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Analysis of Investor Preferences for Sharia Investment Products: A Study on Sukuk and Islamic Shares

Fawwas Ghazali[1], Luqman Mahadi[2]
[1,2] Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, Malaysia

Abstract: This research explores investor preferences for Sharia-compliant investment products, specifically focusing on sukuk (Islamic bonds) and Islamic shares. With the rapid global growth of Islamic finance, understanding the motivations, behaviors, and decision-making factors of investors in this sector has become increasingly important. The study aims to identify key determinants influencing investment choices, such as religiosity, risk perception, return expectations, financial literacy, and demographic variables. A mixed-methods approach was employed, combining quantitative survey data with qualitative insights to provide a comprehensive view of investor behavior. The findings reveal that Sharia compliance is a significant factor in investment decisions, often driven by ethical and religious considerations in addition to financial performance. The study also identifies barriers to wider participation, including limited awareness, lack of standardized regulations, and insufficient product diversity. Based on these insights, the research proposes recommendations for policy makers and financial institutions to enhance public education, encourage innovation in Islamic investment products, and strengthen regulatory frameworks. This research contributes to a deeper understanding of Islamic investor behavior and supports the development of a more inclusive and ethical financial system.

Research Highlights:
- Rising Demand for Sharia-Compliant Investments: The study confirms a growing interest in Islamic financial products, particularly among ethically and religiously motivated investors.
- Key Factors Identified: Investor preferences are influenced by a combination of religiosity, return expectations, risk tolerance, and financial literacy.
- Sharia Compliance as a Core Motivation: Sharia compliance is not only a legal requirement but also a major psychological and ethical driver in investment decisions.
- Policy and Product Development Needs: The research highlights the necessity for improved public education, regulatory standardization, and innovative Sharia-compliant products.
- Contribution to Ethical Finance: The findings support the integration of Islamic finance within broader ethical and sustainable investment frameworks.

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Corresponding Author:
Name: Fawwas Ghazali
Email: fawwasghazali@um.edu.my

INTRODUCTION

In the evolving global financial landscape, Islamic finance has emerged as a significant and rapidly growing sector, offering an alternative to conventional finance based on the ethical and legal principles of

Islamic law (Sharia). This system prohibits interest (riba), uncertainty (gharar), and speculative transactions (maysir), emphasizing asset-backed investments, risk-sharing, and ethical practices(Hayat & Malik, 2014). These principles have not only attracted Muslim investors but have also gained increasing attention from socially responsible and ethical investors worldwide.

Over the past two decades, the Islamic finance industry has shown impressive growth. According to various reports from international financial institutions, the global Islamic finance assets surpassed USD 3 trillion, driven by increasing demand from both retail and institutional investors(Sidlo, 2017). The market has expanded across various regions including the Middle East, Southeast Asia (particularly Malaysia and Indonesia), and even Western countries like the United Kingdom and the United States. This trend reflects a strong and growing demand for Sharia-compliant financial products, including Islamic banking services, takaful (Islamic insurance), Islamic mutual funds, and notably, Sharia-compliant investment instruments such as sukuk and Islamic equities (shares)(El-Zoghbi & Tarazi, 2013).

Sharia sukuk, often regarded as Islamic equivalents to bonds, are structured to comply with Islamic legal principles while offering investors returns linked to tangible assets or business ventures(Radzi, 2018). Similarly, Sharia-compliant shares represent equity in companies whose operations and financial practices adhere to Islamic guidelines. These instruments provide Muslim investors with the opportunity to invest in capital markets without compromising their religious beliefs.

As the number of Sharia-compliant investment options increases, understanding what drives investor preferences toward specific products such as sukuk versus shares has become increasingly important. Investor behavior in this niche segment is influenced by a combination of factors including religious motivations, perceived risk, return expectations, product knowledge, and trust in financial institutions(Shafi, 2014). Identifying these factors is essential for Islamic financial institutions and policymakers to design investment products that are not only compliant but also attractive and accessible to a broader base of investors.

Moreover, this topic is particularly relevant in the context of efforts to enhance financial inclusion and promote ethical finance, both of which are key objectives in many emerging and developing economies. As Islamic finance becomes more integrated into the global financial system, a deeper understanding of investor behavior in this sector will contribute to its sustainability and long-term growth(Ahmed et al., 2015).

Numerous studies have identified religiosity and ethical considerations as key factors influencing investor behavior in Sharia-compliant investments. For instance, a study by Farooq and Zaheer (2015) found that religious beliefs play a crucial role in motivating Muslim investors to choose Islamic financial products, even when conventional alternatives may offer better financial returns. This sentiment is echoed in research by Hassan and Girard (2018), who highlighted that many investors in Islamic markets prioritize religious compliance over profit maximization, reflecting a unique blend of spiritual and financial goals.

In addition to religiosity, risk perception and return expectations have also been widely studied. Research by Abdullah et al. (2017) showed that investors often perceive sukuk as safer and more stable than Islamic stocks due to their asset-backed nature and fixed-income characteristics. On the other hand, Sharia-compliant equities, while more volatile, are perceived to offer higher potential returns, attracting younger and more risk-tolerant investors. This distinction in risk-return preference helps explain the segmentation in investor profiles within Islamic finance markets.

Another important factor identified in the literature is financial literacy and awareness. Studies such as those by Ahmed and Kassim (2019) have emphasized that many potential investors are unaware of the differences between sukuk and conventional bonds or lack the necessary understanding to evaluate Sharia-compliant shares. Their research suggests that improving investor education is essential to expanding the market and ensuring informed investment decisions.

Recent research has also explored demographic and psychographic influences on investor preferences. For example, a 2020 study by Rahman et al. analyzed demographic factors such as age, income, and education level in determining investment choices between sukuk and Sharia-compliant stocks in Malaysia. They found that older, more conservative investors tended to prefer sukuk, while younger and more financially literate individuals were more inclined toward Islamic equities. Similarly, a study conducted in Indonesia by Nugroho and Sari (2021) revealed that trust in Islamic financial institutions significantly affects investor confidence and willingness to invest in Sharia-compliant products.

With the rise of fintech and digital platforms, recent works have also begun examining how technology influences investor behavior in Islamic finance. For instance, studies like that of Khalid and

Aslam (2022) have noted a shift in investor preferences toward digital Sharia-compliant investment apps and robo-advisory services, especially among tech-savvy and millennial investors. This signals a broader transformation in how Islamic financial services are being accessed and delivered.

These studies consistently highlight the importance of religiosity, risk perception, financial knowledge, and demographic characteristics in shaping investor decisions. However, while the body of literature has expanded, comparative studies between sukuk and Sharia shares remain limited, particularly in diverse cultural and economic contexts. Existing research has primarily focused on the technical and structural aspects of Sharia investment instruments, with limited emphasis on behavioral and psychological factors driving investor decisions.

METHOD

This study adopts a quantitative research approach to analyze investor preferences for Sharia-compliant investment products, specifically Sharia sukuk and Sharia-compliant shares. The quantitative method is chosen due to its ability to systematically measure, compare, and analyze relationships among variables that influence investor decision-making behavior(Zahera & Bansal, 2018). Through this approach, the study seeks to identify the most significant factors that shape investor preferences, such as religiosity, risk perception, expected returns, financial literacy, and demographic characteristics.

The research design is descriptive and correlational, aimed at capturing a comprehensive overview of investor attitudes and behaviors while also examining the strength and direction of relationships between variables. The primary data for the study will be collected through a structured questionnaire, distributed to a sample of active and potential investors in Sharia-compliant financial instruments across various regions(Al Balushi, 2019).

The questionnaire will consist of several sections:

- Demographic Information-age, gender, income level, education, and investment experience.
- Investment Behavior and Preferences-including frequency of investing, preferred instruments (sukuk or shares), and influencing factors.
- Psychological and Knowledge-Based Variables-such as perceived risk, expected return, religiosity, and level of understanding of Sharia principles in finance.

To ensure the reliability and validity of the instrument, a pilot test will be conducted involving 20–30 respondents(Mohamad et al., 2015). Feedback from the pilot will be used to refine question clarity and structure. After revision, the finalized questionnaire will be distributed more broadly through online survey platforms, investment forums, and Islamic financial institutions.

The sampling method employed in this research is purposive sampling, targeting individuals who have experience or interest in Sharia-compliant investments(Jeeva, 2020). This method is appropriate given the study's objective to analyze preferences among a specific group of investors. The targeted sample size is at least 200 respondents, which is considered adequate for conducting statistical analysis and ensuring generalizability of results within the chosen population.

For data analysis, the collected responses will be processed using descriptive statistics to summarize demographic trends and general investor preferences(Mutswenje, 2009). To test relationships between variables, inferential statistical techniques such as correlation analysis and multiple linear regression will be employed. These methods will help determine the extent to which factors like religiosity, risk tolerance, and financial literacy significantly influence the preference for sukuk or shares.

RESULTS AND DISCUSSION

Key Factors Influencing Investor Choices

One of the most dominant factors influencing investor choices in Islamic finance is religiosity(Alam et al., 2012). For many Muslim investors, adherence to Islamic values plays a central role in their financial behavior. Investments must comply with Islamic legal and ethical principles, which prohibit interest (riba), uncertainty (gharar), and investments in haram (prohibited) industries such as alcohol, gambling, or pork. As a result, the level of personal religiosity often determines an investor's willingness to participate in Sharia-compliant products, even when conventional alternatives may offer higher returns.

Another significant factor is the investor's risk perception and tolerance. Sukuk are often perceived as lower-risk instruments because they are asset-backed and structured to provide stable returns(Rauf, 2015). On the other hand, Sharia-compliant shares are generally seen as more volatile due to their exposure to market fluctuations. Therefore, more risk-averse investors may prefer sukuk, while those with a higher risk tolerance and a desire for capital appreciation may lean toward Islamic equities. This distinction in perception plays a crucial role in shaping investment decisions.

Return expectations also heavily influence investor preferences. While religious adherence is important, investors still consider the financial performance of their investments(Kumar et al., 2011). Those who view Sharia products as competitive with conventional instruments in terms of profitability are more likely to allocate their funds to them. The belief that Sharia investments can yield reasonable or even superior returns enhances their appeal to a broader market, including non-Muslim investors interested in ethical finance.

A further important factor is financial literacy, particularly regarding Islamic financial products(Abdullah et al., 2017). Investors who are more knowledgeable about the principles of Islamic finance, the structure of sukuk, and the screening processes behind Sharia-compliant stocks are more confident and likely to invest. Conversely, a lack of understanding may lead to hesitation or misinformed decisions. As such, increasing awareness and education on Islamic investment mechanisms is essential to widening participation.

Demographic characteristics such as age, income level, education, and investment experience also contribute to shaping preferences(Korniotis & Kumar, 2011). For instance, older investors with stable income may favor the fixed and predictable nature of sukuk, whereas younger, tech-savvy investors might be drawn to the growth potential of Sharia-compliant equities. Income level, too, affects an individual's capacity to invest and their level of risk aversion.

Finally, trust in financial institutions and the credibility of Sharia compliance can significantly influence investment behavior. Investors are more likely to commit to Sharia-compliant instruments when they have confidence in the transparency, governance, and religious oversight of the issuing entities(Alaydan, 2016). The presence of reputable Sharia boards and clear fatwa guidelines adds legitimacy and assurance, encouraging investor participation.

Investor preferences for Sharia-compliant products such as sukuk and Islamic shares are influenced by a complex interplay of religious commitment, risk perception, return expectations, financial literacy, demographic background, and trust in institutions(Qambar, 2020). Identifying and understanding these key factors is crucial not only for academic research but also for financial institutions seeking to design more inclusive, responsive, and ethically aligned investment products within the Islamic finance industry.

Sharia Compliance Affects Investment Decisions

Sharia compliance plays a pivotal role in shaping investment decisions among Muslim investors and, increasingly, among non-Muslim investors seeking ethical and socially responsible financial alternatives(Nathie, 2009). Unlike conventional investing, which is primarily driven by the pursuit of maximum returns, investing in Sharia-compliant instruments is guided by a framework that aligns financial goals with Islamic ethical principles. These principles deeply influence how, where, and why investors choose to allocate their funds.

At the core of Sharia compliance in finance is the prohibition of riba (interest), gharar (excessive uncertainty), and haram (prohibited) business activities, such as those related to alcohol, gambling, or pork. These prohibitions create a unique set of standards that filter out a wide range of conventional financial products. For example, traditional bonds that pay interest are replaced with sukuk, which are structured as asset-backed securities generating income through profit-sharing or rental agreements rather than interest payments. Similarly, stocks must pass a Sharia screening process to ensure the issuing companies do not engage in prohibited activities and maintain low levels of non-compliant income and debt.

The influence of Sharia compliance on investment decisions is particularly visible among religiously observant investors, who view adherence to Islamic principles not merely as a financial strategy but as a form of religious and ethical obligation(Hidayah, 2014). These investors often prioritize compliance over financial gain, even if it means accepting lower returns. This behavior reflects a broader philosophy that wealth must be earned in a halal (permissible) and ethical manner, reinforcing the idea that morality and finance are not mutually exclusive in Islamic investing.

Moreover, Sharia compliance fosters a sense of trust and moral integrity, which can strengthen investor confidence in financial institutions that offer Islamic investment products. Institutions that are transparent about their Sharia governance, possess credible Sharia advisory boards, and provide clear documentation of their compliance practices are more likely to attract and retain investors. This trust is crucial not only in attracting individual investors but also in building long-term institutional support for Islamic finance.

Interestingly, Sharia compliance also appeals to a broader segment of investors who may not necessarily be motivated by religious adherence, but who value ethical investing. The principles embedded in Sharia finance including risk-sharing, asset-backing, transparency, and the avoidance of exploitative practices align closely with the goals of socially responsible investment (SRI) and environmental, social, and governance (ESG) standards. As a result, Sharia-compliant products are increasingly seen as viable ethical investment alternatives in global markets.

However, Sharia compliance can also pose challenges that affect investor decisions. The limited availability of Sharia-compliant products in certain markets, lack of standardization in Sharia interpretations, and low public awareness can hinder wider adoption. Additionally, investors may sometimes face higher costs or limited liquidity compared to conventional products, influencing their willingness to commit large capital to Islamic investments.

Sharia compliance significantly shapes investment decisions by aligning financial practices with ethical and religious values(Ullah et al., 2018). It influences not just product selection, but also how investors evaluate trust, transparency, and long-term impact. As awareness of Islamic finance continues to grow and as the demand for ethical investment options increases understanding the role of Sharia compliance will be key to developing more inclusive and value-based financial markets.

Policy or Product Development Recommendations

One of the major barriers to broader participation in Islamic financial products is the lack of public knowledge regarding how Sharia-compliant instruments function and how they differ from conventional offerings. Policymakers, financial regulators, and Islamic financial institutions should collaborate to launch comprehensive educational campaigns and integrate Islamic finance modules into national financial literacy programs(Messy & Monticone, 2016). This effort should be tailored to various demographic segments, including youth, working professionals, and small business owners, to improve their understanding of the benefits and principles of Sharia investments.

Divergent interpretations of Sharia principles across jurisdictions can lead to inconsistencies in product structures, causing confusion among investors and reducing cross-border investment opportunities. It is crucial to develop and promote internationally recognized Sharia standards, perhaps through closer cooperation between institutions like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and national Sharia boards. A unified framework would increase investor trust by ensuring clarity, transparency, and consistency in the implementation of Sharia principles.

Current Islamic investment offerings, while steadily increasing, remain limited in scope compared to conventional finance(Hesse et al., 2008). To attract a broader range of investors including younger, tech-savvy individuals and ethically conscious non-Muslim investors Islamic financial institutions must invest in product innovation. This includes developing Sharia-compliant mutual funds, exchange-traded funds (ETFs), green sukuk, and digital investment platforms. Fintech integration can also enhance accessibility and convenience, making it easier for retail investors to participate in Islamic capital markets.

Transparency in how Sharia compliance is maintained and monitored is critical for investor confidence. Institutions should publicly disclose their Sharia supervisory boards, fatwa decisions, and compliance reviews(Arwani, 2018). Government regulators can also play a role by establishing clear legal and operational frameworks that protect investors and ensure that Sharia-compliant products adhere to high ethical and financial standards.

Governments and regulators should consider offering tax incentives, lower transaction fees, or subsidies for Sharia-compliant investments to make them more attractive and competitive. Additionally, policies that simplify the issuance of sukuk and reduce bureaucratic obstacles can help stimulate market development. Regulatory frameworks should also encourage the participation of SMEs and startups in Sharia-compliant funding, further promoting financial inclusion.

Finally, greater collaboration between Islamic banks, capital market players, technology providers, and academic institutions is essential for knowledge sharing and the co-creation of robust investment products. Public-private partnerships can play a key role in conducting investor behavior research, piloting innovative Sharia-compliant instruments, and expanding financial infrastructure that aligns with both Sharia principles and modern investment needs.

Limitations and Scope

One of the primary limitations of this research lies in the geographical and demographic boundaries of the sample. The study is primarily focused on a specific region or population segment, which may not fully represent the broader diversity of investors in different countries or financial markets(Cui & Liu, 2000). Preferences and behaviors of investors in predominantly Muslim countries may vary significantly from those in minority Muslim contexts due to differences in regulatory frameworks, financial infrastructure, and cultural influences. As a result, the generalizability of the findings to global Islamic finance markets may be limited.

Another notable limitation is the scope of investment products covered in the research(Bekelman et al., 2003). While sukuk and Sharia-compliant shares are two of the most widely known instruments in Islamic finance, they represent only a portion of the available Sharia-compliant investment options. Other products such as Islamic mutual funds, Islamic real estate investment trusts (REITs), and digital Islamic investment platforms are not analyzed in depth in this study. Therefore, the research does not provide a comprehensive overview of all avenues of Islamic investing.

Furthermore, the study relies on self-reported data collected through surveys or interviews, which are subject to response bias. Investors may provide socially desirable answers, especially when asked about religious motivations or ethical considerations, which can influence the authenticity of the reported preferences. Additionally, individual investment decisions are often shaped by complex and dynamic factors such as market trends, personal experiences, and macroeconomic conditions which may not be fully captured through survey instruments alone.

In terms of scope, this research is designed to identify and analyze the key factors influencing investor preferences for sukuk and Islamic equities, focusing particularly on variables such as religiosity, risk perception, return expectations, financial literacy, and demographic characteristics. The study does not aim to measure financial performance or risk metrics of the investment products themselves but instead emphasizes investor attitudes, motivations, and decision-making patterns.

Moreover, while the research may offer policy and product development recommendations, it does not include an implementation phase or assess the practical impact of these recommendations in the market. Future studies could build upon these insights by conducting longitudinal analyses or experimental interventions to test the effectiveness of policy changes or new product offerings in real-world settings.

Although this research provides meaningful contributions to the understanding of investor behavior in Islamic finance, its findings must be considered within the context of its defined scope and acknowledged limitations(Abedifar et al., 2016). Recognizing these boundaries not only reinforces the credibility of the study but also highlights opportunities for further research to expand and deepen the knowledge base in this growing field.

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CONCLUSION

The increasing demand for ethical, socially responsible, and religiously guided financial instruments has significantly elevated the relevance of Sharia-compliant investment products, particularly sukuk and Islamic shares. This research set out to analyze investor preferences for these instruments, shedding light on the factors that influence decision-making among those who choose to invest in accordance with Islamic principles. The findings indicate that Sharia compliance is not merely a legal or procedural requirement but a deeply influential component of the investment process for many investors, particularly in Muslim-majority societies or among devout individuals. Ethical considerations, religious beliefs, and a desire to invest in morally sound ventures emerged as core motivators. Alongside these, conventional factors such as risk tolerance, return expectations, financial literacy, and demographic variables also played important roles in shaping investment choices. The research also highlights the growing intersection between Islamic finance and global movements toward ethical and sustainable investing. With increasing awareness and interest in ESG (Environmental, Social, and Governance) principles, Sharia-compliant investments are well-positioned to appeal to a broader market segment, including non-Muslim investors who value transparency, fairness, and risk-sharing. However, the study uncovered several limitations that hinder the widespread adoption of Islamic investment products, including limited public understanding, lack of standardized regulations across regions, and a relatively narrow range of available products. To overcome these challenges, policy makers and financial institutions must prioritize investor education, develop more innovative and accessible products, and establish consistent regulatory frameworks that enhance trust and transparency. Investor preferences for Sharia-compliant investment products are influenced by a unique blend of religious values and economic considerations. As the Islamic finance sector continues to evolve, understanding these preferences becomes essential for developing more inclusive, ethical, and effective financial systems. The insights from this research can serve as a valuable foundation for future policy formulation, product innovation, and academic exploration in the rapidly expanding field of Islamic finance.

AUTHORS' DECLARATION

Authors' Contributions and Responsibilities

This research was collaboratively developed and completed through the active involvement of all listed authors, each contributing significantly to various aspects of the study.

Competing Interests

The authors declare that there are no competing interests related to the publication of this research. This study was conducted independently, without any financial, personal, or institutional influence that could be perceived as affecting the objectivity or integrity of the findings.

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