Does The Ham Matter In My “Free” Lunch?

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Motivations

- Lack of questioning about the moral principles that govern mainstream Corporate Social Responsibility
- Exponential growth of Islamic Finance

Objective

The main goal of this dissertation is to research on the technical singularities of the Islamic Finance Instruments and to investigate whether participants in the market assign different values to assets that comply with it.

Shari’ah Law: Principles of Islamic Morality

Risk Sharing Principle

- Implication for the bringers of funds: They become investors rather than creditors
- Any further loses shall be split among the different parties involved in the transaction

The Prohibition of

- Translation of Riba: any unjustifiable mark up in a transaction regardless of the nature
- Definition: Any positive, fixed, predetermined rate tied to the maturity and the amount of principal
- Reason: Islam encourages partnerships and entrepreneurship as a basis for enterprise success and thus, risks should be shared.

Islamic Financial Instruments: Semantic or Technical Differences?

The Concept of Types of Riba

The exercise of charging financial interest or a premium in surplus of the principal amount of a credit that has been determined ex ante

Sukuk:

- Sukuk al-Ijarah
- Sukuk al-Musharakah
- Sukuk al-Madaraba
- Sukuk al-Salam
- Sukuk al-Bai’ina
- Sukuk al-Mu‘ajjabah

Vanilla

Leasing
Join Venture
Bonds (Funds + Know-How)
Reverse forward contract
 Syndicated Loan
Futures

Main differences

- Transfer of the ownership of the financed asset from the originator to the holder
- Fundamental difference between conventional and Islamic bonds: the risk sharing between debt holders and issuers.
- Sukuk holders risks losing all its investment whereas the company and by extend its shareholders, can only lose the financed asset
- According to the Efficient Market Hypothesis (EMH), any risk difference will be adjusted using the required rate of profitability.

Assessing The Market Perception About Islamic C.S.R.

Hypothesis

(H1) Islamic Corporate Social Responsibility shall not affect value creation.

Model

\[ R_{i,t} = S(\sigma_{i,t}) + Sharia(Dummy) + C \] (1)

where \( R_{i,t} \) is the return of the asset at the period \( t \), \( S \) is the estimator for the risk, \( \sigma_{i,t} \) is the standard deviation of \( i \)'s return in moment \( t \), Sharia is the regressor for Sharia compliance. The dummy variable takes value of 1, if the company fulfills the Sharia, and 0, if not.

Sample

- Average daily closing price of the constituents of the S&P 500.
- January 2012 to December 2014.
- The data for the Sharia compliance was obtained from the S&P 500 Sharia Index.

Results

- T-test does not allow us to reject the main hypothesis that Islamic Corporate Social Responsibility does not create value in the financial markets.
- The regressor of the risk is consistent and significant for all the samples.
- The constant variable resembles the behaviour of the risk-free rate further enhancing the consistency with the mainstream literature.

Hypothesis

One Cannot Reject The Hypothesis That Islamic Corporate Social Responsibility Does Not Create Value In The Financial Markets.