	**accepted**

Table (3): Testing the hypotheses

Using the results obtained from estimates of the model, the research hypotheses are tested in this section one by one.

There is a significant relationship between shareholders' attitude and acceptance of Islamic finance in the companies listed in Tehran Stock Exchange. As shown in Graph (1) and Table (3), the estimate coefficient for the relationship between shareholders' attitude and acceptance of Islamic finance is positive and statistically significant as the t-statistic is high. As the estimated coefficient is significant and positive, the main hypothesis of this study cannot be rejected. In other words, shareholders' attitude affects the acceptance of Islamic finance and there is a significant relationship between them.

Based on the values obtained and presented in the above graphs and because the t-statistic has a high value and the estimated coefficient is positive, the first sub-hypothesis of the research cannot be rejected and is thus accepted.

Based on the research findings and because the t-statistic has a low value and the estimated coefficient is low, the second sub-hypothesis of the research cannot be accepted. In other words, religious beliefs do not influence the shareholders' attitudes toward the Islamic finance of the companies listed in Tehran Stock Exchange.

Based on the research findings and because the t-statistic and the estimated coefficient have high values, the third sub-hypothesis of the research cannot be accepted.

Based on the research findings and because the t-statistic and the estimated coefficient have high values, the fourth sub-hypothesis of the research cannot be accepted. In other words, business support affects the shareholders' attitude toward Islamic finance.

Conclusion

The results of this study need to be compared with those of the previous studies so that we can achieve strong theoretical foundations and results. In this study, only the relationship between religious beliefs and shareholders' attitudes toward Islamic finance was not accepted and the rest of the hypotheses were confirmed. However, the study conducted by Aida Jaafar et al. (2014) indicates a positive and significant relationship between religious beliefs and attitude towards Islamic finance and in this respect these two studies have different results.

Also, the relationship between cost benefits and business support and attitude towards Islamic finance and shareholders' attitudes toward was shown in this study to be significant and this result is thus in line with the result of the research conducted by Aida Jaafar et al. (2014). Therefore, one can conclude due to the different statistical population of the two studies that shareholders' attitudes toward the acceptance of Islamic finance strongly affect Islamic finance. However, the effect of religious beliefs on shareholders' attitudes is in doubt. The results of this study are inconsistent with those of the study done by Shourkachali et al. (2012), as it was shown in the latter that shareholders did not have a positive attitude toward Islamic finance.

Suggestions

It is recommended that those shareholders who are busy investing and buying and selling shares in the stock market should strengthen their financial knowledge in the field of Islamic financing methods in order to be able to use these methods for their own companies' financing.

Due to the stock exchange shareholders' positive opinions and views, it is recommended that the banks and financial institutions take measures for the companies listed in the stock exchange to finance the companies using the Islamic financing methods and pave the way for strengthening and expanding those methods.

The Stock Exchange Organization take measures to develop the tools and methods of Islamic finance in the form of rules and regulations that facilitate the use and application of these methods and provide the practical background and take measures for the use of these methods.

Depending on the type of their companies, the companies listed in Tehran Stock Exchange can ask both their employees and the research and academic organizations to research in the field of Islamic finance.

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