

ARE MUSLIMS PRACTISING MODERATION IN THEIR FINANCIAL DECISIONS?

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ABSTRACT

Statistics and a survey of the literature revealed the existence of a massive problem in the financial prudence of Malaysians, including Muslims. One glaringly prominent aspect is the absence of a spiritual/religious interventionist approach in exploring the lack of consumer awareness that led to the present situation. Instead of attempting to solve the problem through brute economic policies, a wasatiyyah-oriented approach is warranted for informing consumers of their religious obligation to avoid profligate spending and adopt moderation in financial matters. Hence, the objective of this study is to examine the practice of moderation (the concept of wasatiyyah) among Muslim consumers in their financial decision-making. Primary data were collected through a self-administrated survey on a selected group of Muslim consumers. A relevant statistical software was employed to perform exploratory-factor analysis (EFA) through principal-component analysis (PCA), confirmatory factor analysis (CFA), and structural equation modelling (SEM) on the collected data. The findings demonstrated that moderation (wasatiyyah) partially mediates the relationship between materialism and financial decisions. Consequently, Muslim consumers who practice moderation while making their financial decisions are more conscious of their credit management and thus spend according to their means.

Keywords: moderation (*wasatiyyah*), Muslim consumers, financial decision, financial literacy, materialism

INTRODUCTION

The use of *wasatiyyah* (the concept of moderation) in resolving the complexities involved in planning how individuals and/or households earn, spend, and invest their money is an essential element that Muslim consumers should consider concerning financial decisions. There is no doubt of the importance of money, credit, and assets in life; however, excessive use by consumers of credit, for example, may result in severe consequences, such as stress, insolvency, health complications, psychiatric disorders, and marital and family strife. The two sources of personal financial obligations are secured-debt, such as home mortgages and automobile loans, and unsecured debt, such as credit cards, personal loans, medical debt, payday loans, title loans, and small-business loans. One type of unsecured debt that has contributed significantly to the financial crises experienced by consumers is credit card debt (Hamilton, Noh, & Adlaf, 2009; Smith, Richards, Shelton, & Malespin, 2015). The main question examined in this study is to what degree Malaysian Muslims are practising *wasatiyyah* in all aspects of their financial decisions.

Wasatiyyah is a derivation of an Arabic word that loosely means excellent, moderate, just, and professional (Ismail, Azmi, Al-Haddad, Basir, & Nayan, 2017), and it is one of the emphasised concepts in the primary sources of Islamic epistemology, the al-Qur'an and the *hadith* (Hanapi, 2014). The concept of *wasatiyyah* is rooted in Islamic epistemology, and it is a religious belief that plays an important role in people's day-to-day behaviour. Consequently, knowing to what degree Muslim consumers in Malaysia are observing *wasatiyyah* in their financial decisions would improve financial discussions at several levels, such as determining how *wasatiyyah* could improve financial and consumption decisions in Malaysia (Iannaccone, 1998).

Furthermore, the researchers are particularly concerned on the extravagant or wasteful acts of Malaysian Muslim consumers in the use of what has been permitted by Islam, known as *israf* in the Islamic tradition. Briefly, Islam prohibits an excessive way of life, and therefore *wasatiyyah* is needed to ensure that consumers always operate within the limits of moderation when satisfying or attempting to satisfy their needs. For example, taking on excessive debt to satisfy several needs, consuming excessive food, and wasting resources (even for religion) are all prohibited in Islam. As such, every kind of excessive behaviour, including emotional, social, cultural, and financial, is covered by this concept and is prohibited (Kamali, 2015).

Meanwhile, Malaysians' household debt has been on an increasing trend since the 1997 Asian financial crisis, which could be attributed to the shifting of banking

institutions from corporate business to household financing (Khan, Abdullah, & Samsudin, 2017; Norhana & Hua, 2009). According to CEIC data, the proportion of Malaysian household debt to the gross domestic product (GDP) was 88.30% in 2016, 89.02% in 2015, 86.78% in 2014, and 86.16% in 2013¹. Given this alarming ratio of household debt to GDP, Malaysia has among the highest levels of household debt among Asian economies, according to a report by MIDF Amanah Investment Bank Berhad (2016). Epidemic of inappropriate personal financial behaviour among Malaysian consumers has produced a need for effective measures to provide a solution to the problem. Thus, consumers' religious identity has been identified as having a practical influence on their financial decisions (Fam, Waller, & Erdogan, 2004; Hess, 2012; Jaiyeoba & Haron, 2016). The concept of *wasatiyyah* together with the influence of materialism and financial literacy were used in this study to investigate Malaysian Muslim consumers' financial decisions. The findings showed that *wasatiyyah* partially mediated the relationship between materialism and financial decisions but did not mediate the relationship between financial literacy and financial decisions.

While this study may be one of the first to investigate whether Malaysian Muslim consumers practice *wasatiyyah* in their financial decisions, it is believed that the present study will offer substantial benefits to both academicians and practitioners. Through this study, the researchers provide fresh insight and deeper understanding of whether Muslim consumers in Malaysia practice *wasatiyyah* in their financial decisions. Similarly, this study may serve as a guide to Malaysian Muslim consumers when they are making financial decisions. It could also serve as a reference point for relevant authorities when they are making pertinent decisions and as a pioneering study for future researchers to build upon.

LITERATURE REVIEW

There has been a plethora of literature proving that financial decisions are an essential component of consumers' economic behaviours (Hopper, 1995). As mentioned, Malaysians' household debt has been on the increasing trend, the extension of credit lending to the Malaysian households and other individuals has proliferated the use of the loan to satisfy numerous needs, even without a necessary financial budget. People's needs for housing, vehicles, motorcycle, education, vacation, or other daily upkeep may not be achievable due to lack of money (Garling, Kirchner, Lewis, & Raaij, 2009). In such a case, if people are not willing to postpone the need of these materials to date when necessary saving would have been accumulated, they may decide to use credit to fulfil these needs. The rise of compulsive consumptions have been supported by the postmodern society such as

Malaysia (Kaplan, 2014) and facilitated by growing availability of credit purchases (Neuner, Raab, & Reisch, 2005; Tokunaga, 1993). The endemic reckless financial decision among consumers as evidenced by excessive debts (Hess, 2012) has called for practical measures in providing a solution to the above ordeal. Thus, given that consumer's religious identity has been noticed in the literature as having practical influence on consumers' financial decisions (Fam et al., 2004; Hess, 2012), the concept of *wasatiyyah* together with materialism, financial literacy, and personal characteristics were reviewed in this study to investigative consumers' financial decisions.

Materialism has been discussed in the literature concerning a psychiatric disorder in which buying behaviour is excessive and impulsive in nature, even in the face of adverse consequences (Dittmar, 2008). Richins and Dawson (1992) conceptualised material values as covering three essential domains: (1) using others' or one's own possessions to judge the level of success; (2) the belief that acquisition and possessions bring about happiness and satisfaction in life; and (3) the centrality of possessions in a person's life, a way of life and the holding of opinions based entirely on material interests to the neglect of spiritual matters. Empirically, Watson (1998) examined the relationships between materialistic values, attitudes towards debt, and levels of indebtedness in New Zealand. His results indicated that high levels of materialism were positively related to attitudes towards spending and debt. Similarly, Ponchio and Aranha (2008) examined the influence of materialism on consumer indebtedness among 450 low-income households in a poor area of São Paulo in Brazil. A logistic regression model confirmed materialism as a behavioural variable that could be used to forecast the probability of people accruing consumption-related debt. Additionally, Gardarsdóttir and Dittmar's (2012) study revealed that individuals who endorse materialistic values usually have more financial worries, greater tendencies towards compulsive buying and spending, and worse money-management skills. It was also found that while controlling for income and money-management skills, the amount of debt can be linked to materialism. Nepomuceno and Laroche (2015) investigated how materialism and anti-consumption lifestyles correlated with personal debt and account balances in Brazil. The study found that the happiness dimension of materialism was positively related to personal debt and negatively correlated with account balances, suggesting that those who are materialistic in nature are also prone to indebtedness.

Materialistic behaviour is expected to be worse among consumers with inadequate financial knowledge. Financial-literacy skills help consumers navigate the financial world, have less chance of being misled on financial matters, and make informed decisions about their money (Beal & Delpachitra, 2003). Making financial

decisions, either on asset-building, debt management, or consumption requires that consumers be able to perform calculations, including complex ones; however, there is burgeoning literature claiming that financial illiteracy is a common phenomenon in diverse economic settings (Fonseca, Mullen, Zamarro, & Zissimopoulos, 2012). According to Beal and Delpachitra (2003), the symptoms of insufficient financial literacy in a country include, among others, rising individual debt levels with overuse of credit cards, irresponsible overspending on consumption, foolish commitment to get-rich-quick schemes, and using personal loans for consumption.

Brown and Graf (2012) found that financial literacy is lower among low-income, female, and immigrant households. Moreover, young households are less familiar with the concept of inflation, while the concepts of compound interest and risk diversification are less known to retirees. Their study also showed that financial literacy was highly correlated with voluntary retirement saving, financial-market participation, and mortgage borrowing. Beckmann (2013) found that financial literacy was positively related to household saving and investment in Romania. Meanwhile, French and McKillop (2016) investigated the components of financial literacy – numeracy and money-management skills – in relations to consumer debt and household net found that money-management skills were essential determinants of financial outcomes, while numeracy was found to play a minimal role in this regard.

As previously stated, practising *wasatiyyah* is expected to improve financial and consumption decision among Muslims consumers. However, there are few empirical financial studies, if any, on the application of *wasatiyyah*, especially in financial decisions. To consider those areas where *wasatiyyah* has been applied, a qualitative study by Hanapi (2014) used a content-analysis method to identify and analyse the *wasatiyyah* concept in Islamic epistemology and its implementation in Malaysia. The author found that the use of *wasatiyyah* was comprehensive and indeed different from political slogans, such as “Islam Hadhari”, “Clean, Efficient and Trustworthy”, and other implementations, which are transient or temporary in nature. Besides, Wan Husin (2013) investigated the relationship between *wasatiyyah* and the values of *budi-Islam* (Islamic values) in reinforcing Malaysian ethnic relations. The finding ascertained that *wasatiyyah* was used to reinforce the Malay leader’s traditional administrative approach when dealing with other ethnic groups in the community.

A study by Ismail et al. (2017) discussed the potential of the *wasatiyyah* concept for human sustainability in Malaysian civil-service practices. The authors found that the *wasatiyyah* value concept could be used to extend and enrich the value of human sustainability and the quality of civil-service practices in Malaysia.

They also showed that *wasatiyyah* had indirectly embedded in Malaysian civil-service practices. In addition, Mohd Khambali@Hambali et al. (2015) showed that the *wasatiyyah* concept has nurtured religious tolerance, fostered harmony, and has significant influence on the relationship among Muslims, newly converted Muslims, and non-Muslims in the country. The concept also has a strong link with the value of *akhlaq*, which is part and parcel of the Muslim community.

While there are examples in the literature suggesting that materialism and financial literacy may impact financial decisions (Ali, McRae, & Ramsay, 2014; Muzafari, Mowlaie, & Bahmani, 2016), this research incorporated *wasatiyyah* as a mediating variable in the relationship between materialism and financial decisions, as well as in the relationship between financial literacy and financial decisions. The conceptual framework is shown in Figure 1. Research hypotheses for this study are as follows:

- H1: *Wasatiyyah* mediates the influence of materialism on financial decisions made by Muslim consumers.
- H2: *Wasatiyyah* mediates the influence of financial literacy on financial decisions made by Muslim consumers.

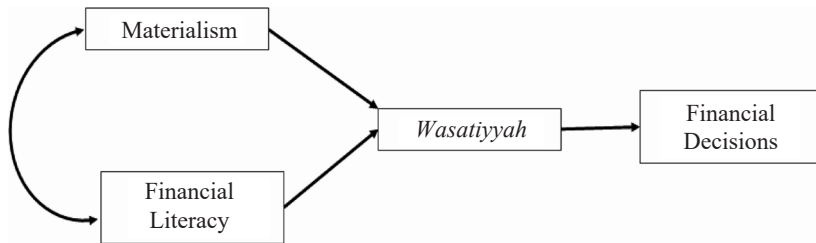


Figure 1. Conceptual framework

METHODOLOGY

This study adopted a quantitative research design which is also the common approach adopted previously by researchers to investigate *wasatiyyah*, materialism, financial literacy, and financial decisions (Ali et al., 2014; Khan et al., 2017; Mujani, Mazuki, Aziz, & Rozali, 2014; Muzafari et al., 2016; Smith et al., 2015). Questionnaire for this study was developed based on relevant measurement items as tested and reported in the literature following the research framework presented

in Figure 1. Furthermore, the measurement items for understanding and adoption of *wasatiyyah* were developed based on the interpretation (*tafsir*) of Surah al-Furqan (25:67) by A'la Mawdudi (2000). The data were collected from Muslim consumers in Malaysia focusing on public and private employees working in Putrajaya and Klang Valley areas. The questionnaire, which was used to assess to what degree respondents agreed or disagreed with the measurement items, employed a 5-point Likert-type scale, ranging from strongly disagree (1) to strongly agree (5). The data were then analysed using the Statistical Package for the Social Sciences (SPSS) and Analysis of Moment Structures (AMOS). Specifically, data screening, assumptions, validation, and reliability testing underlying this study, as well as exploratory-factor analysis (EFA), were all performed in SPSS. AMOS was used to perform confirmatory-factor analysis (CFA) and structural equation modelling (SEM). Additional illustration on the investigations conducted was provided within each subsection of the next segment.

RESULTS AND DISCUSSION

Sample Characteristics

A total of 450 surveys were distributed and 299 surveys were collected, giving a response rate of 66.44%. Table 1 shows the profile of the respondents. The majority of the respondents were female (67.9%) and most of them were college and university graduates (73.9%). Most respondents were between 20 and 40 years old (66.7%), and most of them earned either less than RM3,000 monthly (35.1%) or between RM3,001 and RM6,000 monthly (32.4%). The average score on financial knowledge was 42.7%. The table also shows that 88.3% of the respondents were aware of the *wasatiyyah* concept and that 94% agreed that they practice moderation in their spending. This finding is consistent with the finding of Mujani et al. (2014).

Exploratory Factor Analysis (EFA)

For the objectives of testing unidimensionality and verifying the number of underlying factors, EFA with varimax rotation was conducted. Items with a loading of smaller than 0.6 were accordingly deleted, resulting in 24 items short-listed as significant (Table 2). The sampling was adequate, and relationship between the variables was sufficient based on the Kaiser-Meyer-Olkin (KMO) test score of 0.818 and significant Bartlett's test of sphericity at $p < 0.0001$. Hence, the suitability of the collected data for factor analysis was verified.

Table 1
Descriptive statistics

	Percentage		Percentage
Gender		Income (RM)	
Male	32.1	< 3,000	35.1
Female	67.9	3,001–6,000	32.4
Age (years)		6,001–10,000	20.7
20–30	32.5	> 10,000	11.7
31–40	34.2	Employment	
41–50	26.0	Corporate	28.5
51–60	5.8	Government	49.8
> 60	1.4	Other	21.7
Educational background		Financial knowledge	
Non-graduate	26.1	Very high	11.9
Diploma	24.7	Above average	20.3
Degree	27.1	Average	42.7
Postgraduate	22.1	Limited	25.1
Aware of <i>wasatiyyah</i>		Practice moderation	
Yes	88.3	Yes	94.0
No	11.7	No	6.0

Table 2 tabulates evidence on the applicable number of constructs and the degree of variance explained by the identified constructs cumulatively. It was confirmed that by using the first four components, 52.72% of the variance in the collected data could be explained. All loadings were at least 0.60 on their respective constructs; proving a very good degree of discriminant validity. The names for the constructs were given based on the nature of the items being loaded on each and also consistent with the connotation of the items when they were tested in the questionnaire.

Structural Equation Modelling (SEM): Measurement Model

As the EFA justified the four underlying constructs and proved a sufficient correlation between the variables, the next step was to confirm the identified groupings using a two-stage SEM technique. The measurement model had fit indices that were all above the recommended thresholds. In particular, the normed χ^2 for the reported model was 1.840, the comparative-fit index (CFI) was 0.914, and the root means error square of approximation (RMSEA) was 0.054. It was therefore confirmed that the grouped items indeed belonged to the identified constructs, a required verification that the structure is fit for testing hypotheses in the second stage of SEM.

Table 2
Results of EFA for the adoption of *wasatiyyah* among the public

Items (variables)	Factor 1	Factor 2	Factor 3	Factor 4
	F/Literacy	Materialism	<i>Wasatiyyah</i>	F/Decision
L4	0.790			
L2	0.769			
L9	0.735			
L1	0.729			
L5	0.717			
L8	0.693			
L10	0.689			
L11	0.658			
L7	0.608			
M1		0.684		
M13		0.677		
M5		0.676		
M2		0.661		
M10		0.659		
M15		0.653		
M4		0.643		
W16			0.744	
W7			0.721	
W14			0.674	
W10			0.662	
W2			0.638	
F1				0.754
F2				0.693
F3				0.669
Initial eigenvalue	4.756	3.695	2.361	1.840
% of variance	19.818	15.397	9.837	7.665
Cumulative %	19.818	35.215	45.052	52.718

Structural Equation Modelling (SEM): Structural Model

SEM was carried out to test the hypotheses. As depicted in Figure 2, the direct causal relationship between materialism and financial decisions was given a standardised regression weight of 0.39, while that relationship mediated by *wasatiyyah* was given a standardised regression weight of -0.0648 . Based on Table 3, the causal relationship for *wasatiyyah*-materialism was 0.36 and significant at $p < 0.001$, while for *wasatiyyah*-financial decisions directly was -0.18 and significant at

$p < 0.01$. This statistically supports the presence of a partial mediating influence of *wasatiyyah* on the effect of materialism on financial decisions made by Muslim consumers. It is right considering the effect of *wasatiyyah* on financial decisions directly, has a negative correlation. This supports our assumption that understanding *wasatiyyah* makes people more moderate and prudent in making financial decisions, particularly in spending, taking debt, saving as well as money management. This is also consistent with the emphasis of Surah al-Furqan (25:67): “people who spend moderately are the true believers”. It is thus partial influence as even without the presence of *wasatiyyah* as the mediating variable, the relationship between them is strong (0.39). The identified direct relationship is consistent with the findings of Watson (1998), Gardarsdóttir and Dittmar (2008), and Nepomuceno and Laroche (2015) that materialism has a significant influence on financial decisions related to spending, saving, debt, and money-management skills.

The causal relationship between financial literacy and financial decisions was given a standardised regression weight of 0.21, while that relationship mediated by *wasatiyyah* was given a low standardised regression weight of only 0.0072, i.e., it was identified as not significant. Thus, empirical evidence does not support our second hypothesis, which postulates *wasatiyyah* enhances the impact of the financial literacy of Muslim consumers on their finance-related decisions. In other words, the adoption of *wasatiyyah* does not by itself influence one’s level of financial knowledge. However, we did obtain empirical evidence for the presence of a strong direct influence of financial literacy and financial decisions consistent with the findings of Brown and Graf (2012), Beckmann (2013), and French and McKillop (2016). The finding reflects that those with high financial literacy are capable of making sounder financial decisions and that being moderate is part of their financial knowledge.

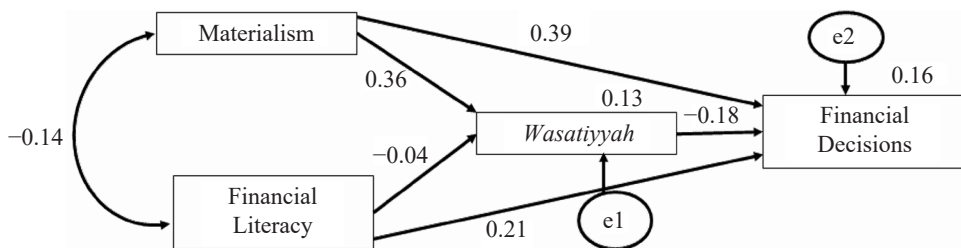


Figure 2. *Wasatiyyah* as a mediator between materialism or financial literacy and financial decisions made by the public

Table 3
Estimates of the hypothesised model

Structural path	Hypothesised relationship	Std. reg. weight	S.E.	p
<i>Wasatiyyah</i> → Materialism	Supported	0.36	0.049	0.000***
<i>Wasatiyyah</i> → Financial literacy	Not supported	-0.04	0.103	0.522
<i>Wasatiyyah</i> → Financial decisions	Not hypothesised	-0.18	0.067	0.002**
Materialism → Financial decisions	Not hypothesised	0.39	0.059	0.000***
Financial Literacy → Financial decisions	Not hypothesised	0.21	0.116	0.000***

Note: *, **, and *** 10%, 5%, and 1% significant level, respectively

In brief, the findings of this study have a theoretical implication on spending and consumption behaviour of consumers. Practising *wasatiyyah* should be considered a unique mediator to influence the financial decisions of Muslim consumers. This is consistent with Fam et al. (2004), Hess (2012), and Jaiyeoba and Haron (2016) that consumers’ religious identity and teaching influence their financial decisions. Additionally, practising *wasatiyyah* to a certain degree has a practical influence on the financial decisions of Muslim consumers. This is particularly true as the descriptive statistic shows that 88.3% of respondents were aware of *wasatiyyah* concept and 94.0% agreed that they indeed practiced moderation in their spending. The finding demonstrates that most of the Muslim consumers were aware that their religion forbids an extravagance and wasteful way of life and they must always operate within the limits of moderation when satisfying or attempting to satisfy their needs. However, a strong direct effect of materialism on financial decisions calls for further efforts to promote moderate spending behaviour, improving saving, and reducing consumption-related debts among Muslim consumers. More awareness campaigns on a moderate way of life, prudent financial management, and importance of having more saving among the Muslim consumers should be lauded at various levels, starting from the school children to public. This awareness would enhance Muslims’ financial literacy and ultimately improve their financial decisions making. Hence, being moderate (*wasatiyyah*) is a value that should be imbued and inculcated in every Muslim.

CONCLUSION

We have demonstrated the importance of a *wasatiyyah*-oriented approach in improving the financial decisions of Malaysian Muslim consumers. To reiterate, this study investigated the practice of moderation (the concept of *wasatiyyah*) among Muslims consumers in their financial decision-making. The literature

shows that there is a massive problem concerning the financial prudence of Malaysians, particularly Muslims. Our research was conducted to ascertain whether adoption of *wasatiyyah* would be able to mediate this problem, and the results showed that *wasatiyyah* partially mediated the relationship between materialism and financial decisions but did not mediate the relationship between financial literacy and financial decisions. This result suggests that Muslim consumers who practice moderation while making their financial decisions are more conscious of their credit management; hence, they spend in accordance with their means. Consequently, the researchers have demonstrated that practising *wasatiyyah* in making financial decisions would probably lessen Malaysians' worrying financial-prudence problem.

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NOTE

1. Retrieved 15 March 2018 from <https://www.ceicdata.com/en/indicator/malaysia/household-debt--of-nominal-gdp>.

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