The Triangulation of Shariah-compliancy, ESG-transparency, and the Financial Performance of Malaysia Islamic Equities.

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468

523

991
Malaysia Total Equities

Introduction

ESG as a concept has grown substantially in importance and prevalence since the beginning of the 21st century (Leins, 2020).

Managers are obliged to focus only on shareholder value maximisation by focusing on the financial goals. (Ferell, Hao, & Renneboog, 2016)

Higher ESG-performing firm is value-creating from brand equity and stakeholder loyalty. (Du & Yu, 2020).

ESG develop relationships of trust with stakeholders, where ethical behaviour leads to positive long-term impact (McWilliams & Siegel, 2001; Lamb & Butler, 2018).

	No of Firms	ESG Score (2021)	No of Firms	ESG Score (2012)
Full ESG sample	316	42	44	37
Shariah-compliant	178	39	21	30
Non-Shariah compliant	138	45	23	24
ESG Score Gap (Compliant vs Non-Compliant)		14%		16%

Shariah Equities exhibit higher ESG scores compared to Non-Shariah Equities for the past decade!

Problem Statement

Whilst it is evident that the Shariah screening and ESG screening enhance the values of the shareholders, there is a missing link to the potential benefits of double screening (Shariah and ESG scoring) on the Firm Financial Performance.

Additionally, there is a critical needs to dig deeper into the quality of the firms' ESG commitment. Hence, the ESG-Leaders and ESG-Laggards are incorporated as the moderating variables on the relationship of ESG on Firm Financial Performance.

Hassan et al. (2021) state that the combined effect of ESG and Shariah screening is mostly unknown.

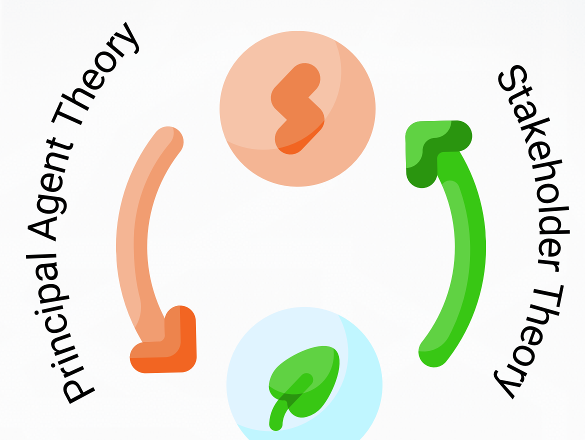
1. to examine the impact of ESG practices and their components (ESG) on the financial performance

Environmental

Social

Governance

Underpinning theories



ESG practices are unproductive expenditures that **NEGATIVELY** impact financial performance. (Jensen & Meckling , 1976)

ESG practices reflect good management of firms, which fulfilling the interests of all the stakeholders, thereby leading to a **POSITIVE** impact on performance (Freeman, 1994)

Data & Methodology

- Secondary data from Refinitive Eikon Database
- Static Panel Data Analysis using STATA software.
- 20 of 523 Shariah Compliant Firms Listed in Bursa Malaysia with Completed ESG Scores in the recent 10 Years (2012 - 2021)

listwise deletion of firms without ESG scores is common approach and should not cause biased results (Allison, 2009)

Unit Root Test using Harris-Tzvalis Test

Pairwise Correlation Matrix

Data Normality SWILK Test

Descriptive Statistics

Static Panel Data Regression Models

Pool ability Test - BPLM

*P > z = .001****

Pooled Ordinary Least Square (POLS)

Fixed Effect Model (FEM)

Hausman Specification Test

*P > z = .001****

Random Effect Model (REM)

Fixed Effect Model (FEM)

Residual Diagnostics

*Chi² = .001****

Heteroskedasticity (Modified Wald-Test)

*Chi² = .001****

Serial Correlation (Woolridge Test)

VIF = < 4

Multicollinearity (VIF Test)

Novelty

Deeper-cut analysis of Shariah-ESG firms by segregation of ESG-Leaders and ESG-Laggards and to further observe whether ESG-Leaders could give moderating effects on the interaction between the ESG level of transparency on firm performance.

Analysis & Discussion

Our general finding is consistent to Lee & Isa (2022) that found a **POSITIVE** impact of ESG combined screening with Shariah firms on financial performance. ***(Stakeholder Theory)***

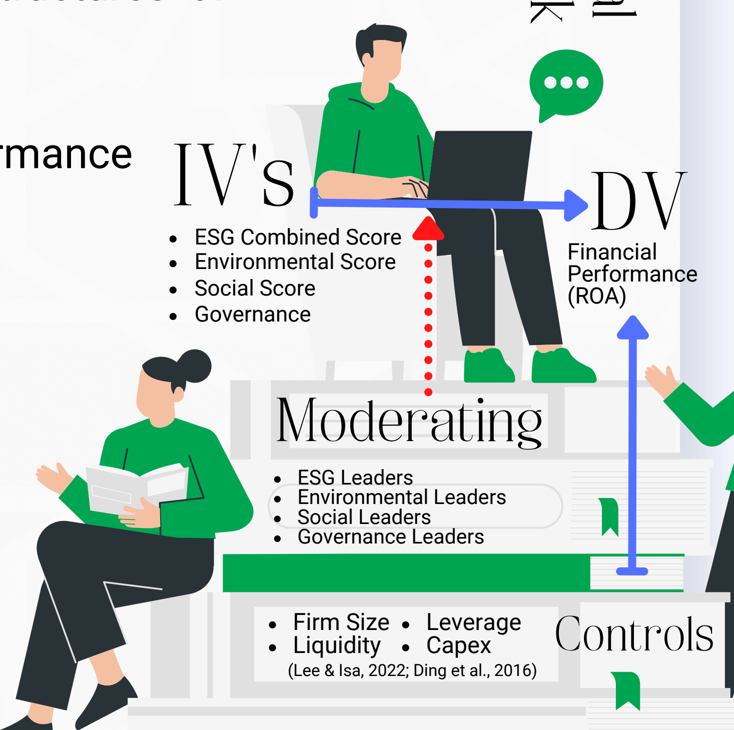
In line with Lioui and Sharma (2012) and Delmas et al. (2015), we find **NEGATIVE** evidence of Environmental scores suggesting that shariah investors perceive environmental initiatives as potential agency costs. ***(Principal-Agent Theory)***

The **POSITIVE** coefficient of Social component show the tendency of Islamic firms to have an orientation towards social responsibility (Franzoni & Allali, 2018). ***(Legitimacy Theory)***

The insignificant value of Corporate Governance might be due to complex structures of some family-owned companies in the region which require further analysis.

Leaders (scores higher than 49) POSITIVELY enhances ESG and Social impact
Laggards (scores lower than 50) NEGATIVELY enhances Social impact on performance

Theoretical Framework



Regression Results

Corrected Models

Feasible Generalised Least Square Model

FGLS is superior to OLS, REM, and FEM for any misalignment in the residuals by correcting autocorrelation, heteroscedasticity, and multicollinearity (Wooldridge, 2003).

ESG Score
*(.118)****

Social
*(.144)****

Environmental
*(-.054)**

Governance
(-.004)

Moderating Effects

ESG Leaders
*(.130)****

Social Leaders
*(.197)****

Social Laggards
*(-.177)****

Conclusion & Future Study

Firms should enhance their commitment and engagement to ESG-related activities and maintaining the scores higher than 50 by increasing the transparency and disclosure.

According to Zhang et al. (2018), financial performance could also affect ESG bi-directionally which may cause endogeneity problems. To address this issue, a dynamic panel data model like two-step system generalized method of moments (GMM) is recommended for further analysis (Nekhili et al., 2017)