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Shariah-Compliant Investment Funds: How Does Globalization Restricted its Social Roles? The Case of Saudi Arabia

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Abstract

The main objective of this paper is to develop and report an in-depth insight of the effects of globalization on the role of Shariah-Compliant Investment Funds (SCIFs) in promoting social justice by interviewing key stakeholders. The research critically evaluates the purposive role and characteristics of SCIFs in KSA. It examines the role of the financial issues, investors, and regulators, relative to SCIFs and the effects of globalization. The analysis identifies that the absence of social justice may be due to the global economic influence of the West, and its emphasis on financial returns, which has permeated through to SCIFs through globalization. Interviewees did not link SCIF practices with social justice Islamic concepts even though they believed in the importance of social justice and, as a result, SCIFs are not achieving their social justice objectives, as shown from their screening criteria. SCIFs should take advantage of globalization and avoid its negative impact. Therefore, this paper has policy implications and provide recommendation to improve the practice of SCIFs in KSA toward achieving social justice.

صناديق الاستثمار المتوافقة مع أحكام الشريعة الإسلامية: كيف قيدت العولمة دورها الاجتماعي؟ دراسة حالة المملكة العربية السعودية

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الملخص

تهدف هذه الورقة العلمية بشكل رئيسي ومعمق إلى استكشاف تأثير العولمة على الصناديق الاستثمارية الاسلامية ومدى مساهمتها في تحقيق العدالة الاجتماعية في المجتمع بجانب أهدافها المادية. واعتمد في منهجية هذه الدراسة على استخدام طريقة المقابلات الشخصية (شبه المنظمة) مع الأطراف أصحاب العلاقة بصناديق الاستثمار المتوافقة مع أحكام الشريعة الإسلامية، وتم تحليل نتائج المقابلات الشخصية عبر استخدام طريقة التقييم النقدية لفهم طبيعة هذه العلاقة ودور هذه الصناديق في تحقيق العدالة الاجتماعية. وقد توصل التحليل للمقابلات الشخصية إلى أن صناديق الاستثمار المتوافقة مع أحكام الشريعة الإسلامية لا تركز على تحقيق العدالة الاجتماعية ولا تعتبرها ضمن أهدافها، وقد يرجع السبب إلى تأثير العولمة من خلال النظام الرأسمالي على أولويات عمل هذه الصناديق في جعل التركيز على العوائد المالية، وبشكل يفوق التركيز على القيم الإسلامية، وهو ما يشير الى التأثير السلبي للعولمة على أهدافها. وعلى الرغم من قناعة العينة المشاركة بالدراسة بأهمية العدالة الاجتماعية إلا أنهم لم يجدوا رابطاً بينها وبين الممارسات الحالية لصناديق الاستثمار المتوافقة مع أحكام الشريعة الإسلامية، ونتيجة لذلك لا يرون أن هذه الصناديق الاستثمارية تساهم في تحقيق العدالة الاجتماعية في المجتمع، حيث يظهر أن تركيزها فقط على معايير الاستثمار التي يطلق عليها "المعايير السلبية" التي تهتم بالجانب المادي وليس القيمي. وبناء على ذلك، تشير نتائج هذه الدراسة أنه على صناديق الاستثمار المتوافقة مع أحكام الشريعة الإسلامية الاستفادة من مزايا العولمة وتجنب سلبياتها من خلال تحسين ممارساتها، وتبني أهداف تحقق العدالة الاجتماعية.

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1. Introduction

This research is carried out with the objective to analyzing how the economic impact of globalization affects the role of Shariah-compliant investment funds in social justice in Saudi Arabia. It is important mention that the Kingdom came into existence in 1932, after a revolution that led to wide political and economic ramifications, especially in the Arab world. The government took many initiatives towards developing a modern country. The principal subject matter must initially to be understood. Globalization has a central discourse of ‘global’, which comprises mainly economy, society, culture and governance (Hillman, 2008). In this discourse of ‘global’, people from different countries with different cultural backgrounds relate to each other economically, socially and politically, forming a standard homogenous culture, and thus become globalized. Ariss (2010) considers globalization as being the attenuation of nations’ boundaries.

Shariah includes regulations of all life activities such as prayer, manners, ethics, marriage, business, financial transactions, and contracts. Hence, it can be stated that, from a sociological point of view, Shariah supports social justice, equity, and fairness in all business transactions, and rests on the promotion of entrepreneurship, the protection of property rights, and the transparency and sanctity of contractual obligations (Ariss, 2010). Although social justice is considered to be acquired through Shariah law, and despite the fact that one of the principles of Shariah law is to promote social justice, many authors indicate that globalization might have a negative or decreasing impact on the level of social justice provided by Shariah law, as sglobalization frequently includes Western and liberal ideas (Hillman, 2008), which interact with Shariah principles (Hayat & Kraeussl, 2011; Sofi, 2016).

Literature shows that SCIFs have greatly improved social justice in Saudi Arabia (Hayat and Kraeussl, 2011). The major aspects of the Saudi SCIFs include SCIFs’ screening criteria; the SCIF managers; role of the Shariah Supervisory Board (SSB); role of government and investors; position and role of regulatory bodies. Insights for this paper were created by the literature review, which reports negative effects of globalization on SCIF, resulting from interviews from 2012 and 2019, including Western principles of *doing business* and *negotiation practices*, which were some aspects perceived as being negative by our interviewees. The main reason behind this negativity is the cultural difference between Islamic countries and the Western countries from which globalization originated. The Saudi social justice stems from the socialism of the Islamic economy, which is quite different from the capitalism of the west (Sofi, 2016).

This paper's core objective is broken down into the following specific constituent objectives. The paper intends to critically evaluate the purposive role and characteristics of SCIFs in Saudi Arabia. Second, the role of investors and government in SCIFs and related effects of globalization. The third specific objective is to critically evaluate SCIFs' screening criteria and the related impact of globalization. Fourth, to discuss the effects of globalization on the role of SCIF managers. Fifth, to understand how globalization has affected the position and role of regulatory bodies in SCIFs; and finally, to assess the overall impact of globalization on social justice in Saudi Arabia.

In order to achieve the objectives of this paper, the study adopted a qualitative method. Specifically, semi-structured interviews are employed in order to add meaningful first-hand information to what was learnt from the literature review and to answer research questions. With this, the study hypothesis is that, the negative effects of globalization on the role of SCIFs in promoting social justice exceed the positive effects in terms of social justice principles.

The remainder of this paper is structured as follows: the literature review in the next section, followed by the research method, analysis and discussion of results. The conclusions sum up the findings of the research, as well as the practical implications and suggestions for future research.

2. Literature Review

The legal definition of the term "justice" includes fairness and moral righteousness (Hibbert, 2017); being a system of law in which every party enjoys their due from the system, including moral and legal rights. Justice is prevalent in Arab countries, but implementing authorities such as legislatures, judges, and attorneys often become caught up more in procedures than in achieving justice for all (Sofi, 2016). This challenge calls for the concept of social justice. According to Hibbert (2017), social justice is the concept of just and fair relationships between individuals and their society. In the legal system of Saudi Arabia, social justice is implemented and measured in terms of wealth distribution, social privileges, and opportunities for personal activities (Sofi, 2016). Social justice follows these principles, by being a social concept of fairness and just relationship between the individual and society (Sofi, 2016). SCIFs were founded in the early 1990s, after Shariah scholars accepted equity investments in accordance with the Shariah guidelines. SCIFs, like any investment pooling system, collect individual savings for investment; the sharing of benefits (Lewis, 2010) provide a particular example of ethical investment, and many Muslims invest in so-called Islamic or Shariah equity investment funds (Hayat and Kraeussl, 2011). Adherence to Shariah principles is the financial institutions SSBs' responsibility (Walkshäusl and Lobe, 2012), whereby each one approves proposed companies and monitors the compliance of their business activities with the guidelines of the Shariah (Walkshäusl and Lobe, 2012). Thus, Muslim investors are looking for investments that both contain Islamic ethics and offer acceptable performance. In Saudi Arabia, the SCIFs are an aspect of ethical investment by Islamic Financial Institutions (IFIs) that support social justice in Islamic countries of the Middle East.

SCIF managers and regulatory bodies cannot guarantee either a principal amount or a rate of return to investors (Makni *et al*., 2016). In the associated investment approval process, investments of Islamic equity funds (IEFs) have to pass through a group of ethical and financial criteria to become eligible to invest in, according to Shariah (Makni *et al*., 2016). To directly support social justice in the country with Islamic investment, the benchmarks of the Dow Jones Islamic Market Index (DJIM), the Global Islamic Index Series (FTSE) and the Shariah Index (Malaysian Index) give credibility to Islamic investment (Edmondes *et al*., 2018). Muslims form one fifth of the world's population, with an investment of $800 billion, which has increased by 15% per annum (Edmondes *et a*l., 2018). Only a relatively small amount of funds is invested in Islamic products, indicating potential opportunities (Hassan, 2012); funds are either equity funds (84%) or secured funds (14%), with the remaining 2% holding *Sukuk* investments. Saudi Arabian Shariah-compliant investment features specific funds that are established to provide and promote equitable long-term growth. Two most prominent examples of such financial institutions are Riyad Saudi Equity Shariah Fund (RSESF) and AlJazira Capital (Riyad Capital, 2018). AlJazira Capital has a socially supportive organizational culture.

Shariah regulates the manner in which various Saudi IFIs and SCIFs managers operate. For instance, Tajuddin *et al*. (2018) argue that ethical investment in Saudi Arabia does not support prohibited business activities that tend to limit social justice by ruining the national status quo. Examples of such activities are alcohol, pork, gambling, entertainment, tobacco, non-Islamic financial services, and armaments (Tajuddin *et al*., 2018). In addition, SCIFs cannot invest in conventional bonds, warrants, preferred stock, certificates of deposit and some derivatives, nor in leverage and short selling (Gamaleldin, 2015).

Some companies' main activity is in line with Shariah, but part of their income is prohibited (or *Haram*), and this is where tolerance guidelines are needed. According to Gamaleldin (2015), Shariah scholars have started introducing some tolerance parameters, as SCIFs are still at an early stage. SCIFs use two types of guidelines for choosing securities: sector guidelines and financial guidelines. For example, SCIFs can invest in hotels, but this may be prohibited if part of the hotel income is derived from selling alcoholic products or from having a night club on the premises (Tajuddin *et al*., 2018). However, according to Gamaleldin (2015), some Shariah scholars allow investments in such companies that have a small proportion of their revenue from a prohibited activity, but these investments require investors to donate this proportion of *Haram* income to charities. This requirement is meant to 'purify' their earnings from prohibited activities.

Another characteristic of SCIFs is financial screening, meaning regulating investment. According to Hayat and Kraeussl (2011), screening criteria used for the Saudi SCIFs negatively affect the issue of social justice, since they do not involve positive screening criteria that focus on investing in industries that consider respect for humankind, the community, and the environment, and hence increase social justice. This results from globalization, which is a barrier to Saudi social justice. However, because Shariah screening is the most important part of SCIFs, the fund managers must provide full and fair disclosure of all material facts (Makni *et al*., 2016; Edmondes *et al*., 2018). Globalization has both positive and negative impacts on the social justice role of SRI in Saudi Arabia. Hayat and Kraeussl, (2011) concluded that globalization has turned the world into a small global village in which positive social values can be learnt and exchanged easily between Socially Responsible (SR) investors, regulatory boards, and society members.

Globalization is more significant in Islamic countries like Saudi Arabia, having a negative influence on the social justice roles of investee companies, regulatory boards, investors, SSB members, and fund managers in both SRIFs and SCIFs. As a result of the penetration of this approach in the society, both SCIFs and SRIs are focused on terms such as "financial returns" and ”performance", with little to no focus on words related to social justice, such as positive screening (Edmondes *et al*., 2018; Riyad Capital, 2018).

Several indices have been established that focus on sectoral and financial screening as a result of the huge demand for Islamic financial products. The Dow Jones Islamic Market Index (DJIM) was the first Western Shariah screen to be created, with the purpose of identifying stocks that are Shariah-compliant. It is a subset of the Dow Jones Global Index and began with 600 companies in 30 countries. DJIM has its own SSB, unlike the FTSE Islamic index, which uses external sources for its Shariah screening. The members of the DJIM's SSB are from six different countries, increasing the diversity of opinion. The DJIM is reviewed quarterly, in order to ensure that it reflects the latest trends and developments in global markets (Tajuddin *et al*., 2018).

According to some scholars, due to globalization, social justice is limited by the fact that financial institutions of Saudi Arabia are unable to create and maintain comprehensive databases for national mutual funds industry (Naseem & Ishaq, 2018). Collaboration between the mutual funds industry and academia is generally weak. There is low customer satisfaction pertaining to equity mutual funds subscribers. Most independent bodies fail to produce consumer reports on the industry. It is somewhat challenging to formulate shared strategies for the CMA and the mutual funds industry in Saudi Arabia. From his empirical paper on the impact of globalization on Saudi Arabian culture, Rodrigo (2015) concluded that globalization is a form of western attack on the developing world, rather than a reverse colonisation. This argument backs that of Naseem and Ishaq (2018) on the negative effects of globalisation on Saudi social justice. Another important aspect is the role of different stakeholders (fund managers, investors, supervisory and regulatory boards) in promoting social justice by their actions and way of doing business (Rodrigo, 2015), as well as their perception on how Shariah is fulfilling its social justice purpose, and how this purpose is impacted by globalization (Naseem and Ishaq, 2018).

Alongside the negative effects of globalization on SCIFs and social justice, positive effects have also been considered by academic scholars. These effects include global openness for business investors (Naseem and Ishaq, 2018), widespread knowledge and worldwide access to information through the internet for business owners (Abdul Razak, 2011), as well as overall access to goods and services across the globe. In terms of social justice, globalization may increase the overall know-how of investors, which leads to a better understanding of social justice principles by investors (Giddens, 2003).

Previous research regarding globalization and SCIFs roles is limited; the literature review emphasizes research in the area of globalization effects and advancements on Islamic finance and investments, using qualitative literature screening (Khan and Bhatti, 2008); globalization and the financial reporting under Shariah (Nasir and Zainol, 2007); or Shariah supervision in the context of corporate governance by focusing on differences between western and Islamic regulations (Mollah and Zaman, 2015). A recent study by Alotaibi and Hariri (2020) using content analysis of the terms and condition of SCIFs shows that the most frequent Islamic words mentioned are Zakat and Riba, but words referring to a social justice role were absent. They also find a complete deficiency of any positive screening criteria.

3. Research Method

Semi-structured interviews were used to add updated and meaningful information to what was learned from the literature review. According to Creswell (2009), a qualitative paper is one in which theoretical information is gathered from primary sources and used in statistical analysis to quantify the problem. In this paper, qualitative study was based on the relevant published peer-reviewed sources in the literature review. The semi-structured interviews were conducted, during 2012 and 2019, in order to see a potential change in participants' perspective, with participants from the key stakeholders of ethical investment in Saudi Arabia.

Given its small sample of interviews, this research relies on qualitative research methods and semi-structured interviews. These interviews generate a sufficient amount of text data for the analysis and for conclusions regarding the study hypotheses to be drawn.

The semi-structured interviews brings some advantages to the research methodology, such as the potential to overcome some non-reliable responses, emphasizing beliefs, attitudes, values and behaviours (Bariball and While, 1994), these being the motives behind choosing a qualitative research methodology and a text analysis method of results interpretation.

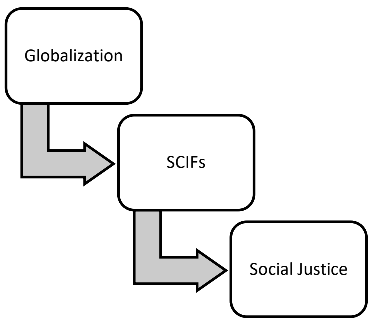
To evaluate the impact of globalization on the role of SCIFs in Saudi social justice, this paper was matched with the most relevant and recent literature. Collected data was critically reviewed to provide an insight into the gradual prevalence of globalization in Saudi Arabia and how this has impacted the role of SCIFs in social justice.

The results analysis was used to evaluate the roles of dependent and independent variables. A variable is an idea, an event, value, or any other subject category a researcher can measure (Kundnani and Parello-Plesner, 2012). In a paper like this, dependent variables change with the influencing factors (Kundnani and Parello-Plesner, 2012). Independent variables, on the other hand, do not change with other influencing factors or variables. According to Kundnani and Parello-Plesner (2012) the aspects of independent variables that change and influence corresponding changes in associated dependent variables are called intervening variables. Dependent variables for this paper are Saudi social justice and the role of SCIFs in social justice promotion. Globalization was studied as an intervening variable.

The research questions that guided the interviews were (1) *What are the general perceptions of SCIFs' stakeholders in relation to the social justice system?* and (2) *Are there any factors that hinder SCIFs from having a social justice role in Saudi Arabia?* The interview questions were constructed based on reliable research into semi-structured interviews, using guidelines from scholars such as Bariball and While (1994), Kallio *et al*. (2016) and Galletta (2013). To ensure the reliability of the research methodology, these guidelines were also used in the analysis.

Through the interviews, the major themes discussed were the impact of globalization, the role of SSB, the importance of SSB Members, the role of Investee companies, the role of regulatory bodies, the need for regulations and their importance, as well as the role of investors. All these aspects are discussed in the analysis section of this paper, and a comparison between 2012 and 2019 is conducted. Our research method is explained in Figure 1 (below).

Figure 1. Research method



Independent variables include the changes in the efficiency of SCIFs, and social justice as a result of globalization, which is further sub-categorized in terms of the aspects of SCIFs and social justice specific to Saudi Arabia. They include the role of SCIF managers, SSB, investors, and regulatory bodies under influence of globalization. With these independent variables, the research interviewed 34 board members, of which 15 were Fund Managers, 7 Sharia Supervisory Board, 5 Investors, and 2 Regulatory bodies. The categories of interviewees are shown in the Table 1. The interviews were conducted in 2012 and re-conducted in 2019. Some of the participants from 2012 were willing to re-take the semi-structured interview in order to assess the possible changes in their perception of how social justice is reflected in Shariah law, and how the impact of social justice is perceived by the interviewees through globalization. From 2019, new respondents were also introduced.

In 2012, 15 fund managers interviewed, of whom 5 were re-interviewed in 2019. As for the Shariah Supervisory Board Members, 4 were interviewed in 2012, of whom 1 was re-interviewed in 2019 and 3 were added in the interviews conducted in 2019. In 2012, 4 investors were interviewed, 1 of whom re-took the interview in 2019, and 1 new investor was added during the 2019 research. From the regulatory body side, 1 head of investment fund was interviewed in 2012, and in 2019 another was added to the research.

In Table 1, “Islamic financial institution” refers to the institutions that provide financial services which are recognized 100% Islamic. “Islamic window” refers to the financial institutions that mainly provide conventional financial services but also provide Islamic financial products. An Islamic bank is one based on and managed according to Islamic principles, while “Islamic window” refers to the services provided by a conventional bank but based on Islamic principles.

Table 1: Categories of the semi-structured interviewees (2012 & 2019). Categories of Interviewees

No.	Code	Organization	City	Year
	Fund managers			
1	FM1	Islamic window	Riyadh	2012
2	FM2	Islamic financial institution	Riyadh	2012
3	FM3	Islamic financial institution	Riyadh	2012
4	FM4	Islamic window	Riyadh	2012
5	FM5	Islamic financial institution	Riyadh	2012 & 2019
6	FM6	Islamic financial institution	Riyadh	2012
7	FM7	Islamic financial institution	Riyadh	2012
8	FM8	Islamic window	Riyadh	2012 & 2019
9	FM9	Islamic financial institution	Jeddah	2012
10	FM10	Islamic financial institution	Jeddah	2012 & 2019
11	FM11	Islamic financial institution	Jeddah	2012
12	FM12	Islamic financial institution	Jeddah	2012 & 2019
13	FM13	Islamic financial institution	Jeddah	2012
14	FM14	Islamic financial institution	Jeddah	2012
15	FM15	Islamic financial institution	Jeddah	2012 & 2019
	Shariah ***Supervisory Board Members***			
21	SSB1	SSB member	Riyadh	2012
22	SSB2	SSB member	Jeddah	2012
23	SSB3	SSB member	Jeddah	2012 & 2019
24	SSB4	SSB member	Riyadh	2012
25	SSB5	SSB member	Jeddah	2019
26	SSB6	SSB member	Riyadh	2019
27	SSB7	SSB member	Jeddah	2019
	Investors			
28	I1	Shariah compliant funds investor	Riyadh	2012 & 2019
29	I2	Shariah compliant funds investor	Mecca	2012
30	I3	Shariah compliant funds investor	Mecca	2012
31	I4	Shariah compliant funds investor	Jeddah	2012
32	I5	Shariah compliant funds investor	Riyadh	2019
	Regulatory body			
33	RB1	Head of investment fund department	Riyadh	2012
34	RB2	Head of investment fund department	Jeddah	2019

Note: The table shows the four categories of interviews. The fund managers had 10 years of experience, on average.

4. Analysis and discussion

According to the interviewees, the Saudi Arabian financial system is based on the Western financial system; fund managers, investors and regulatory bodies operate under this system, as the global banking and financial system are based on conventional finance, not Islamic finance. KSA financial institutions have spread across the globe to develop the country and its trade with Western countries (Chand and White, 2007; Dwyer and Roberts, 2004). The economic globalization of the KSA, along with the harmonisation and convergence of the world's financial system (Tayan, 2017; Ale-Imran, 2018; Chand & White, 2007), have impacted KSA society.

4.1 Globalization's Impact

With regard to the reasons for this, several reasons were addressed by the interviewees. The first reason was the belief that Western countries were the best at everything. People in the Gulf area were very respectful of Western products (FM10, FM12, FM14); even in terms of expertise, they preferred things from developed countries, including in the Islamic finance industry. FM9 noted that "KSA society had become a follower of, or controlled by, the Western developed countries. Society does not therefore have freedom of choice, intellectual property, or human rights. We have experienced the negative side of globalization, for example class in society." The Fund Managers interviewed in 2019 agreed with this view of the impact of globalization on how Shariah law is fulfilling its objective to promote social justice. This aligns with the explanations of Khyade (2018) and Held and McGrew, (2003). Consequently, some interviewees attacked globalization, such as FM7 noting that "globalization involves the problem of forcing nations to follow the standards of particular other countries.

Such questions as "Why do they give themselves the right to come and invest in my country according to their terms and conditions?" are critical. FM3 noted that, in terms of investment, including Islamic investments, globalization served Western interests, for several reasons; FM14 also pointed out that there is capital that wants to invest in SCIFs, and FM 15 (2019) agreed with that there is Western influence in KSA Financial Markets. Based on observations, investment in the West would be better for Shariah-compliant assets because, in countries like the UK, there are better regulations regarding investors' protection. They can use financial engineers to make any conventional investment Shariah-compliant, better and faster. This aligns with Tayan (2017) and Hoepner *et al*. (2011), who note that

Western financial institutions work to attract Shariah-compliant investors by establishing Islamic windows which provide SCIF.

The second reason was that the society was not following all Islamic teachings. SSB1 defined the issue in practice as Muslims not applying Islamic teachings in their daily life, which was reflected in SCIFs. The focus on material things has increased as a result of globalization; as FM4 noted, globalization affected social justice and caused people to abandon Islamic teachings. Islamic teaching asks people to be moderate without engaging in excessive spending, and also to be generous to poor people. In the same line, Qadir and Zaman (2018) and Dusuki (2008) note that Islamic teachings are concerned with all aspects of social justice towards solving social issues. As a result, it is important for SCIFs to play their part in promoting socially just objectives. FM3 indicated that people should gain as much benefit as possible from globalization, without breaking Islamic teachings, commenting:

> *"We have to seek not to break the rules and Islamic concepts of social justice and, at the same time, try to get the maximum benefit from this openness of globalization".*

In regard to some positive effects of globalization on society, FM 7 stated that globalization allows fund managers to have access to information, while RB2 noted the information advantage and the overall access to worldwide news and financial information and regulations.

There were debates about globalization between the interviewees. The focus on profit was one of the reasons for the lack of social justice, as economic globalization depends on capitalism, which focuses on maximizing profit. There was no outright rejection of globalization, but a view that it should be used to fulfil socially just objectives. Thus, globalization has positively and negatively influenced SCIFs, but the negative influence was more powerful, and as a result social justice appears undermined by SCIFs. The perception of the negative impact of globalization is present in both the 2012 and 2019 interviews, acknowledged by all respondents, who identified the differences from Western economies and politics, and how these are impacting the way in which Shariah is applied in terms of social justice principles.

4.2 Globalization’s positive impact

When it came to the talks about the positive impact of globalization, there was rather a collective answer that was drawn from the interviews. This collective answer was about the discussion of the high influx of foreign investment and expatriate workers in KSA. FM6, FM11 and FM15, as well as SSB1 and SSB7, all strongly expressed their view about how globalization through SCIF has brought great investment opportunities for KSA. They vociferously talked about the increase of foreign investors from countries like France, Singapore, Malaysia, and neighboring countries such as the United Arab Emirates and Kuwait, most of whom were investors, in the country’s real estates, fossil fuels, automobiles and machinery. FM7 also pointed out that all these investments were under the umbrella of Shariah laws of investment and banking. The increased flow of various investments through the rapid growth of globalization was visible in the numerous improvements around the country, most especially in roads, oil and real estates. These investments from foreign countries also helped establish much local business, as well as increasing employment opportunities for Saudi nationals. All Fund Managers and the Shariah Supervisory Board members who were interviewed highlighted the Saudi Vision 2030 strategic framework initiative to reduce Saudi Arabia's dependence on oil, diversify its economy, and develop public service sectors such as health, education, infrastructure, recreation, and tourism. They all thought it is through globalization this is being achieved and that Saudi Vision 2030 will draw more foreign investment from all over the world which will directly impact SCIFs as well as social justice in the country.

4.3 Importance of SSB Members for SCIFs

FM8 (2012 & 2019) expressed his perception of SSB members’ roles, pointing out that there was a difference between the theory and reality, and saying that theoretically, they have full authority to do whatever they wish without any objection from the fund team. In practice, however, they do nothing. According to FM8, SSB members did not devote their full efforts to improving the SCIF industry; they had much work to do, thus requiring them to give enough time and effort to each transaction, which precluded fulfilling social justice. There were differences between the interviewees’ responses and the literature, possibly due to the lack of a clear job description for SSB members provided by the regulatory bodies or financial institutions in defining their roles.

The interviewees’ discussion indicated that globalization influenced and affected SSB members as they worked for different boards around the world, were highly paid, did not insist on positive screening and depended on Western indices, as stated by SSB2, SSB4 and SSB5. SSB1 stated that globalization may have a positive effect when it comes to financial and investment education, training and practices of SSB Members and other stakeholders, as "*nowadays everyone can learn about everything*". The findings show that there were common interests between SSB members and financial institutions. Thus, the focus on social justice was not a priority at all for the SSBs and financial institutions. Western financial culture was spreading throughout the world through the capitalist system of globalization (Gandhi, 1998) and was influencing Islamic finance. Developed countries have used globalization to influence life in developing countries, but for many it depends on, or is built, according to narrow capitalistic values in order to promote global hegemony over weak or underdeveloped nations (Gallhofer *et al*., 2011) and supports a liberal capitalist economy (Ale-Imran, 2018; Dunning, 2005).

This has possibly influenced SSB members and fund managers, as they are part of the global finance industry. Thus, globalization has possibly caused a deficiency in the roles of SSB members in SCIFs and, as a result, there is no social justice focus, a conclusion that can be drawn from both sets of interviews (2012 and 2019).

4.4 Role of the Investee Companies

According to 17 of the interviewees (2012) and 16 (2019), one of the reasons for the absence of social justice in SCIFs in KSA was the ethos of the investee companies themselves. Increased demand for SCIFs had made listed companies work to become Shariah-compliant to increase potential investment. FM2 noted the "…increased demand for Islamic funds will make more listed companies comply with Shariah principles" and this could increase social justice in KSA. The role of investee companies to increase social justice stems from changes in their practices, with the adoption of both negative and positive screening by fund managers. FM6 thought that there would be resistance to changing investee companies' practices, but in the end, it would work. The investee companies were looking only for profit, so if they found something that would increase their profit and enhance their image, they would immediately adopt these practices. According to the interviewees, there were four reasons for the resistance of the investee companies to changing their practices: (1) no external bodies assessed their practices; (2) investee companies do not believe in the importance of social justice; (3) SCIFs do not support positive screening; and (4) globalization. The first reason was related to the lack of specific organization in the KSA that provided an independent measurement of corporate practices. FM3 commented:

> *"..., we need to have a way to measure and evaluate positive screening criteria. Companies would not be honest with us unless we have a type of measurement or disclosure from a neutral party".*

As for the role of the investee companies, no positive or neutral effects were identified during the interviews. It is important to note that such organizations as EIRIS in the UK (Khalid *et al*., 2018; Ballestero *et al.*, 2012), that work independently to help investee companies know how they have to adapt to influence society positively and fulfil social justice. One possible reason for the absence of these organizations, as noted by SSB6 and SSB7, was the low level of awareness about the importance of needing to change companies' practices. One solution, suggested by RB1, RB2, I2, I4 and I5, was pressure from society that would influence potential listed investee companies. Examples of investors' influence on investee companies existed in North America, Europe and Australia, where there were investor networks that had established policies regarding environmental issues and climate change, of which companies should be aware (European Commission, 2016; Sørensen and Pfeifer, 2011). Thus, having governmental or non-governmental organizations could help to push investee companies to change their practices and increase social justice in society. The second reason why investee companies might resist changing their practices was their lack of belief in the importance of the role of social justice. SSB1 noted that investee companies would not cooperate in changing their practices because there is no proof that investee companies are harming the environment or society; hence, unless there is proof, it is difficult to require such a criterion from any company. FM5 and FM6 noted that investee companies would support the SCIFs' adapting positive screening criteria; and FM1 gave an example of one KSA listed company that was not originally Shariah-compliant but had changed to become compliant:

> *"The financial institution I am currently working in contacted a listed company and explained to them the importance and benefit that the company would gain if it became Shariah-compliant. The company cooperated and now it is Shariah-compliant."*

The investors should understand that positive screening aims to fulfil objectives that include social justice and to "push the investee companies to cooperate with fund managers under these new criteria" (I3). Investee companies should know that environmental and corporate governance positive screening criteria are part of Islam. For example, regarding responsibility to the environment, several verses of the *Qur'an* emphasise the importance of this in Islam: "Eat and drink, but waste not by excess; verily, he loves not the excessive" (*Qur'an*, 7:31). Additionally, regarding responsibility to the employees in investee companies and treating them equally, the Prophet Mohammed said, "I will be foe to three persons on the day of judgement, one of them being the one who, when he employs a person that has accomplished his duty, does not give him his due" (Khan, 1986). Accordingly, positive screening criteria reflects Shariah. Investee companies should understand that these practices will improve company sustainability (Renneboog *et al*., 2008; Sparkes & Cowton, 2004) and social justice, and be reflected in future performance and financial returns.

One of the reasons the interviewees suggested as to why the investee companies did not change their practices was that the SCIFs did not themselves support positive screening. SCIFs need to advertise that they use positive screening criteria. SSB4 noted that all SCIFs needed to cooperate and apply positive screening, so that there would be pressure to change, but if just one fund adopted such criteria, it would be ineffective. FM11 added that SCIFs' cooperation was needed because that could influence companies to be cooperative. SSB2 agreed that the influence of all of the funds combined would be greater than just some funds adapting such procedures, as it would be hard to convince investee companies to follow such social justice criteria unless SCIFs used it. FM6 noted the impact if funds started applying positive criteria, as this would exclude many companies in which the funds usually invested heavily, so their profit would decrease. He stated:

> *"To be honest, you do not want to put more restrictions upon yourself. Already, the SCIFs' markets are more concentrated and the top ten companies in the market represent 65% of the market so you do not have that much variety. As a Shariah-compliant fund, you just have 60 companies out of 130. If you add more criteria, you will decrease it even more and this is risky."*

The last reason for investee companies to change their practices was globalization's influence. This arises from focusing on profit at the expense of social justice by investee companies. FM13 and FM14 stated that the focus of investee companies as well as SCIFs was maximizing profit, but not social justice. I3 stated that investee companies thought about profit without taking any responsibility for fulfilling social justice. Profit was the main goal of the directors and investee companies' boards, in order to maximize their bonuses (I3). FM5 noted the companies' greed:

"*Companies have become greedy; they do not follow work ethics, as the main motivation for them is profit; however, no one can blame them because this is a competitive market*."

The focus on profit maximization and the neglect of positive screening by SCIFs mean that investee companies are influenced by globalization. Held and Kraeussl (2003) explain that globalization influences everything, including finance, as the world's financial system has been designed by countries that own resources, power and knowledge, which enables them to spread their own views of business worldwide.

4.5 Role of the Regulatory Bodies

According to 11 of the interviewees (2012) and 12 (2019), Islamic finance needs regulation, since currently there are no specific regulations for this industry in the KSA. The Capital Market Authority (CMA) regulates both Shariah-compliant funds and conventional funds in the KSA under only one regulation. In this regard, SSB3 stated that countries differ in their dealings with the Islamic finance industry; for example, the Malaysian government is proactive and is taking the lead, while that of the KSA is not. SSB3 and SSB4 agreed with these aspects. The reason is that Malaysia uses the supply-driven method but the KSA uses the market driven one. This is in line with Karim (2001) who notes that countries can be divided into two groups with regard to their regulation of IFIs; the first group has enacted IFIs into their laws and the second have not. SSB1 explained that regulators in the KSA did not want to establish separate regulations for SCIFs and that he had sent several requests to the CMA to consider Shariah rules in regard to SCIFs before it implemented any further regulations, as the market was now more Shariah-compliant than conventional, but there had been no response. According to FM9, SAMA had a committee that looked after the Islamic banking and finance sector, but it was ineffective. Thus, the regulatory bodies appear to have failed to respond to or develop regulation for SCIFs, implying that they are uninterested in fulfilling social justice.

FM8 and RB2 pointed to the positive effect of globalization on the role of regulatory bodies, in terms of the accountability and liability of the stakeholders, who, with rising globalization, are becoming much more responsible and willing to respect the regulations.

FM10 clarified that the current regulations were suitable for all funds, explaining that 80% of conventional investment funds' regulations could also work for SCIFs. In the same vein, FM12 noted that the motivation to improve the regulations in SCIFs should come from the fund managers themselves and not be enforced by the law and regulations, because even if a regulation exists, there are different ways to break the law (FM12). This is in line with findings by Bhat (2014) and Chong and Liu (2009) that Islamic finance regulations did not need to differ from conventional ones and hence there was no need to have separate regulations for SCIFs.

Unlike the 2012 interviews, the respondents from 2019 had a different approach to this aspect, as can be noted in the fact that nearly half of the interviewees in this study thought that SCIFs should be better regulated. Eleven of the interviewees said that the regulatory bodies did not play any role in SCIFs. FM6 criticized the regulatory bodies as follows:

> *"Regulatory bodies do not have a major role. What they do is just consider SCIFs as conventional funds and have general rules that fit both types. There are no specific rules for Islamic funds."*

One of the reasons to have regulations was explained by FM13:

> *"I think that they should have clear regulations; for example, fund managers that claim to be Shariah-compliant need to show that their Shariah board has proper screening in place, a system and process. If you want to be a Shariah fund, you have to show me that you comply with our system and process".*

FM8 noted that:

> *"...they do not implement regulations specifically for SCIFs. This could be good but might not be. In this situation, the responsibility for deciding which Shariah-compliant fund really follows the Shariah criteria lies in the hands of the investors".*

In 2019 14 respondents, of whom 5 are Fund Managers, stressed the need for more regulations, or at least for more specific regulations; FM 14 states:

"*while we have many regulations, some of them are just not easy enough to interpret, or there is a*

lack of updated regulations to today market and economy"

Regulation, therefore, is important to ensure that funds managers are Shariah-compliant and that they do not deceive investors. This accords with El-Hawary *et al*. (2007) who explain that regulations are needed for: "(i) the supply of a public good, (ii) the protection of public resources, or (iii) the enhancement of the integrity of fiduciary contracts" (p.789). Thus, regulators should take an interest in establishing regulations for SCIFs.

The regulatory bodies face a "real challenge" because they are dealing with both conventional and Islamic financial systems, which requires them to take additional responsibility to "maintain regulatory and supervisory standards for both" (Iqbal and Mirakhor, 2011). Nevertheless, as the KSA is considered one of the biggest markets of Islamic finance (Ale-Imran, 2018; Hoepner *et al*., 2011), it might be important to have KSA regulations for Islamic finance and Islamic funds (Injas *et al*. (2018); Olson and Zoubi (2008)).

FM1, SSB2, SSB 5 (2019) explained that there was no monitoring of SCIFs' processes by the regulatory bodies. Having regulations might ensure proper monitoring; as FM2 and FM3 explained, all of the decisions relating to the screening of SCIFs were left in the hands of the fund managers themselves. FM6 agreed that the regulatory bodies' roles did not go far enough for SCIFs, and stated:

> *"When they come to conduct an audit, the regulatory bodies' auditors do not look at SCIFs' screening criteria; they do not care about this aspect".*

FM14, I1 and I5 (2019) argued that the regulatory bodies needed to introduce regulations for the Islamic funds because scholars' opinions were different:

> *"Actually, we need regulations for the SSB members' opinions because they give different opinions in every bank depending on how the bank presents its case to the SSB members". (I1)*

However, Qadir and Zaman (2018) explain that jurisprudential differences should not be an issue, as Shariah board members frequently operate as bricoleurs, drawing from any jurisprudential source which they deem to be appropriate for a particular problem. In the same vein, the KSA does not need to invent totally new regulations for its IFIs because they already exist in other countries, such as Malaysia. El-Hawary *et al*. (2007) explain that the KSA does not have laws for IFIs but operates under "the laws governing conventional banks" (p.788). Chapra and Khan (2000) propose three regulations that are needed for Islamic finance and financial institutions: systemic objectives; compliance with Shariah; and the integration of Islamic finance in the international financial system. Likewise, there are several agencies, such as AAOIFI, which have introduced standards for IFIs (Karim, 2001) that could be adapted by a KSA regulator. Thus, regulators should consider whether external drivers of SRI (Solomon, 2007) and hence influence on social justice (for example lack of regulations) could be one reason for the lack of social justice in SCIFs.

To support social justice, there must be governmental support, such as the UK regulatory support for SRI funds (Sparkes, 2001; Schwartz, 2003; Bakshi, 2007), where regulations require pension funds to take social, environmental and ethical aspects into consideration (Sparkes, 2001). Through such a policy for sizeable funds, regulations could pave the way for SCIFs to use positive screening criteria and invest in companies that consider these criteria. The lack of regulation means that fund managers can use SCIFs simply as profitable ventures and neglect social justice. Lack of regulations for Islamic funds by the KSA regulatory bodies may be due to the KSA's historical relationship with the West. The KSA has engaged in a long-term relationship with the two major capitalistic powers: the United States and the United Kingdom (Vitalis, 2007) and there has been economic cooperation between them, such as inviting American companies to work in the KSA (Vitalis, 2007). Furthermore, Arab countries' economies are influenced heavily by their previous Western colonisers, and as a result, most Arab countries' financial and accounting legislation is based on British or French law (Kamla, 2007). Consequently, the KSA's relationship with the US and UK makes the KSA part of the global capitalistic economy (DeRouen and Bellamy, 2008) and hence KSA regulators have adopted Western regulations in finance.

4.6 Role of the Investors

Nine interviewees stated that investors' opinions impact on fund managers and make SCIFs focus on financial returns. FM13 noted that investors' views affected how fund managers launched a fund to ensure they would attract investors:

> *"I need to see if my investors are interested in taking this particular risk with this particular investment."*

Indeed, most SCIFs' investors are looking for financial returns, as FM1 explained:

> *"As you know, a high return means high risk. The SCIFs reduce the investment choices and, as a result, increase the risk".*

In line with the statements are findings from a paper by Renneboog *et al*. (2011), who found that SRI investors are similar to non-SRI investors, in that both focus on past performance and past returns before investing. Investors focus on traditional ways of investment and reject any new investment strategy unless they are sure that a new fund will perform well (FM13). Additionally, there was no dialogue between investors and fund managers or SSBs members, as SSB1 noted:

> *"...if an investor discussed with me the companies that our financial institution currently invests in, and the investor thought that they were not Shariah-compliant for acceptable reasons, then I would take this into consideration and review the relevant company to be assured that we would not invest in non-Shariah-compliant investee companies".*

That caused a disconnect and misunderstanding between investors, fund managers or SSBs members, but in the case of SRI it depends in the first place on investors' awareness of the importance of the social attributes of funds. Thus, funds can gradually improve their screening criteria as investor awareness increases over the years (Renneboog *et al*. 2011; Ellas, 2017). As a result, investors should have channels to directly contact SSBs and fund managers to promote both social justice and financial returns. FM2 and FM3 stated that investors' opinions did not affect their own investment decisions. FM5 clarified that the contract between the customer and the financial institution stated that the customer would not interfere in the fund's decisions, so investors' opinions were not important. FM6 noted that "*investors' views do not affect me*" and that investors could contact the fund managers indirectly, explaining that investors interact with the customer relations staff and thus the feedback is reported, but the time to take into consideration this feedback is limited; additionally, the fund manager is completely independent, even if they try to do the best for the customers.

In the fund managers' opinion, there is no interaction between investors and fund managers. However, if the investor was wealthy, that was a different story; FM7 and FM9 (2019) said that wealthy investors were influential, depending upon the extent of the wealth that was invested. SSB4 and SSB2 stated that investors preferred not to become too involved since there were SSBs for every financial institution. Likewise, investors, I1, I2, I3 and I4, stated that their opinions were unimportant to the fund managers, and that fund managers and SSB members never spoke to them; the investors category maintained these statements during 2019 interviews.

Investors who invest their money in SCIFs should have a voice and influence with the fund managers to convey what they want, as this falls under the concept of "*Shura"* in Islam. According to Abu-Tapanjeh (2009) *Shura* "consultation" is a principle that involves hearing people's opinions before making a decision (Abu-Tapanjeh, 2009; Ale-Imran, 2018). This is because involving people in business adds to their knowledge and helps to complete the work. Abu-Tapanjeh (2009) adds that *Shura* procedures offer a higher level of trust if institutions' activities and strategies are discussed (Abu-Tapanjeh, 2009; Ale-Imran, 2018). Sparkes and Cowton (2004) explain that, in SRI funds, it is important to take investors' opinions into consideration before making decisions.

5. Conclusion

The purpose of the interviews analysis was to understand the fund managers', SSB members', regulators' and investors' perceptions of the role of SCIFs in social justice in KSA society, and to investigate whether globalization has impacted on that role. In addition, the study investigates the factors that hinder SCIFs from having a social justice role in Saudi Arabian society as a result of globalization's influence.

The analysis reveals that the interviewees did not link SCIF practices with social justice Islamic concepts even though they believed in the importance of social justice and, as a result, SCIFs are not achieving their social justice objectives. This conclusion can be drawn from both 2012 and 2019 interviews. The interviewees identified that the absence of social justice may be due to the global economic influence of the West. This accords with Boyer (2000), who explains that "globalization meant a new strategy on the part of multinationals, who proposed to sell the same product everywhere" (p.16).

Furthermore, it is argued that the focus was on screening criteria as one way for SCIFs to have a social justice role; one of the interviewees' main criticisms of SCIFs was that they do not use positive screening criteria to increase social justice (Hallerback *et al*., 2004; Renneboog *et al*., 2011; Ballestero *et al.*, 2012; Alotaibi and Hariri, 2020). Islamic funds only use negative screening (Hassan and Lewis, 2007; Derigs and Marzban, 2009), which means that the social justice concepts stemming from Islamic teachings are not linked with SCIFs' objectives. Looking for profit is something that is allowed in Islam and is a right for everyone, but when it comes at the expense of ethics and social justice, it becomes greed because it will have a considerable effect on society (Al-Qardwi, 1995). Thus, the absence of positive screening in SCIFs is one of the reasons why SCIFs lack a social justice role, identified in both periods of time (2012 and 2019).

The second reason for the absence of social justice in SCIFs is the weak role of the SSB members. The SSB members are blamed by the interviewees for failing to promote social justice through the SCIFs, as they have the power and knowledge to do so (Grais and Pellegrini, 2006; Masood *et al*., 2011; Walkshäusl and Lobe, 2012) but have not worked to develop positive screening criteria for the SCIFs which can influence the latter's social justice role. One of the reasons for the weak role of the SSBs might be the lack of supervision by the SSB members over the SCIFs. The main role of SSBs in financial institutions is to guarantee that all transactions are based on Shariah-compliant transactions, rather than to focus on how to improve the role of social justice of the SCIFs.

Another reason causing the absence of the social justice role by SCIFs as identified by the interviewees and influenced by globalization is the investors' role. Investors fail to improve the social justice focus of SCIFs with a lack of lobbying or *Shura* for SCIFs to apply social justice screening criteria. It is evident from interviewees that one of the negative consequences of globalization for SCIFs' investors is focusing only on financial returns. Hence, the absence of *Shura* between investors and SCIFs' management, as a result of globalization, inhibits SCIFs from having a social justice role. The absence of any regulatory bodies overseeing SCIFs in Saudi Arabia was another reason highlighted by the interviewees for the absence of a social justice role by the SCIFs. The interviewees explained that the Saudi Arabian investment regulations do not focus on SCIFs, but merely provide general regulations that work for both Islamic and conventional funds (see CMA, 2006). It can be said that Saudi Arabia is considered one of the world's biggest market for SCIFs, signifying the influence of globalization.

The findings revealed that the significance of SCIFs in Saudi social justice is currently low. Certain factors were noted to account for this situation; including globalization, capitalism, poor funds management, and increased neglect of the Shariah laws. Negative screening criteria mainly focus on returns and performance rather than social justice. This is among the perceived negative results of globalization. The main characteristics of globalization are market domination by capitalism, low attention to Shariah, and return-driven investment. These characteristics tend to suppress social justice in Saudi Arabia and other Islamic countries (the main view drawn from interviews in both 2012 and 2019).

The practical implications are also in the area of cultural approaches, as globalization tends to impact the way of doing business and investing, although some specific areas, such as KSA, still have some major cultural differences and approaches. This research offers a perspective of the different stakeholders involved in the financial investment sector over globalization itself and over different cultural approaches.

Future research should include the use of a larger sample of data, to overcome the limitation of using interviews, as well as matching the present comparison to eventual legal and regulatory changes in the industry of financial funds. The use of a larger sample of data would offer a fuller understanding of social justice and its perception through globalization effects; and a comparison between these results and the legal and regulatory changes in the industry would offer a better understanding of the changes in the stakeholders' perception.

Recommendations

As Islamic finance turns into a global phenomenon, it should take advantage of globalization and avoid its negative impact. Therefore, this paper has policy implications to improve the practice of SCIFs in KSA. This section provides some recommendations to maximize the role of the SCIFs in achieving social justice in the globalization era.

First, it is important for the Islamic investment industry to develop a comprehensive harmonized Islamic accounting and screening framework based on Islamic core values rather than western ones, to reflect the unique characteristics of the industry. Meanwhile, harmonizing the investment screening criteria would provide clear understandable standards that would enhance the credibility of the industry globally, because at present no Islamic accounting standards have been designed for Islamic companies in the non-financial sector. AAOIFI has only developed Islamic accounting standards for IFIs, which are not obligatory in many Muslim countries. Therefore, it is essential to develop international supervisory standards and practices that are widely accepted in Muslim countries, as globalization of legal Islamic financial standards is also beneficial in establishing a globally competitive standpoint.

Second, it is significant to examine the roles of regulatory bodies in Muslim countries in overseeing the Islamic investment industry toward achieving social justice in their societies. For instance, central banks only oversee IFIs, such as banks, investment and finance companies, insurance companies, and investment funds, while no regulatory authority oversees non-financial Shariah-compliant investee companies. Moreover, governmental authorities could play a role in enhancing transparency and disclosure of investee companies, to restore investor confident locally and globally. This is because one of the obstacles for not applying positive screening by SCIFs is the lack of ethical and social reporting and disclosed information.

Third, SCIFs should play their role in promoting social justice objectives in Muslim countries, as they need to put more pressure on investee companies by including positive screening. Picking the best investee company in practice is an active investment strategy that is widely used by SRIs around the world; hence SCIFs should learn from them. This would encourage investee companies to comply with SCIFs' positive screening strategy, as the former are interested in being targeted by SCIFs to increase their stock price in the market. Therefore, investee companies' practices toward social justice would improve. Further, SCIFs need to disclose and advertise that they are using positive screening criteria. This would attract ethical and socially responsible international investors to invest in SCIFs to gain diversification benefits.

Fourth, SSBs should lead the change in focusing on social justice, rather fund managers motivated by profit maximization. Hence, SSBs should play a greater role in ensuring the compliance of SCIFs with Islamic values such as social ones. They need to monitor funds to ensure that they are using the criteria they disclose to their investors.

Finally, it is important to boost the level of awareness of social justice and ethical investment values among stakeholders in society, using conventional and social media. This would also enhance the demand for such investments and attract not only Islamic investors but also SRI global investors, who share many common values (Ghoul and Karam, 2007).

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