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The effect of environmental disclosure on stock return of Islamic and conventional banks

Mega Ayu Widayanti[1], Sulistya Rusgianto[2], Hesti Eka Setianingsih[3], Zurina Kefeli[4]

[1,2,3] Department of Islamic Economics, Faculty of Economics and Business, Universitas Airlangga, Surabaya, Indonesia

[4]Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, Nilai, Negeri Sembilan, Malaysia

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Corresponding author:
Mega Ayu Widayanti
mega.ayuwidayanti@gmail.com

Author's email:
sulistya@feb.unair.ac.id
hesti.eka.setianingsih-2023@feb.unair.ac.id
zurina@usim.edu.my

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Center for Islamic Economics Studies and Development, Faculty of Business and Economics, Universitas Islam Indonesia

Abstract

Purpose – We examine the effects of environmental, social, and governance (ESG) disclosure and green building policies on the stock returns of Islamic and conventional banks.

Methodology – Data were obtained from 17 Islamic banks and 17 conventional banks from eight countries (Arab Saudi Arabia, UAE, Qatar, Kuwait, Malaysia, Indonesia, Pakistan, and Bahrain) over seven years from 2017 to 2023. We conducted panel least squares with fixed effects (dummy variables) for cross-sections using EViews to process the data.

Findings – The estimated results show that the green building policy variable is statistically significant to the stock return of Islamic banks, while the environmental, social, and governance variables are not. Meanwhile, the social dimension is statistically significant for the stock returns of conventional banks, but environmental, governance, and green buildings are not.

Implications – Investors and policymakers should consider the implementation of ESG and green building policies to contribute on sustainability issues and gain financial return.

Originality – This study tests non-financial performance, such as ESG disclosure and green building policy, on the stock returns of Islamic and conventional banks, which has not been extensively studied by the existing literature.

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Introduction

The banking sector plays a pivotal role in driving industrialization and economic development; however, its operations have also contributed to increasing energy prices, waste, emissions, and water use (McKenzie & Wolfe, 2004). In the mid-2000s, the banking sector faced a growing recognition of the importance of integrating environmental, social, governance (ESG) factors into decision-making to address both ethical and risk management imperatives. This is because banks are key financiers for construction, property development, home repairs, and environmentally friendly financial products to support ESG and economic growth (IFC, 2019). Fintech Global (2024) predicted that 73% of banks will focus on sustainable banking in the next five years by

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investing in low-carbon technology and start-up decarbonization. More than 31% implemented a sustainable strategy that includes supply chains and internal operations, and 51% of banks are predicted to switch from private to public cloud data to reduce carbon traces. This new paradigm reflects banks' responsibility towards the future and is involved in managing the transition from an economy dominated by fossil fuels to one supported by renewable energy (Reuters, 2021).

In Muslim-majority countries (MMCs), the coexistence of Islamic and conventional banking systems creates a unique financial landscape (Hassan, 2003). Islamic banking, guided by Shariah principles, prohibits interest rates (riba) and anti-social and unethical transactions emphasizing a socially responsible approach (through zakat, infaq, maal, and waqf) that aligns closely with ESG paradigms (Qoyum et al., 2022). Conventional banks operate on profit maximization and possibly invest in restricted industries. Nowadays, customers are insisting that industries practice shareholder-centric (ESG), and some countries such as Saudi Arabia, Malaysia, and the UAE align ESG with national sustainability goals such as Saudi Vision 2030 and Malaysia's Shared Prosperity Vision 2030. Notably, the green building policy has also emerged as a critical strategy to overcome greenhouse gas emissions (GHG) in construction and buildings, while the banking sector is an emerging business with many buildings (branches) that consume more energy, such as lights, coolers, and heaters.

MMCs such as Saudi Arabia, the UAE, Qatar, Kuwait, and Bahrain have strong economic foundations and have become the largest Islamic banks in the world (see Table 1). Malaysia and Indonesia are Southeast Asian global leaders in Islamic finance and Pakistan, offering insights into banking systems in emerging markets with vast Muslim populations.

Table 1. Market share and total asset of Islamic banks

Country	Market Share of Islamic Banks	Total Asset (Million)
Saudi Arabia	74,90%	$ 216,00
UAE	22,70%	$ 60,90
Qatar	28,60%	$ 42,09
Kuwait	51%	$ 58,52
Bahrain	16,10%	$ 23,81
Malaysia	12%	$ 54,46
Indonesia	2,50%	$ 36,50
Pakistan	1,40%	$ 20,40

Sources: Global Finance (2022)

Investigating the effect of ESG and green building policies on the stock returns of Islamic and conventional banks in MMCs can align profitability with sustainability. Previous studies have yielded mixed results on the impact of ESG on stock returns, Nguyen (2014) found a significant impact on company value, stock market performance, and compliance with shareholder expectations. However, Wong and Zhang (2022), ESG disclosure through the media does not significantly impact stock returns in the various business sectors. Hong and Kacperczy (2009), Pedersen et al. (2021) and Luo (2022) found that firms with lower ESG earn higher returns than those with higher ESG. Campbell and Slack (2011) found that skepticism about long-term environmental issues persisted among investors. As an efficient market, the banking stock market must provide good financial and non-financial information, such as the cost of capital and volatility returns, and improve the company's stock performance (Jizi et al., 2016).

This study aims to address these gaps by investigating the impact of ESG dimensions and green building policy on the stock returns of Islamic and conventional banks across eight MMCs between 2017 and 2023. First, Islamic banks in MMCs have the largest total assets globally; therefore, they are expected to contribute to their stock performance alongside conventional banks. Second, we examine unique variables, such as ESG and green buildings, which are still not well studied. The researcher aims to provide empirical evidence of the effect of sustainability information on MMCs with dual banking systems (e.g., in Saudi Arabia, the UAE, Qatar, Kuwait, Malaysia, Indonesia, Pakistan, and Bahrain). Third, several studies have found that the social behavior of banks is important for investors to measure risk, regulatory reputation, and public trust.

Therefore, this study makes the following contributions to the existing literature and enhances the understanding of ESG and green-building practices affecting investors in asset management represented by stock returns, addressing the unique characteristics of Islamic banks alongside conventional banks. The findings offer actionable recommendations for policymakers, investors, and banking institutions to foster sustainable practices and improve decision making. By exploring these areas, this study not only fills critical gaps in the existing literature, but also aligns with the global agenda for sustainability, addressing the intertwined challenges of environmental responsibility, social equity, and economic growth.

Literature Review

ESG disclosure

Sustainable investment highlights the complexity of balancing profitability with sustainability, environmental risks, and regulatory compliance (McCammon, 1995). *First,* environmental (E) is a bank's impact on the climate crisis (Heal, 2005; Porter & Van der Linde, 1995). Islamic banks naturally align with green principles due to Shariah compliance, while conventional banks are more diversified to increase (E) regulations (Miah & Hasan, 2023). Second, the social (S) dimension measures the trust and moral behavior of banks (Shah & Albaity, 2022) for employment, customers (Heal, 2005), and society (Dobbin & Kalev, 2016). The quality of services has also become a priority for investors to limit the risk of predatory lending (Bottazzi et al., 2016; Qiu et al., 2020). Islamic banks integrate (S) as Shariah principles to support community well-being. In contrast, conventional banks often adopt (S) primarily for strategic reasons, focusing on reputation and financial performance (Tasnia et al., 2023). Third, the level of governance (G) can affect high returns (Albaity et al., 2021), attract shareholder interest, and avoid crises (Berger & Bouwman, 2013). Banks must protect shareholder rights, design good executive compensation policies, and prevent illegal practices, such as fraud, greenwashing, and bribery (Fahlenbrach & Stulz, 2011; Lee et al., 2023). (G) in Islamic banks means applying the dualistic concept of accountability to Allah and manifested in life and the environment (Muhammad et al., 2021). Islamic banks have Sharia governance (SG) measurements in addition to mitigating risks related to Sharia non-compliance (Aspiranti et al., 2023; Almonifi & Bhosle, 2023).

Green building policy

Green building policy is the implementation and certification of materials, processes, design, construction, and maintenance that require minimum resources and energy (Azhgaliyeva & Rahut, 2022). The policy that can support green buildings is the government giving the incentive to demand low-carbon construction materials, and investment in green construction can provide major opportunities for construction materials manufacturers. Some countries, such as the UAE, have committed to supporting new markets for low-carbon steel, cement, and concrete (Edwardes-Evans, 2021). Green building policies positively impact the financial performance of buildings (Bessec & Fouquau, 2020; Eichholtz et al., 2010). Furthermore, ESG and green buildings in Islam are mentioned in various chapters in the Al-Quran and in many of the teachings of the Prophet Muhammad (PBUH). Allah SWT says, ' *Do not cause damage to the earth after it has been properly regulated...* (QS. Al'araf: 56). Green buildings aim to protect the natural environment and reduce pollution, which may be harmful to humans and the environment. Humans are responsible for maintaining harmony in the world and for avoiding actions that oppress others (Umar & Khamidi, 2012; Taufiqurrahman, 2023).

Stock return

Stock return is a return expected over time (Fama, 1990; Sunarsih, 2020) that reflects the company's performance by the risk premium (Andersson et al., 2012) and is difficult to manipulate (Herremans et al., 1993). It can be used to predict future baseline activity as it provides a cumulative picture of information about production and returns. Boujelbène (2012) stated that there is no significant difference in the characteristics of risk and return between Islamic markets and their conventional

counterparts. Islamic banks might show similar resilience during financial crises because of their adherence to ethical principles, reducing exposure to high-risk sectors (Fianto et al., 2024). Conventional banks might offer higher returns during booming markets but with greater exposure to systemic risks. Stock returns are a critical metric for assessing the performance of both Islamic and conventional banks. It is typically calculated using the following formula:
Stock Return Formula:
Stock Return $= P_t - P_{t-1} \times 100\%$
Where:
P_t = Closing price of the stock at time
P_{t-1} = Closing price of the stock at time $t-1$

Islamic banks operate under Shariah principles, which prohibit interest (riba) and speculative activities (gharar). This leads to differences in financial instruments and revenue structures compared with conventional banks.

Hypotheses

Theoretical framework

This study is grounded in stakeholder theory, Freeman (1984) which focuses on the importance of paying attention to all interested parties in the organization, not only shareholders. This perspective emphasizes that businesses have responsibilities beyond profit generation, extending to ethical, social, and environmental considerations, which can enhance brand reputation and operational efficiency. Drawing from this theory, some empirical studies have Levi and Newton (2016) found that green companies' stock returns outperform the most polluted stock of 3.7 percent per year based on risk adjustments. Ma et al. (2024) investigated the impact of a company's (E) performance on excess stock returns, and the results show that the company obtains a significantly higher return with better (E) performance. Nasser (2023) finds that firms with greater (E) disclosures tend to reduce risk exposure. In addition, a positive relationship is observed between (E) disclosure and stock market returns, suggesting that firms with more comprehensive (E) disclosure practices tend to perform better in the stock market. Based on the arguments of the (E) dimension, which suggest a significant impact of stock returns on Islamic and conventional banks and vice versa, it is expected that (E) performance will significantly impact stock returns.

Lui et al. (2021) found that Islamic banks generally disclose more (S) information than conventional banks do, reflecting their emphasis on Islamic ethical principles and accountability. Islamic banks generally emphasize the (S) dimension in ways that align with Sharia principles, focusing on community development, charitable activities (such as zakat), and environmental stewardship. By contrast, conventional institutions often focus more on corporate governance and environmental concerns to meet stakeholder expectations (Aribi & Gao, 2010). Ahmed et al. (2017) found that (S) performance is positively related to stock returns and bank size in Bangladesh. Investors are sensitive to (S) disclosure, which can also increase stock value. Murdiono (2018) tested CSR disclosures on the stock returns of 36 companies in Indonesia in 2013, and the results showed a significant impact. LeRoy and Singhania (2020) found that an inverse relationship between (S) disclosure and company risks, company size, and women's participation significantly moderates the relationship between ESG disclosure and the level of company risk. Based on the arguments of the (S) dimension, which suggest a significant impact of stock returns on Islamic and conventional banks, it is expected that (S) performance will significantly impact stock returns.

According to Bhat (2013) the relationship between (G) disclosure, such risk management, governance, and market pricing at commercial banks in the US have a strong impact simultaneously with the level of disclosure. Abdo and Fisher (2007) stated that academics found that (G) dimension reduces the risk of company failure that can produce an increase in share ownership. Panchasara and Bharadia (2013) examined the practice of corporate governance disclosure in Indian banks with non-financial parameters described in the Guidelines on Good Practices in the Problem of Corporate Governance Disclosure by International Standards Accounting and

Reporting (ISAR) for the 2007 period. The results show that the (G) dimension is positively related to bank performance indicators. Elgattani (2020) tested AAOIFI governance disclosure on Islamic Banks and found that the results were not significantly influential. Based on the arguments of the (G) dimension, which suggest a significant impact of stock returns on Islamic and conventional banks and vice versa, it is expected that (G) performance will significantly impact stock returns.

Nguyen (2014) studied green building aspects after many researchers only focused on ESG aspects and ignored the impact of green building practices on stock market performance and shareholder growth expectations. Cajias and Piazolo (2013) found that a portfolio that implemented green building provides a return of up to 3.15% higher than a portfolio that does not. Dugo (2021) tested the financial performance aspects of sustainable real estate and green building investments that can impact risk and return using the multi-factor model Fama. As a result, investment in sustainable real estate and green building performance is competitive compared with investment in conventional real estate. Based on the arguments of (GB) policy, which suggests a significant impact of returns on Islamic and conventional banks and vice versa, it is expected that (S) performance will significantly impact stock returns.

Companies with robust ESG performance may experience more stable market behavior and attract risk-averse investors. By lowering risks, ESG can contribute to a higher valuation and potentially reduced cost of capital, be better positioned to sustain performance during economic downturns or crises, and highlight its value for resilience in fluctuating markets. Policymakers can incentivize ESG practices through tax benefits, subsidies, or recognition programs to encourage widespread adoption. Regulatory authorities should consider mandating transparent ESG reporting to improve accountability and investor confidence. Incorporating ESG metrics into existing financial risk assessments can help standardize their evaluations across industries. Guidelines promoting ESG-focused investment strategies could be introduced to align economic growth with development goals Abdelaziz et al. (2024). Based on previous studies, the following hypothesis is proposed.

H_{1a}: (E) has a positive impact on Islamic banks' stock returns.
H_{1b}: (E) has a positive impact on the stock returns of conventional banks.
H_{2a}: (S) has a positive impact on Islamic banks' stock returns.
H_{2b}: (S) has a positive impact on stock return conventional banks.
H_{3a}: (G) has a positive impact on Islamic banks' stock returns.
H_{3b}: (G) has a positive impact on the stock returns of conventional banks.
H_{4a}: (GB) has a positive impact on the stock returns of Islamic banks.
H_{4b}: (GB) has a positive impact on the stock returns of conventional banks.

Research Methods

This study uses a quantitative approach, multiple regression, to test the relationship between a dependent variable and more than one independent variable (Allison, 1999). The causal relationship between ESG disclosure and green building policy on Islamic banks and conventional banks' stock returns for the 2017-2023 period. The emerging issue of ESG disclosure and green building of banks began in 2017; therefore, we collected the sample from the Bloomberg terminal for only seven periods. After selecting the criteria and data availability, we found only 17 Islamic banks and 17 representatives of conventional banks from eight countries.

The distribution of the Islamic banks in terms of countries is as follows:

Arab Saudi : Al Rajhi Islamic Bank, Bank Al Jazira, Al-Bilad Bank, Alinma Bank.
The UAE : Abu Dhabi Islamic Bank, Dubai Islamic Bank, Sharjah Islamic Bank and Emirates Islamic Bank.
Qatar : Masraf Al Rayan Bank, Qatar International Bank and Qatar Islamic Bank.
Kuwait : Boubyan Bank, Kuwait Finance House.
Malaysia : Bank Islam Malaysia Berhad.
Indonesia : Bank Syariah Indonesia.
Pakistan : Meezan Bank.
Bahrain : Al Baraka Banking Group.

While the distribution of the conventional banks in terms of countries is as follows:
Arab Saudi : Saudi Awwal Bank, Saudi Investment Bank, Banque Saudi Fransi, and Saudi National Bank.
The UAE : Abu Dhabi Commercial Bank, First Abu Dhabi Bank, Emirates NBD, and Mashreqbank.
Qatar : Qatar National Bank, Commercial Bank, and Doha Bank.
Kuwait : National Bank of Kuwait, and Gulf Bank.
Malaysia : Malayan Banking.
Indonesia : Bank Rakyat Indonesia.
Pakistan : Habib Bank Limited.
Bahrain : National Bank of Bahrain.

Table 2. Displays variables, definitions operations, and predictions influence on the dependent variable

Type of variables	Name	Abbreviation	Definitions	Predicted impact
Dependent	Stock return of Islamic banks	*SRa*	Last Price (yearly)	
	Stock return of Conventional banks	*SRb*	Last price (yearly)	
Independent	Environmental	E	Environmental score in ESG disclosure	+
	Social	S	Social score in ESG disclosure	+
	Governance	G	Governance score in ESG disclosure	+
	Green Building Policy	GB	Green building policy (yes/no). This variable was measured with dummy variable (Yes=01 and No: 0)	+

Source: Data processing, 2024

The data in this study were processed using Eviews to obtain a causal relationship between dependent and independent variables. However, it is necessary to test classical assumptions, such as normality, heteroscedasticity, and multicollinearity. Therefore, after the data satisfy these requirements, the following equation model can be obtained:

$$SRa = \alpha + \beta_{1a} X_{1a} + \beta_{2a} X_{2a} + \beta_{3a} X_{3a+} \beta_{4a} X_{4a+} \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \textit{(1) Islamic banks} \quad (1)$$

$$SRb = \alpha + \beta_{1b} X_{1b} + \beta_{2b} X_{2b} + \beta_{3b} X_{3b+} \beta_{4b} X_{4b+} \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \textit{(1) Conventional banks} \quad (2)$$

Table 2 shows, *SRa* is a proxy for the stock returns of Islamic banks and *SRb* for conventional banks, which can be influenced by nonfinancial performance (ESG disclosure and green building policy). (E) is the score measuring the voluntary contribution of Islamic banks and conventional banks to environmental aspects and is assessed every year. (S) is the score measuring the voluntary contribution of Islamic banks and conventional banks to social aspects, which are assessed every year. (G) is the score measuring the voluntary contribution of Islamic banks and conventional banks to governance, which is assessed every year. Finally, (GB) is a green building policy for Islamic banks and conventional banks issued by the company every year.

Results and Discussion

Descriptive analysis

Table 3 describes the descriptive statistics and all variables used in this research. Conventional banks have higher average stock returns (0.387%) and greater standard deviations (1.5%), whereas Islamic banks have average stock returns (0.348%) and standard deviations (1.265%). Islamic banks had the highest social score (62.06), while conventional banks had the highest social score (44.89). Conventional banks show stronger governance with an average of 70.18, compared to Islamic banks, which have an average of 63.21. The percentage of green buildings in conventional banks

(35%) was higher than that in Islamic banks (14%). Miralles-Quirós et al. (2019) find that investors appreciate the three pillars of ESG in different ways. Therefore,we examine each ESG dimension along with the green building policy as the criteria that can influence investor preferences.T he equation model used in this study is as follows:

$SRa = -0.008468 - 0.015432X_{1a} + 0.015789X_{2a} + 0.001063X_{3a} + 0.883714X_{4a+} \varepsilon$ …*(1) Islamic banks*

$SRb = -0.736362 + 0.043292X_{1b} + 0.068284X_{2b} + 0.001063\,X_{3b} + 0.883714X_{4b+} \varepsilon$ …*(1) Conventional banks*

Table 3. Descriptive statistics of Islamic Banks

Variable	Islamic Banks			
	Mean	Std. Dev	Min	Max
SRa (Y_a: Stock Return)	0.348034188	1.265127252	-3.66	11.34
E (X_{1a}: Environmental)	12.2194915	14.5411393	0	48.2
S (X_{2a}: Social)	22.535678	14.229052	0	62.06
G (X_{3a}: Governance)	63.218448	21.345283	0	84.86
GB (X_{4a}: Green Building)	13%	0.346323591	0	1
Variable	Conventional Banks			
	Mean	Std. Dev	Min	Max
SRb (Y_b: Stock Return)	0.3875214	1.7236333	-2.57	14.94
E (X_{1b}: Environmental)	22.261379	16.138516	0	53.01
S (X_{2b}: Social)	31.237586	15.298848	1.03	59.28
G (X_{3b}: Governance)	70.184914	16.354924	23.03	96.12
GB (X_{4b}: Green Building)	35%	0.4783649	0	1

Source: Data processing

The multiple regression test was carried out after going through classical assumption tests that showed no multicollinearity or heteroscedasticity. Thus, the multiple regression model is considered valid and reliable (see Table 4 and Table 5).

Table 4. Multiple regression analysis of Islamic banks

	Islamic Banks			
Variable	Coef.	Std. Error	Prob/Sig	Impact
SRa (Y_a: Stock Return)	-0.008468	0.368976	0.9817	
E (X_{1a}: Environmental)	-0.015432	0.011547	0.1841	-
S (X_{2a}: Social)	0.015789	0.011700	0.1799	-
G (X_{3a}: Governance)	0.001063	0.005385	0.8439	-
GB (X_{4a}: Green Building)	0.883714	0.346515	0.0121*	+
R-squared		0.074089		
Durbin-Watson		2.833307		

Note: * Significant at level (0.05)
Source: Data processing

Table 5. Multiple regression analysis of conventional banks

Variable	Conventional Banks			
	Coef.	Std. Error	Prob/Sig	
SRb (Y_b: Stock Return)	-0.736362	1.404033	0.6012	-
E (X_{1b}: Environmental)	0.043292	0.022602	0.0586	-
S (X_{2b}: Social)	0.068284	0.027411	0.0146*	+
G (X_{3b}: Governance)	-0.028012	0.019939	0.1635	-
GB (X_{4b}: Green Building)	0.083994	0.580267	0.8852	-
R-squared		0.452342		
Durbin-Watson		1.658172		

Note: * Significant at level (0.05)
Source: Data processing

The R-squared value of Islamic Banks (0.074089) indicates a strong model fit, implying that the independent variables explain a large proportion of the variance in stock returns. The R-squared in conventional banks' value of 0.452342 shows a model fit, meaning the variables explain a large proportion of the variance in stock returns. The Durbin-Watson statistic of Islamic banks suggests a negative autocorrelation (2.833307) and the conventional bank value is (1.658172), indicating mild autocorrelation in the data. Overall, this model is strong and statistically significant, which shows that the independent variable has a significant relationship with the dependent variable.

Discussion

The estimation results are provided in Table 4, and Table 5, and surprisingly reveal that (E) has no significant impact on the stock returns of Islamic banks (sig. 0.1841>0.05), and conventional banks (sig. 0.0586>0.05). Therefore, H_{1a} and H_{1b} were rejected. In line with these findings, Campbell and Slack (2011) most analysts and investors have not read any (E) reports and consider them as non-material information and tend to be skeptical. Alessi et al. (2020) found that investors who consider (E) face losses of up to 1.5% of global equity exposure. The quality and transparency of (E) can spur greenwashing, which remains unclear (Nobanee & Ellili, 2016). In addition, the negative impact of (E) on the stock returns of Islamic and conventional banks may be caused by internal and external factors. Banks need to enhance quality and transparency to increase investors' interests and trustworthiness. However, this negative impact may hinder the perceived relevance of (E) in financial decision making. In the case of Islamic banks, the lack of (E) could be attributed to the dominance of religious or ethical criteria over environmental ones in investment decisions. Islamic finance is primarily focused on principles such as profit sharing, risk sharing, and avoidance of interest, with less emphasis on (E) in comparison to more established markets. This may explain why investors do not prioritize (E) in their decisions about Islamic banks, as these banks are expected to adhere to ethical guidelines in all their operations.

S has no significant impact on Islamic banks (sig. 0.1799>0.05), but significant for conventional banks (sig. 0.0146>0.05) stock returns; thus, H_{2a} is rejected, and H_{2b} is accepted. This indicates that stakeholders' theory in the Islamic context prioritizes ethical and socially responsible investments without corresponding financial performance. The market may value (S) differently across banking sectors. The negative result for Islamic banks supports the finding Plantinga et al. (2008) that (S) influences stock returns by lowering the book-to-market ratio rather than generating positive alpha (excess returns). The (S) may not immediately translate into a higher financial return and remain on a smaller scale. In contrast, conventional banks leveraging a larger scale in (S) attract positive investor sentiment, leading to better stock returns (Ahmed et al., 2017). Conventional banks often market their (S) initiatives to appeal to ethical investors, particularly in emerging markets. To strengthen their market position, Islamic banks could enhance their zakat and broader social initiatives, while effectively communicating their societal impact. This may bridge the gap between ethical commitments and financial expectations, gradually building investor trust and improving returns.

The governance dimension (G) has no significant impact on Islamic banks'stock returns (sig. 0.8439>0.05), and conventional banks (sig. 0.1635>0.05); therefore, H_{3a} and H_{3b} are rejected. While strong (G) signals transparency and accountability, immediate financial returns may not reflect this benefit. In Islamic banks, governance is deeply intertwined with *Shariah* compliance and any perceived weakness in (G) can negatively affect investor confidence. However, the financial benefits of (G) practices may be less visible in the short term, as stakeholders often focus on operational risks and costs related to transparency (G). Studies indicate that (G) can sometimes have short-term negative effects on stock returns, particularly when they introduce information asymmetry or are perceived as uncertain or risky (Kim & Koo, 2023). Additionally, inconsistent ESG ratings due to variability in governance reporting may deter investors as these inconsistencies are perceived as uncertainty or risk. This variability can lead to lower stock returns, especially when market participants prioritize immediate gains over long-term benefits. The negative impact of governance on stock returns may stem from factors such as inconsistent disclosure, information asymmetry, transparency challenges, and higher operational costs. To address these issues, banks should adopt

standardized, clear, and regular disclosure practices to ensure that all stakeholders receive accurate information. Implementing robust governance frameworks, investing in integrated reporting systems, fostering board independence, leveraging technology, and engaging with stakeholders can enhance governance. These steps can help build trust, reduce perceived risks, and eventually translate into better financial performance.

Green Building Policy (GB) has a significant impact on the stock returns of Islamic banks (sig. 0.0121>0.05), but doesn't significant for conventional banks (sig. 0.8852>0.05). Therefore, H_{4a} was accepted, and H_{4b} was rejected. For Islamic banks, the positive result aligns with that of Cajias and Piazolo (2013), who find that energy-efficient buildings can enhance long-term financial returns through cost savings and improved profitability. However, such benefits often take years to materialize, as (McGraw-Hill Construction, 2013) notes that green buildings typically require seven years to break, even on initial investments. Shimizu (2010) found that green buildings can add an economic value of 5.8%, which is consistent with global trends. In the short term, GB policies may not affect stock returns because of the high operational costs and capital expenditure associated with implementing green initiatives. Regulatory changes, such as carbon pricing under the European Union Emission Trading System, have been linked to lower stock returns for emission-intensive firms, as these costs often cannot be transferred to consumers (Hengge et al., 2023; Taylor & Neff, 2022). While Robinson et al. (2018) green information can impact daily stock prices, its effects are not persistent over time. This finding highlights that GB investments are more likely to yield medium- to long-term returns. Firms must balance their initial cost burdens with strategic benefits, such as enhanced competitiveness and long-term performance, to maximize the value of green initiatives.

Conclusion

This study investigates the impact of ESG disclosure and the Green Building (GB) policy on the stock returns of Islamic and conventional banks from 2017 to 2023, using panel least squares with fixed effects and EViews for data processing. The results show that GB policy significantly impacts Islamic banks' stock returns but not conventional banks. In contrast, the (S) dimension significantly affects conventional banks but not Islamic banks. The (E) and (G) dimensions have no significant impact on either of the banking sectors. The lack of significance of dimension (E) may result from long capital return periods, stock market volatility, and debates over quality and transparency, discouraging investors from focusing on environmental initiatives. The significant impact of the (S) dimension on conventional banks reflects positive investor sentiment towards social initiatives, driving higher returns. However, Islamic banks' focus on ethical investments and social welfare, while resonating with socially responsible investors, does not translate into short-term financial gain. The insignificance of the (G) dimension in both sectors may stem from information asymmetry, inconsistent reporting, and transparency issues, which increase operational costs. The GB policy positively impacts Islamic banks due to energy-efficient buildings' long-term financial benefits, aligning with studies showing cost savings and improved profitability over time. However, the GB policy negatively affects conventional banks, as green financing requirements and increased operational costs create short-term cost burdens.

These findings emphasize the distinct financial dynamics of Islamic and conventional banks and the long-term nature of green and social investments. The data analysis results align with the research objectives by assessing the impact of ESG disclosure and the (GB) policy on the stock returns of Islamic and conventional banks. This study provides valuable insights into the distinct financial dynamics of both sectors, highlighting how environmental, social, governance, and green-building factors influence stock performance. The findings support the research objective of understanding sector-specific variations in the impact of ESG.

This study has several implications. First, it underscores that ESG dimensions and green initiatives have varying effects on stock returns, with social factors benefiting conventional banks, and green policies positively impacting Islamic banks. This suggests a need for investors to consider sector-specific ESG factors when making investment decisions. For policymakers and banks, these findings emphasize the importance of transparent and consistent ESG reporting and aligning long-

term sustainability goals with investor expectations. Regulators must enforce compliance with ESG and green-building policies to ensure that banks meet the intended goals of sustainability practices. Policymakers should consider mandating standardized ESG disclosure frameworks that align with the IFRSs to improve comparability and transparency. The limitation of this research is the availability of ESG disclosure and green-building policy data, which not all Islamic banks have. As a result, researchers obtained only eight country objects, and each country was represented by only one bank. The relatively new age of Islamic banks also means that the various ESG scores are not yet optimal. Green building policies are still not widely applied in Islamic banks. Therefore, there is an urgent need to standardize ESG reports and green building policies in Islamic and conventional banks to generate a positive contribution to society. Future research could expand the sample size and include other financial institutions to improve generalizability. Longitudinal studies can explore the long-term effects of ESG and GB policies. Moreover, integrating qualitative methods, such as interviews with stakeholders, could provide deeper insights into how ESG factors influence investment behavior. Finally, exploring regional differences in ESG impacts could yield more nuanced conclusions.

Author contributions

Conceptualization: Mega Ayu Widayanti, Hesti Eka Setianingsih
Data curation: Mega Ayu Widayanti
Formal analysis: Mega Ayu Widayanti, Hesti Eka Setianingsih
Investigation: Hesti Eka Setianingsih
Methodology: Mega Ayu Widayanti, Hesti Eka Setianingsih
Project administration: Mega Ayu Widayanti
Supervision: Sulistya Rusgianto and Zurina Kefeli
Validation: Hesti Eka Setianingsih
Visualization: Mega Ayu Widayanti
Writing – original draft: Mega Ayu Widayanti
Writing – review & editing: Mega Ayu Widayanti, Sulistya Rusgianto, and Zurina Kefeli

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