Evaluating Sustainable Performance of Islamic Banks: Evidence from the Organization of Islamic Cooperation Members

Buallay,A.; Wadi, R.; Kukreja, G.; Hassan, A (2018)

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Abstract

This study considers the level of Environment Social and Governance (ESG) disclosures in the Islamic banks listed on the Organization of Islamic Cooperation Members stock Exchange and investigates the relationship between ESG disclosures and banks' financial, operational and market performance. We examine 59 banks for 10 years (2007-2016), ends up with 561 observations. The independent and dependent variables of the study are Environment, Social and Governance disclosures and Return on Assets (ROA), Return on Equity (ROE) and Tobin's Q (TQ) respectively. In addition, the study utilizes bank specific and macroeconomic control variables in order to help measuring the relationship between ESG disclosures and bank's performance. The findings of descriptive analysis showed that ESG tends to be higher with banks that have high financial leverage ratio and more assets. Further, the corporate governance disclosure is better in banks located in high Gross Domestic Product (GDP) countries and high public governance countries. In contra, the social and environmental disclosure is better in banks located in low GDP countries and low governance countries. The causality result shows that TQ is greater because of ESG. Although the results of regression found significant positive impact of ESG on the performance, the relationship between these disclosures is vary if measured individually; the environmental disclosure found positively affect the ROA and TQ. Whereas, the corporate social responsibility disclosure is negatively affect the three models. Last but not the least, the corporate governance disclosure found negatively affects the financial and operational performance. However, positively affect the TQ.