

Do Environmental, Social and Governance (ESG) Disclosures Affect Islamic Banks Financial

Syaza Laili Sharipuddin¹, Nur Aeisya Firrzana Mohd Ayub², Nur Aqilla Mahassan³,
Memiyanty Abdul Rahim⁴

^{1,2,3,4}Universiti Teknologi MARA (UiTM), Shah Alam, Malaysia

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ABSTRACT

Currently, businesses are very vulnerable and exposed to the uncertainty that may cause damage to the company. With the ongoing pandemic issue, companies are more concerned about their performance and survival. Companies like banks play a crucial role in the economy since its growth depends on its financial sector's stability regardless of the country. Thus, companies have many approaches and strategies to maintain their business and stay relevant in the corporate world; hence, ESG disclosure comes in handy. According to the Bursa Malaysia Sustainability Reporting Guide (2018), ESG which stands for "Environmental, Social, and Governance" is a term used extensively, specifically by the investment community, portraying the environmental, social, and governance matters considered by investors in the corporate behaviour context. Experts have actively discussed ESG disclosure to address such reporting to enhance the company's performance portfolio. Furthermore, the ESG factor becomes one of the primary considerations for the investors' decision. ESG factor influences and strengthens the investors' confidence towards the company's performance. Bukhari, Hashim and Amran (2020) suggested that companies providing ESG disclosure show improvement in their financial performance. Experts found a significant impact of sustainability practices on the Islamic banks' financial performance (Jan, Marimuthu & Isa, 2019). Companies' ESG disclosure performance has established a reputation for playing a significant role in financial transparency and how it varies by economic and stakeholder's perspective (Oncioiu, Popescu, Aviana, Serban, Rotaru, Petrescu & Pantelescu, 2020). Jan et al. (2019) found that there is still a low adoption level of sustainability practices and reporting in the Islamic banking industry. An empirical study conducted by Nobanee and Ellili (2016) also stated that sustainability disclosure has an insignificant effect on Islamic banks than the high degree of such disclosure on conventional banks. Moreover, from a study conducted in seven Muslim countries, the sustainability practices and reporting were not of serious concern to those countries' Islamic banks (Hassan and Syafri Harahap, 2010).

Keywords: Environment, Social, Governance (ESG) Disclosure, Islamic Banks, and Financial Performance.