

Sustainable Investing and Corporate Performance: Evidence from Shariah Compliant Companies in Southeast Asia

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Abstract : Sustainable investing is a responsible investment that focuses on Environmental, Social, and Governance (ESG) elements. ESG integration is essential in the investment process as it provides a positive contribution to the corporate performance for stakeholders, specifically investors. Sustainable investing is in line with the objectives of Shariah (Maqasid of Shariah), such as social inclusion as well as environmental preservation. This study attempts to evaluate the impact of ESG elements to the corporate financial performance among Shariah compliant stocks listed in two countries, namely Malaysia and Indonesia. The motivation of this study is to provide a further understanding in corporate sustainability for two different Islamic capital markets. The existence of the FTSE4Good Asean Index has played a vital role for ESG practices and eventually encouraged specific index for ESG and Shariah Compliant stocks. Our sample consists of 60 companies over the period 2010-2020 from two Southeast countries. We employ System Generalized Method of Moments (GMM) to reduce bias and more specific parameter estimation. Shariah Compliant companies tend to have higher ESG scores and are positively correlated to corporate financial performance. ESG integration with Shariah based investing would provide higher returns and lower risks for Muslim investors. Essentially, integrating ESG and Shariah, compliant companies lead to better financial performance.

Keywords : shariah compliant, southeast asia, corporate performance, sustainable investing

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