GREEN INITIATIVES TOWARDS BETTER FINANCIAL PERFORMANCE OF SHARIAH PUBLIC LISTED COMPANIES IN MALAYSIA

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ABSTRACT

This study aims to analyze the impact of green initiatives on the financial performance of Shariah-compliant companies listed on Bursa Malaysia. Shariah-compliant firms bear a greater responsibility in adopting sustainability practices, in alignment with Islamic principles that emphasize social justice, environmental preservation, and financial transparency. However, despite the widespread adoption of Environmental, Social, and Governance (ESG) standards, challenges remain in ensuring that green strategies yield tangible financial benefits. This research employs a Random Effect Model (REM) in panel data regression analysis to examine the relationship between ESG, green accounting, and Corporate Social Responsibility (CSR) with financial performance, measured through Return on Assets (ROA) and Return on Equity (ROE). The data is collected from the annual reports of Shariah-compliant firms listed in the FTSE4GOOD Bursa Malaysia Index 2019-2023. Additionally, moderating variables such as firm size and industry type are analyzed to assess their influence on these relationships. The findings indicate that the implementation of green accounting in Shariah-compliant firms contributes to improved operational efficiency and resource management. However, ESG and CSR adoption often face significant cost barriers and a lack of long-term incentives. Further analysis reveals that firm characteristics, including size and industry type, play a moderating role in the relationship between sustainability strategies and financial performance.

Keywords: Green initiatives, ESG, green accounting, corporate social responsibility, financial performance, green economy.

ABSTRAK

Kajian ini bertujuan untuk menganalisis kesan inisiatif hijau terhadap prestasi kewangan syarikat yang tersenarai di Bursa Malaysia dan mematuhi prinsip Syariah. Syarikat patuh Syariah memikul tanggungjawab yang lebih besar dalam mengamalkan kelestarian, selaras dengan prinsip Islam yang menekankan keadilan sosial, pemeliharaan alam sekitar, dan ketelusan kewangan. Walaupun pelaksanaan piawaian Environmental, Social, and Governance (ESG) semakin meluas, masih terdapat cabaran dalam memastikan strategi hijau memberikan manfaat kewangan yang nyata. Kajian ini menggunakan Random Effect Model (REM) dalam analisis regresi data panel bagi menguji hubungan antara ESG, perakaunan hijau, dan Tanggungjawab Sosial Korporat (CSR) terhadap prestasi kewangan yang diukur menggunakan Return on Assets (ROA) dan Return on Equity (ROE). Data diperoleh daripada laporan tahunan syarikat patuh Syariah yang tersenarai dalam indeks FTSE4GOOD Bursa Malaysia sepanjang 2019-2023. Selain itu, pemboleh ubah pemoderasi seperti saiz syarikat dan jenis industri turut dianalisis bagi menilai pengaruhnya terhadap hubungan tersebut. Hasil kajian menunjukkan bahawa pelaksanaan perakaunan hijau dalam syarikat patuh Syariah menyumbang kepada peningkatan kecekapan operasi dan pengurusan sumber. Walau bagaimanapun, pelaksanaan ESG dan CSR sering menghadapi cabaran kos yang tinggi serta kekurangan insentif bagi memastikan penerimaan dalam jangka panjang. Analisis lanjut mendedahkan bahawa ciri-ciri syarikat, termasuk saiz dan jenis industri, memainkan peranan sebagai pemoderasi dalam hubungan antara strategi kelestarian dan prestasi kewangan.

Kata kunci: Inisiatif hijau, ESG, perakaunan hijau, tanggungjawab sosial korporat, prestasi kewangan, ekonomi hijau.

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GLOSARRY OF TERMS

1. **Capital Market** – A financial market where securities such as stocks and bonds are traded, playing a crucial role in supporting green initiatives through sustainable investments.
2. **Chow Test** – A statistical test used to determine whether different regression models are more appropriate for the analyzed data.
3. **Circular Economy** – An economic concept emphasizing reuse, recycling, and waste reduction to optimize resource utilization and minimize environmental impact.
4. **Corporate Social Responsibility (CSR)** – A company’s commitment to operating ethically and contributing to social and environmental well-being.
5. **Environmental, Social, and Governance (ESG) Performance** – Indicators measuring a company's performance in environmental, social, and governance aspects to assess its sustainability impact.
6. **FTSE4GOOD Bursa Malaysia Index** – An index comprising companies that meet ESG criteria on Bursa Malaysia, serving as a benchmark for investors seeking sustainable investments.
7. **Green Accounting** – An accounting system that incorporates environmental aspects into a company's financial statements, including sustainability costs, emission reductions, and resource conservation.
8. **Green Economy** – An economic model that supports sustainable growth by balancing economic progress, social well-being, and environmental protection.
9. **Green Initiatives** – Strategies and policies implemented by companies to reduce environmental impact and enhance operational sustainability.
10. **Green Sukuk** – A Shariah-compliant financial instrument used to fund environmentally friendly and sustainable projects.
11. **Greenwashing** – A practice where companies misleadingly present themselves as environmentally responsible without genuinely implementing sustainable practices.
12. **Hausman Test** – A statistical test that helps determine whether a fixed effects or random effects model is more appropriate in panel data analysis.

13. **Lagrange Multiplier Test** – A statistical test used in panel data models to determine whether a random effects model is more suitable than a fixed effects model.
14. **Legitimacy Theory** – A theory stating that companies must operate in alignment with social norms and public expectations to maintain legitimacy and stakeholder support.
15. **Panel Data Regression** – A statistical analysis method used in this study to measure the relationship between independent variables (green initiatives) and dependent variables (financial performance) while considering data from multiple companies over different periods.
16. **Resource-Based View (RBV)** – A strategic management approach highlighting the importance of a company's internal resources as a source of long-term competitive advantage.
17. **Return on Assets (ROA)** – A financial ratio measuring a company's profitability relative to its total assets, used to evaluate the efficiency of asset utilization in generating profits.
18. **Return on Equity (ROE)** – A ratio measuring the net profit earned by a company in relation to shareholders' equity, reflecting the company's effectiveness in utilizing equity capital.
19. **Stakeholder Theory** – A theory emphasizing the importance of addressing the needs of all stakeholders, including investors, employees, customers, and local communities.
20. **Sustainable Development Goals (SDGs)** – A set of global objectives established by the United Nations to address social, economic, and environmental challenges to achieve sustainable development.
21. **Sustainable Finance** – A financial approach that integrates ESG factors into investment decisions to support sustainable development and mitigate environmental and social risks.

CHAPTER ONE

INTRODUCTION

1.1. Introduction

The phrase "Green Economy" refers to sustainable economic growth that promotes the Sustainable Development Goals (SDGs), guarantees social inclusion, and mitigates ecological degradation and environmental risks (Mikhno et al., 2021). In light of the escalating threats from climate change, environmental degradation, and resource depletion, the transition to green economic growth, aimed at reconciling economic development with environmental sustainability, has become a global concern. Conversely, there is increasing dissent against the traditional economic model, which frequently favors profit maximization at the expense of environmental conservation. The expansion of the financial sector, particularly capital markets, has become a feasible means to facilitate green economic growth and create new opportunities for sustainable development.

Malaysia's capital market therefore has a very important role to play funding the green economy through policies, strategies and framework that are in place to support sustainable development. The support for Environmental, Social, and Governance (ESG) principles in the activities of financial companies and legislation creates the necessary conditions for investing in green projects. The rationale for this multi pronged strategy is necessary for the development of the green economy of Malaysia. There exists a set structure developed by Malaysian regulatory authorities in relation to sustainable finance to encourage sustainable investment among industry participants. This framework is crucial to institutional investors, most of whom are instrumental in the process of evolving ESG within the capital market (Razali et al.,

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APPENDICES

Appendix A: Sample

Table 3. 5. Shariah PLCs on the FTSE4GOOD Bursa Malaysia Shariah Index 2019-2023

No.	Code	Company Name	Sector	Industry Type	Score
1	6599	AEON (M)	Consumer products and service	Non Manufactur	0
2	5238	AirAsia Group Berhad	Consumer products and service	Non Manufactur	0
3	2658	Ajinomoto (Malaysia)	Consumer products and service	Non Manufactur	0
4	6399	Astro Malaysia Holdings	Telecommunication and media	Non Manufactur	0
5	6888	Axiata Group Bhd	Telecommunication and media	Non Manufactur	0
6	5196	Berjaya Food	Consumer products and service	Non Manufactur	0
7	5248	Bermaz Auto	Consumer products and service	Non Manufactur	0
8	5210	Bumi Armada	Energy	Non Manufactur	0
9	1818	Bursa Malaysia	Financial services	Non Manufactur	0
10	2852	Cahya Mata Sarawak	Industrial products and services	Manufactur	1
11	5301	CTOS Digital	Technology	Manufactur	1
12	7204	D&O Green Technologies	Technology	Manufactur	1
13	5132	Deleum	Energy	Non Manufactur	0
14	7277	Dialog Group	Energy	Non Manufactur	0
15	6947	Digi.com	Telecommunication and media	Non Manufactur	0
16	5908	DKSH Holdings (Malaysia)	Consumer products and service	Non Manufactur	0
17	7233	Dufu Technology Corp	Industrial products and services	Manufactur	1
18	7148	Duopharma Biotech	Healthcare	Manufactur	1
19	8206	Eco World Development Group	Property	Non Manufactur	0
20	5222	FGV Holdings	Plantation	Manufactur	1
21	7210	FM Global Logistics Holdings	Transportation and Logistics	Non Manufactur	0
22	3689	Fraser & Neave Holdings	Consumer products and service	Non Manufactur	0
23	0128	Frontken	Technology	Manufactur	1

24	0078	GD Express Carrier	Transportation and Logistics	Non Manufactur	0
25	2291	Genting Plantations BHD	Plantation	Manufactur	1
26	3204	George Kent (Malaysia)	Construction	Manufactur	1
27	7022	Globetronics Technology	Technology	Manufactur	1
28	0208	Greatech Technology	Technology	Manufactur	1
29	5168	Hartalega Holdings Bhd	Healthcare	Manufactur	1
30	4324	Hengyuan Refining Company	Energy	Non Manufactur	0
31	5151	Hextar Global	Industrial products and services	Manufactur	1
32	7803	Hextar Healthcare	Healthcare	Manufactur	1
33	5199	Hibiscus Petroleum	Energy	Non Manufactur	0
34	0166	Inari Amertron	Technology	Manufactur	1
35	5295	Innature	Consumer products and service	Non Manufactur	0
36	1961	IOI	Plantation	Manufactur	1
37	5247	Karex	Consumer products and service	Non Manufactur	0
38	0151	Kelington Group	Industrial products and services	Manufactur	1
39	5878	KPJ Healthcare	Healthcare	Manufactur	1
40	2445	Kuala Lumpur Kepong	Plantation	Manufactur	1
41	7179	Lagenda Properties	Property	Non Manufactur	0
42	5789	LBS Bina Group BHD	Property	Non Manufactur	0
43	7089	Lii Hen Industry	Consumer products and service	Non Manufactur	0
44	8583	Mah Sing Group	Property	Non Manufactur	0
45	1171	Malaysia Building Society	Financial services	Non Manufactur	0
46	5186	Malaysia Marine and Heavy Engineering Holdings Bhd	Energy	Non Manufactur	0
47	5098	Malaysia Steel Works	Industrial products and services	Manufactur	1
48	3867	Malaysian Pacific Industries	Technology	Manufactur	1
49	1651	Malaysian Resources	Property	Non Manufactur	0
50	5236	Matrix Concepts Holdings	Property	Non Manufactur	0
51	6012	Maxis Bhd	Telecommunication and media	Manufactur	1

52	5090	Media Chinese International	Telecommunication and media	Manufactur	1
53	5286	MI Technovation	Technology	Manufactur	1
54	3816	MISC	Transportation and Logistics	Non Manufactur	0
55	5296	MR D.I.Y. GROUP (M)	Consumer products and service	Non Manufactur	0
56	0138	My EG Services	Technology	Manufactur	1
57	1724	Paramount Corp BHD	Property	Non Manufactur	0
58	5657	Parkson Holdings	Consumer products and service	Non Manufactur	0
59	7160	Pentamaster	Technology	Manufactur	1
60	5183	PETRONAS Chemicals Group Bhd	Industrial products and services	Manufactur	1
61	5681	Petronas Dagangan	Consumer products and service	Non Manufactur	0
62	6033	Petronas Gas	Utilities	Manufactur	1
63	7081	Pharmaniaga	Healthcare	Manufactur	1
64	4634	POS Malaysia	Transportation and Logistics	Non Manufactur	0
65	4065	PPB Group	Consumer products and service	Non Manufactur	0
66	8869	Press Metal Aluminium Holdings	Industrial products and services	Manufactur	1
67	5204	Prestariang	Technology	Manufactur	1
68	5272	Ranhill Holdings	Utilities	Manufactur	1
69	9296	RCE Capital	Financial services	Non Manufactur	0
70	8567	Salcon	Utilities	Manufactur	1
71	4731	Scientex	Industrial products and services	Manufactur	1
72	4197	Sime Darby	Consumer products and service	Non Manufactur	0
73	5285	Sime Darby Plantation	Plantation	Manufactur	1
74	5288	Sime Darby Property	Property	Non Manufactur	0
75	8664	SP Setia	Property	Non Manufactur	0
76	6084	STAR MEDIA GROUP BERHAD	Telecommunication and media	Non Manufactur	0
77	5211	Sunway	Industrial products and services	Manufactur	1
78	5263	Sunway Construction Group	Construction	Manufactur	1
79	6139	Syarikat Takaful Malaysia Keluarga Berhad	Financial services	Non Manufactur	0
80	5140	TASCO	Transportation and Logistics	Non Manufactur	0
81	4863	Telekom Malaysia	Telecommunication and media	Non Manufactur	0

82	5347	Tenaga Nasional	Utilities	Manufactur	1
83	5112	TH Plantations	Plantation	Manufactur	1
84	7113	Top Glove Corp	Healthcare	Manufactur	1
85	7100	Uchi Technologies	Industrial products and services	Manufactur	1
86	5148	UEM Sunrise	Property	Non Manufactur	0
87	5005	Unisem (M)	Technology	Manufactur	1
88	5292	UWC	Technology	Manufactur	1
89	6963	V.S. Industry	Industrial products and services	Manufactur	1
90	5243	Velesto Energy	Energy	Non Manufactur	0
91	0097	ViTrox	Technology	Manufactur	1
92	9679	WCT Holdings	Plantation	Manufactur	1
93	5246	Westports Holdings	Transportation and Logistics	Non Manufactur	0
				Information	
				Manufactur	1
				Non Manufactur	0