

The Impact of Socially Responsible Investing (SRI) and corporate social disclosures on Firm Value and Risk

Supervisors: Dr [Anwar Halari](#) and Professor [Tomasz Wisniewski](#) Department of Accounting and Finance, The Open University Business School

Project Description:

This doctorate project seeks to provide a better understanding of the impact of SRI (including green and ethical investing) and corporate social disclosures on firm value and risk. To this end, the research may also shed light on the behaviour of corporates and its value and risk as a result of the growth in socially responsible investing where investors seek to promote social justice.

Many decades ago, most investors cared less about the impact of their investment on the environment and society. The main goal was to maximise return. In the current ever-evolving world of finance, investment decision for investors do not just take financial motives into consideration but social, religious, environmental and ethical 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, production of alcohol, tobacco and firearms or those that do not respect animals' rights. Furthermore, Mainstream religions advocate a fair and just society and promote social justice and sharing of risk and reward. Some commentators, for instance, have suggested that Sharia compliant investment corresponds with the values of socially responsible investment.

Although the concept of ethical and social investment started to emerge in the late 1970s and early 1980s, studies suggest that socially responsible investment came into the limelight at the beginning of the 21st century. We are currently witnessing a fast-growing investment in social, environmental and ethical funds. Consequently, to cater the needs of the market, there has been a surge of new investment funds being offered as well as a growing number of specialist social investment firms and advisors.

It is hoped that this project will present a new understanding of the differently motivated forms of investment and explore shared attributes. In doing so, the research may also shed light on whether level of company ESG ratings at a country level has ramifications for the distribution of fund/asset returns. Another potential avenue of investigation could be an examination of whether the supranational agencies lobbying responsible and ethical investing foster investments in such funds or how do investors integrate SRI into their decision making.

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.

The doctorate is expected to develop more specific research questions within this area and gradually develop three working papers over the period of three years that are potentially publishable in internationally recognised academic journals.

It is hoped that the prospective candidate will demonstrate an interest in developing both a theoretical/conceptual and empirical contribution within this field.

The candidate must express a keen interest in SRI related research. Prior knowledge and experience in both qualitative and quantitative research methodologies is required. Strong econometrics skills and knowledge of financial market databases 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. Other areas of research Anwar is currently working on include corporate governance, fair value accounting, impact investing, political ties and firm value and risk.

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, determinants of ESG performance and ethical aspects of corporate leadership.

References / readings:

- Bauer, R., Koedijk, K. and Otten, R., 2005. International evidence on ethical mutual fund performance and investment style. *Journal of Banking & Finance*, 29(7), pp.1751-1767.
- Borgers, A., Derwall, J., Koedijk, K. and ter Horst, J., 2015. Do social factors influence investment behavior and performance? Evidence from mutual fund holdings. *Journal of Banking & Finance*, 60, pp.112-126.
- Brooks, C. and Oikonomou, I., 2018. The effects of environmental, social and governance disclosures and performance on firm value: A review of the literature in accounting and finance. *The British Accounting Review*, 50(1), pp.1-15.
- Charfeddine, L., Najah, A. and Teulon, F., 2016. Socially responsible investing and Islamic funds: New perspectives for portfolio allocation. *Research in International Business and Finance*, 36, pp.351-361.
- Consolandi, C., Jaiswal-Dale, A., Poggiani, E. and Vercelli, A., 2009. Global standards and ethical stock indexes: The case of the Dow Jones Sustainability Stoxx Index. *Journal of Business Ethics*, 87(1), pp.185-197.
- Derigs, U. and Marzban, S., 2009. New strategies and a new paradigm for Shariah-compliant portfolio optimization. *Journal of Banking & Finance*, 33(6), pp.1166-1176.
- Derwall, J., Koedijk, K. and Ter Horst, J., 2011. A tale of values-driven and profit-seeking social investors. *Journal of Banking & Finance*, 35(8), pp.2137-2147.
- Fatemi, A., Glaum, M. and Kaiser, S., 2017. ESG performance and firm value: The moderating role of disclosure. *Global Finance Journal*.
- Hoepner, A.G., Rammal, H.G. and Rezac, M., 2011. Islamic mutual funds' financial performance and international investment style: evidence from 20 countries. *The European Journal of Finance*, 17(9-10), pp.829-850.
- Hong, H. and Kacperczyk, M., 2009. The price of sin: The effects of social norms on markets. *Journal of Financial Economics*, 93(1), pp.15-36.

- Humphrey, J.E., Lee, D.D. and Shen, Y., 2012. Does it cost to be sustainable?. *Journal of Corporate Finance*, 18(3), pp.626-639.
- Hussein, K. and Omran, M., 2005. Ethical investment revisited: evidence from Dow Jones Islamic indexes. *The Journal of Investing*, 14(3), pp.105-126.
- Iqbal, Z. and Mirakhor, A., 2011. *An introduction to Islamic finance: theory and practice* (Vol. 687). John Wiley & Sons.
- Iqbal, Z. and Mirakhor, A., 2013. *Economic development and Islamic finance*. World Bank Group.
- Kempf, A. and Osthoff, P., 2007. The effect of socially responsible investing on portfolio performance. *European Financial Management*, 13(5), pp.908-922.
- Lesser, K., Rößle, F. and Walkshäusl, C., 2016. Socially responsible, green, and faith-based investment strategies: Screening activity matters!. *Finance Research Letters*, 16, pp.171-178.
- Orlitzky, M., Schmidt, F.L. and Rynes, S.L., 2003. Corporate social and financial performance: A meta-analysis. *Organization studies*, 24(3), pp.403-441.
- Renneboog, L., Ter Horst, J. and Zhang, C., 2008. Socially responsible investments: Institutional aspects, performance, and investor behavior. *Journal of Banking & Finance*, 32(9), pp.1723-1742.
- Rossi, M., Sansone, D., Van Soest, A. and Torricelli, C., 2019. Household preferences for socially responsible investments. *Journal of Banking & Finance*, 105, pp.107-120.
- 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.