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BUSINESS SCHOOL

A Comparison of Socially Responsible Investing and Sharia Complaint Funds

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Socially Responsible Investments (SRIs) is becoming increasing popular amongst investors. As the world of finance is experiencing a fast-growing investment in ethical funds, there has also been a surge in Islamic funds with mainstream index providers such as Dow Jones, FTSE, MSCI and S&P offering numerous Islamic equity indices to Muslim and non-Muslim investors.

In the ever-evolving world of finance, investment decision for investors do not just take financial motives into consideration but social, religious and environmental concerns also play a vital role in decision making. Ethically motivated investors select companies using various ethical screening criteria. These investors usually avoid investing in companies which are involved in say child labour or those that do not respect animals' rights.

Religion plays a crucial role in shaping human behaviour and thus invariably affects investor decision making. Islam advocates a fair and just society and promotes social justice and sharing of risk and reward. Some commentators have suggested that Sharia compliant investment corresponds with the values of socially responsible investment. Although, Islamic principles govern all aspects of what's allowed and not allowed. What distinguishes Sharia compliant investment and SRI are the Islamic principle rules that needs to be adhered when making investment decisions. Such principles are the prohibition of interest (earning or charging), not dealing with companies involved in gambling, pornography, alcohol, pork and so on.

The doctorate would be expected to investigate the extent of overlap between the Sharia compliant investment and the funds that are classed as socially responsible (ESG rated companies). In particular, the doctorate would be expected to examine the underlying objectives and the similarities between Islamic religious beliefs and ethical/social values. Are certain ethical funds also Sharia compliant and if so what is the implication of that? It is hoped that the prospective candidate will demonstrate an interest in developing both a theoretical and empirical contribution within this field.

It is hoped that this project will present a new understanding of the two differently motivated forms of investment and explore shared attributes. In doing so, the research will also shed light on issues such as the absence of a global Sharia advisory board for Islamic investments and the fact that the Sharia based rules are subject to various interpretations. The effectiveness and reliability of the internal boards for companies that are responsible for Sharia based screening guidelines will also be discussed.

The research may also extend to analyse the performance of both Islamic and ethical funds. This could be done using various measures of performance to evaluate different portfolios. Another

potential avenue of investigation could be an examination of whether the level of religiosity at a country level has ramifications for the distribution of fund/asset returns.

We envisage the research project to be flexible according to the interests and background of the PhD candidate. However, the research proposal should relate directly to this theme. Prior experience in both qualitative and quantitative research methodologies would be an advantage, however it is not compulsory.

About the supervisors:

Anwar's current research interests are in the area of finance, with a particular focus on the market efficiency in countries with predominantly Muslim population. His recent work was published in the British Accounting Review that investigated calendar anomalies within the Islamic and Gregorian calendars and whether there is an interaction effect when anomalies from both calendars coincide. Anwar also wrote a piece on Sharia-compliant leases arguing that UK auto lenders are missing a valuable business opportunity and that Islamic financial products are not fundamentally different from their conventional counterparts.

Tomasz has extensively researched topics revolving around the issue of asset pricing and is an author of numerous peer-reviewed journal articles. Together with his collaborators, he published a paper in the Journal of Banking and Finance documenting existence of Ramadan effect in stock market movements. More specifically, stock returns in predominantly Muslim countries were shown to be significantly higher during Ramadan and the Eid al-Fitr festival that follows. Tomasz is currently involved in several research projects related to behavioural finance, stock market performance and ethical aspects of corporate leadership.

Indicative reading:

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Iqbal, Z. and Mirakhor, A., 2013. Economic development and Islamic finance. World Bank Group.

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Ullah, S., Jamali, D. and Harwood, I.A., 2014. Socially responsible investment: insights from Shari'a departments in Islamic financial institutions. Business Ethics: A European Review, 23(2), pp.218-233.