

ARE THERE FINANCIAL SACRIFICES IN ETHICAL INVESTING? A COMPARATIVE STUDY OF INDONESIA AND MALAYSIA

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ABSTRACT

Introduction/Main Objectives: Ethical investment in Southeast Asia is gaining traction, particularly in countries like Indonesia and Malaysia. This research aims to measure the performance of ethical investments and compare them with their opposite category, sin stocks. Investors should avoid sin stocks because they operate in controversial areas and go against ethical investment principles. **Background Problems:** Previous research conducted in developed countries shows that ethical investments are inferior to sin stocks, thus investors suffer financial sacrifices. **Novelty:** A comprehensive ethical investment instrument that involves sustainability and religion-based investments. Formation of sin stock portfolios in two Muslim countries. **Research Methods:** A volatility analysis and a descriptive analysis were carried out to provide a comprehensive picture of the performance of ethical and sin stocks. The analysis continues by comparing and explaining why and how the results occurred. **Finding/Results:** Ethical stock returns underperformed sin stocks in Malaysia, and ethical stocks outperformed sin stocks in Indonesia. This exciting result can be explained by the differences in screening criteria, perceptions, and regulations in these two neighboring countries. **Conclusion:** There are no financial sacrifices in ethical investing in Indonesia, so ethical investors do not need to hesitate. They are advised to invest ethically because they achieve two goals at once. Meanwhile, Malaysian ethical investors must be prudent and careful in investing to continue achieving social goals and mitigating losses.

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INTRODUCTION

Socially responsible investment is an investment strategy seeking financial returns and environmental and social changes (Azmi et al., 2020; Fu et al., 2020; Jawadi et al., 2020). It employs selection and portfolio management based on ethical and social criteria. Socially responsible investment is also known as green, value-based, sustainable, environmental, social governance (ESG), and impact investment (Boumda et al., 2021). Socially responsible investment also involves faith-based stock (Gillet & Salaber-Ayton, 2017; Mazouz et al., 2016). Faith-based stock means integrating financial goals with religious and ethical principles. The faith-based stock was found to consist of an Islamic religious base, namely Sharia stock, and a Catholic religious base, namely Catholic stock (Castro et al., 2020).

Socially responsible investment is vital because investors can align their investments with their values and beliefs (Dharani et al., 2019; Tanin et al., 2023). They want their money to support companies and industries that adhere to ethical and sustainable practices, such as environmental protection, social responsibility, and good governance. Socially responsible investment can also influence companies and industries to adopt more responsible practices. When investors choose to invest in companies with strong ethical and sustainable performance, they can incentivize other companies to follow suit to attract investment and maintain their market value. Besides, it allows individuals and institutions to avoid supporting businesses involved in activities harmful to society or the environment.

Socially responsible investment often focuses on sustainability, which can contribute to financial markets' long-term health and stability and the global economy. Companies that prioritize environmental, social, and

governance (ESG) factors may be better positioned to thrive in a changing world. Moreover, companies prioritizing ethical and sustainable practices are often better at managing legal, regulatory, and reputational risks. Investing in these companies can help mitigate potential financial losses. Younger generations, such as millennials and Gen Z, are increasingly concerned about ethical and sustainable issues (Chen, 2019). Socially responsible investment options can attract these investors, helping asset managers and companies tap into a growing market. In some regions, governments are introducing regulations that encourage or require companies to disclose their ESG practices. Socially responsible investment can help investors comply with these regulations and ensure their portfolios are not exposed to compliance risks.

Socially responsible investment does not align with neoclassical economic and modern portfolio theory. These theories state that other considerations, besides return and risk, cause inefficiency (Beal, 2005; Sudirman, 2023). Because the choice of investment instruments is limited, it increases risk and reduces profitability. However, since 2011, the SRI movement in the Asian market has increased by up to 22 percent (Farish & Karim, 2021; Karim et al., 2022). This research shows the positive growth of SRI in the Asian market. Malaysia has become one of Asia's most significant socially responsible investments after controlling 30 percent of the SRI in the Asian market (Chai et al., 2019). Meanwhile, in Indonesia, the development of socially responsible investment can be observed from the increasing number of indices based on non-financial aspects, namely sustainability and belief (Mubarak, 2022). There are eight indices in Indonesia and ten indices in Malaysia, categorized as socially responsible stock indices.

In contrast, there is a category of sin stocks, namely shares of companies operating in industries considered controversial from a social perspective (Zerbib, 2020). There is no consensus regarding sin stocks, but there is a sextet of sin, namely adult entertainment, alcohol, gambling, nuclear power, tobacco, and weapons (Aslam et al., 2021). Previous research discovered that the performance of sin stocks is always higher than socially responsible investment (Castro et al., 2020; Fabozzi et al., 2008; Hong & Kacperczyk, 2009; Liston & Soydemir, 2010; Pástor et al., 2021). However, these findings are inconclusive because several studies have revealed contradictory evidence (Lobe & Walkshäusl, 2016; Vide, 2016; Xiao et al., 2017). Furthermore, this comparative research has been widely conducted in the United States and Europe (Castro et al., 2020; Durand et al., 2013; Tala & Odden, 2020). However, it has not been widely implemented in Southeast Asian countries such as Indonesia and Malaysia. Both countries were chosen because they have several similarities in the socio-demographic context, namely they are countries with the largest Muslim populations in Southeast Asia and have similar values and cultures. A predominantly Muslim population is expected to contribute to socially responsible investment with the same spirit regarding environmental preservation and social care.

Therefore, this study aims to fill the gap in the previous research by presenting descriptive comparative facts regarding the performance of investments in sin and socially responsible stocks in Indonesia and Malaysia. After knowing the comprehensive picture, researchers will attempt to elaborate on the reason behind this result. Accordingly, four main questions have been formulated, as follows. (1) Does the return on socially responsible investment (SRI) outperform sin stocks in Indonesia? (2) Does the

return on SRI outperform sin stocks in Malaysia? (3) Does the return on Sharia stocks outperform sin stocks in Indonesia? (4) Does the return on Sharia stocks outperform sin stocks in Malaysia? The follow-up analysis is about comparative analysis and attempts to explain the why and how of the results.

This article is organized as follows: The next section is the literature review, which provides a comprehensive review of the relevant research, setting the foundation for the study. The third section outlines the methodology, including data collection and analysis techniques. The fourth section presents the results and discusses them, including a discussion of their implications. Finally, the last section of the article is a conclusion and suggestion, which concludes with a summary of the key findings, along with practical suggestions for future research and applications.

LITERATURE REVIEW

Socially responsible investment is an investment strategy that aims to achieve financial and non-financial gains by limiting oneself to investment assets according to specific negative ethical or positive ethical criteria (Lewis & Mackenzie, 2000; Lewis & Webley, 1994). Negative ethical criteria include absolute avoidance of companies operating in the business sectors of alcohol, tobacco, gambling, adult entertainment, military weapons, fossil fuels, nuclear energy, involving underage child labor, Sharia screening by excluding companies that do not comply with Sharia rules, etc. Meanwhile, examples of positive ethical criteria are choosing companies with high environmental, social, and governance (ESG) scores and implementing positive themes such as renewable technology, social entrepreneurship, energy savings, etc., based on the Principles for Responsible Investment (PRI) Association.

In contrast, there is an investment category known as sin stock. There has yet to be a consensus regarding the scope of sin shares. However, academics often use the terms “sin stock” and “vice stock” for stocks of companies operating in the alcohol, tobacco, and gaming sectors, which are considered undesirable given prevailing social norms (Durand et al., 2013). Such investment strategies go against societal norms and do not support funding operations encouraging human crime.

Socially responsible investment is in line with behavioral finance theory, which states that the involvement of emotions, traits, preferences, and various things inherent in humans, as intellectual and social creatures, will interact to form the basis of decisions to take action (Barberis & Thaler, 2003; Statman, 2014; Pangestuti, 2022). Meanwhile, sin stock is in line with modern finance and portfolio standards, which state that the relevant criteria for investment for investors are only expected return and risk. Moral considerations introduce inefficiency by reducing the number of investment choices that result in losses. All investors want to make optimal investment decisions (Sudirman, 2023).

In recent years, socially responsible investment has increased, indicating the adoption of behavioral finance (Bansal et al., 2022; Brodmann et al., 2021; Tripathi & Kaur, 2020). In line with this, the expanded concept of motivation explains that many people can be motivated by factors other than pure personal interest and benefit from prosocial actions (Meier, 2006). The question is whether this increase is substantial enough to move prices. Furthermore, although non-financial motives play a role in investment decision-making, financial motives still dominate (Beal et al., 2005; Døskeland & Pedersen, 2016; Nilsson, 2009). Modern portfolio theory states that

investors are assumed to be rational individuals when making investment decisions. The considerations used are return and financial risk, or mean-variance (Blitz & Swinkels, 2023; Danila, 2023; Karim et al., 2022). Based on this, most Indonesian and Malaysian investors are driven by historical returns and risks alone (Farish, 2021). Demand will influence the price of sin shares. In turn, returns will increase and beat the returns of socially responsible investment (SRI) shares consisting of SRI and Sharia shares (Asutay et al., 2023; Brzezczynski et al., 2021; Dervi et al., 2022; Killins et al., 2020; Kim, 2019). Sin stocks have outperformed the stock market in the long term (Hamdan, 2023; Han, 2022; Fixdal, 2020). Therefore, the following hypothesis is formulated as follows.

H1: Returns of sin stock portfolio is higher than socially responsible stocks in Indonesia

H2: Returns of sin stock portfolio is higher than Sharia stocks in Indonesia

H3: Returns of sin stock portfolio is higher than socially responsible stocks in Malaysia

H4: Returns of sin stock portfolio is higher than Sharia stocks in Malaysia

METHOD, DATA, AND ANALYSIS

This research tests four hypotheses through descriptive statistical analysis, correlation tests, and volatility analysis. Statistical descriptive analysis is less prevalent in modern research but can still summarize data collection clearly and understandably (Görmüş & Kabasakal, 2010; Patjoshi, 2016). Several reputable studies use this analysis (Castro, 2020; Ghoul, 2007). Furthermore, correlation tests and volatility analysis will support this descriptive analysis. Correlation tests are used as statistical methods to measure relationships between two or more variables (Fang, 2018). Volatility analysis is a statistical method used to measure the level of

change or uncertainty in the price or value of a commodity, stock, or cryptocurrency (Erdoğan, 2020; Permana, 2023). Researchers attempt to provide an overview of the performance of socially responsible and sin stocks through these three kinds of analysis. The research continued by elaborating more deeply on the why and how of previous research results.

The population in this study is all socially responsible stocks and sin stocks in Indonesia and Malaysia. Sampling was carried out using the purposive sampling method. Criteria for sin shares include shares operating in the sextet of sin sectors (tobacco, alcohol, gambling, armaments, pornography, and nuclear energy). The criteria for socially responsible shares are SRI shares listed in the SRI index and Sharia shares in Indonesia and Malaysia. The SRI stock index used in Indonesia is SRI-Kehati because it was Indonesia's first ethical stock index launched in 2009. The Sharia stock index used is ISSI because it consists of all Sharia shares, so it is more representative than other Indonesian Islamic indices.

Meanwhile, the sin stock index was formed from five issuers involved in the cigarette and alcohol business. In Malaysia, the SRI stock index used is F4GBM. The Sharia stock index used is the FBMEMAS Sharia indices.

Meanwhile, the sin stock index was formed from the sin stocks consisting of six issuers engaged in the gambling and alcohol business. These sin portfolio construction uses equally weighted-average method. As a benchmark, a composite index of each country is also utilized. Table 1 below summarizes all samples of socially responsible stocks and sin stocks.

The primary variable observed is stock returns during the last eight years. These stock returns were observed from February 2015 until December 2022. Stock returns are calculated from monthly closing stock price data. If data are missing, interpolation will be carried out, namely calculating the value between the existing data points.

$$R_s = \frac{P_{st} - P_{st-1}}{P_{st-1}} \quad \dots(1)$$

Where R_s = stock return s in period t , P_{st} = closing price of shares s in period t , and P_{st-1} = closing price of shares in period $t-1$. After that, we create a sin stock portfolio with an equally weighted average incorporating this equation.

$$R_t = \frac{1}{n} \sum_{s=1}^n R_s \quad \dots (2)$$

Where R_t = portfolio return and n = number of shares in the portfolio.

Table 1. Sample Summary

No	Country	Type of stock	Code	Abbreviation	Sample
1	Indonesia	SRI	SRIID	SRI-Kehati	Sustainable and Responsible -Investment Kehati
2		Sharia	SYRID	ISSI	Indonesia Sharia Stock Index
3		Sin	SINID	Sin ID	
4		Market	ICIID	ICI	Indonesia Composite Index
5	Malaysia	SRI	SRIMY	F4GBM	FTSE4Good Bursa Malaysia
6		Sharia	SYRMY	FBMEMAS Sharia	FTSE Bursa Malaysia EMAS Sharia
7		Sin	SINMY	Sin MY	
8		Market	KLCIMY	KLCI	Kuala Lumpur Composite Index

Source: website of Bursa efek Indonesia and Bursa Malaysia

Stock price data is collected from the Bloomberg database. Data analysis begins by displaying descriptive statistics and correlation tests. Descriptive statistics include average returns, deviation standard, and highest and lowest returns. The statistical software used is SPSS. The researchers try to interpret numbers, compare results between Indonesia and Malaysia, and analyze the why and how of the research results more deeply. To explain why and how, researchers use literature, articles, regulations, pages, reports, and related books.

RESULT AND DISCUSSION

Table 2 shows that the average return on sin stocks during the research period was lower than ethical stocks in Indonesia, both in the SRI category and Sharia stocks. The ranking order of stock returns from the highest to lowest is SRI-Kehati shares, sharia shares, and sin shares, respectively. On the other hand, the risk of sin stocks is the highest compared to ethical stocks. Risk can be seen from the standard deviation. The minimum and maximum values confirm this. Furthermore, the farthest range between the minimum and maximum values is sin shares, namely 43 points. This figure is the highest compared to the range for SRI shares of 14 points and Sharia shares of 16.

Table 2 shows that the average return of Malaysian sin shares is ranked first compared to the returns of SRI and sharia shares and even beats the composite index. In line with the concept of high risk and high return, the risk of sin shares also has the highest value. The highest and lowest maximum values support this. The Sharia shares with the lowest returns have the second-highest maximum value. Islamic stocks performed very well during the research period,

approaching sin stocks. This fact is not surprising because it has been predicted by modern portfolio theory, financial standards, and rational economics that the primary considerations are only return and risk and ignore other aspects such as environmental and social concerns, sustainability, and religion. These non-financial aspects limit investors' investment choices, resulting in lost opportunity costs and inefficiencies.

Table 2. Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max
SINID	-.0003158	.070416	-.22	.21
SRIID	.0049474	.050694	-.20	.12
SYRID	.0029474	.039649	-.15	.10
ICIID	.0074737	.051899	-.17	.34
SINMY	.0005263	.046388	-.15	.16
SRIMY	-.0009474	.033200	-.09	.07
SYRMY	-.0009375	.035880	-.09	.12
KLCIMY	-.0010526	.032729	-.08	.07

Source: Processed Data

Table 3 shows the correlation between stock indices. This correlation shows the strength and direction of the relationship between the two variables. The relationship between these two variables can occur because of the cause-and-effect relationship. Two variables are said to be correlated if changes in one variable are regularly followed by changes in the other variable in the same direction (positive correlation) or in the opposite direction (negative correlation). Two variables are said to be weakly correlated if the correlation coefficient ranges from 0 to 0.5. In contrast, a strong correlation is indicated by a correlation coefficient of 0.7 to 0.9. Indonesian sin shares have a weak correlation with SRI shares of 0.49 and sharia shares of 0.53.

Table 3. Correlation

	SINID	SRIID	SYRID	ICIID	SINMY	SRIMY	SYRMY	KLCIMY
SINID	1.00							
SRIID	0.49	1.00						
SYRID	0.53	0.84	1.00					
ICIID	-0.09	0.13	0.05	1.00				
SINMY	0.43	0.40	0.49	0.18	1.00			
SRIMY	0.38	0.52	0.56	0.12	0.54	1.00		
SYRMY	0.42	0.46	0.50	0.00	0.45	0.89	1.00	
KLCIMY	0.37	0.50	0.55	0.08	0.53	0.97	0.88	1.00

Source: Processed Data

On the other hand, Indonesian sharia shares strongly correlate with SRI shares, namely 0.84. By integrating the results of correlation tests with descriptive statistics, it can be concluded that there are no financial sacrifices in investing funds in SRI and Indonesian Sharia shares. Thus, hypotheses one and two are rejected. The results implicitly show that financial motives dominate compared to non-financial ones (Chai et al., 2019; Dharani et al., 2019). Return is formed from price, which reflects supply and demand. The results of this study are not in accordance with the research (Castro, 2020; Nath, 2021; Pástor, 2021; Tala, 2020) which concludes that investing in socially responsible stocks, stocks of companies that have high scores in the fields of environmental, social and governance (ESG) and faith-based stocks require financial sacrifice because they have proven to perform lower than their competitors. The following section will analyze the rejection of hypotheses one and two in depth. However, this result is supported by (Yen, 2019), which explains that socially responsible investment portfolios can outperform less-SRI portfolios. Other research states that highly rated SRI stocks outperform lowly rated SRI stocks during good economic times (Bansal, 2022). This research does not thoroughly compare SRI stocks with sin stocks but with fewer SRI portfolios and lowly rated SRI stocks. The two stocks have a slight

difference from sin stocks. Less SRI portfolios involve sin stocks with few sin stocks. While lowly rated SRI stock is actually SRI stock, the SRI rating is low. The practical implication of this study is that ethical investors in Indonesia do not need to hesitate to invest ethically in Indonesia because they can gain financial benefits and contribute to environmental and social issues. In the absence of financial sacrifice, conventional investors are also advised to allocate their funds ethically to obtain optimal returns.

In the Malaysian context, SRI and Sharia strongly correlate with 0.89. Both the SRI and Sharia share strongly correlate with the Malaysian Composite Index. Sin stocks have a weak correlation with Sharia stocks, 0.45, and a moderate correlation with SRI stocks, 0.54. The magnitude of this correlation is in line with the explanation that Sharia stocks are very different from sin stocks from a business perspective. In contrast, ethical stocks are relatively more flexible and do not contrast so much with sin stocks. Indonesia and Malaysia have similarities in the strong correlation between SRI and Sharia and the weak to moderate correlation between sin and ethical shares. By integrating the results of the correlation tests with descriptive statistics, it can be concluded that there are financial sacrifices in investing funds in SRI and Sharia shares. Thus, hypotheses three and four are

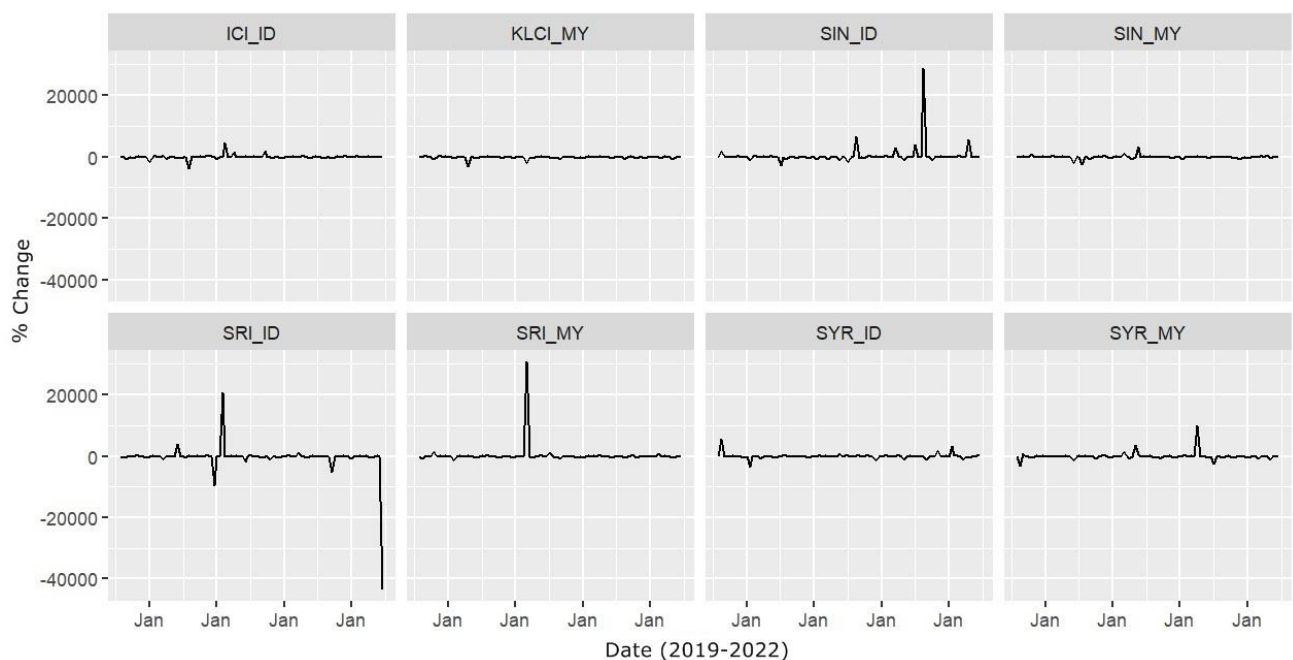
accepted. Modern portfolio theory explains that return and risk are the primary considerations in investment decisions. Other considerations, such as ethical aspects, tend to be overlooked. The demand for sin shares, which is higher than ethical shares, creates high prices and, in turn, produces high returns (Liu & Peifer, 2022; Murashima, 2023; Peifer, 2011). This study's results align with the research (Hamdan, 2023; Asutay, 2023; Han, 2022), which mentioned that sin shares performed better than socially responsible shares. However, this result is different from the results in Indonesia. Sin stocks outperform in Malaysia and underperform in Indonesia. The following section will explain why sin stocks' performance in Malaysia differs from that in Indonesia.

As there are financial sacrifices in investing ethically, ethical investors must prioritize prudent and mitigative aspects in anticipating losses. To accommodate non-financial motives, they must be balanced with financial motives (Lingnau et al., 2022; Paradis & Schiehl, 2021).

Nilsson emphasized that socially responsible investing is an investment activity, not a charity. Investments imply future benefits for something sacrificed today. Thus, ethical investors will always strive to obtain returns and want to keep their money private (Nilsson, 2009). This research suggests that Malaysia's ethical investors can still allocate their funds ethically but need a comprehensive analysis so as not to lead to losses.

The research continued by analyzing the volatility of eight stock indices. After that, the volatility is calculated using the standard deviation of the change per month, which can be seen in the output below. The standard deviation from the monthly change of each index in Malaysia and Indonesia is presented in Table 4. Based on Table 4, it can be concluded that in Indonesia, the largest volatility is owned by SRIID, and the smallest volatility is owned by ICIID. Likewise, Malaysia's most tremendous volatility is owned by SRIMY, and KLCIMY's smallest volatility is owned by KLCIMY.

Figure 1. Volatility Analysis



Source: Processed Data

Table 4. Volatility Summary

Index	SINID	SRIID	SYRID	ICIID	SINMY	SRIMY	SYRMY	KLCIMY
Volatility	3178	5130	854	731	557	3205	1221	424

The research continued by analyzing the hypotheses related to the rejected hypotheses in depth. Why do socially responsible stocks perform better than sin stocks in Indonesia? This argument will be categorized into two parts, namely (1) regarding the underperformance of sin stocks against ethical stocks in the SRI stock category and (2) regarding the underperformance of sin stocks against ethical stocks in the Sharia stock category. To answer the first part, researchers put forward several reasons. The first is that the SRI stock screening criteria involve superior financial ratio criteria. According to the SRI-KEHATI page, this index has three screening stages: business screening, financial ratio screening, and fundamental screening. After a share is declared to have passed business screening, it is not a company operating in the nine fields in Table 3; the share will continue the financial ratio screening process. In this financial ratio screening, stock issuers must have a market capitalization of at least one trillion, total assets of at least one trillion, a free float ratio of more than ten percent, and a positive price-earnings ratio. These four criteria implicitly indicate that the issuer of this share has excellent financial performance. In other words, share issuers may care about the environment and social affairs. However, they cannot be included in the SRI-Kehati index because they do not pass the financial criteria. It can explain why returns on ethical stocks in the SRI category in Indonesia have higher returns than sin stocks. Second, if we examine sin share issuers in Indonesia, they do not have business variations. All sin stock issuers focus on cigarette and alcohol production. They do not have subsidiaries in business fields outside the sectors categorized as

a sextet of sin. So, this issuer cannot be categorized as an ethical stock in either the SRI or Sharia categories. Therefore, Indonesian investors have an entirely negative perception of sin stocks. It occurs due to the culture and religion that most Indonesian people adhere to. Interestingly, if we examine it more deeply, sin stocks have relatively high annual returns in the short term compared to ethical stocks. However, the average return produced is the worst in the long term. Investors may be interested in making short-term investments to get returns but not for the long term.

To answer the second part regarding the underperformance of sin stocks against Sharia stocks, researchers put forward several reasons, namely the significant Sharia investment trend in recent years. Sharia investment was introduced in Indonesia in 2000 and has developed very rapidly in the last five years (Mubarok, 2022). Islamic stock investors are characterized by only choosing sharia shares or prioritizing sharia stock choices in their investment portfolio (Olofsson et al., 2021; Omura et al., 2021). Therefore, the ISSI Index will be their primary reference. The high demand for Sharia shares will impact prices and, in turn, affect returns.

Furthermore, Islamic investors fully understand that shares issued by cigarette and alcohol manufacturers conflict with the main principles in the qualitative criteria in ISSI index screening. It will form a barrier for investors not to choose these sin stocks (Chai et al., 2019; Rossi et al., 2019). For information, the ISSI screening criteria include qualitative and quantitative stages. The qualitative criteria are that the issuer's business must not conflict with Sharia (*riba*, *gharar*, *maysir*, *haram*).

Table 5. Differences in SRI business sector screening criteria

No	Indonesia	Malaysia
1	Tobacco	Tobacco
2	Armament	Weapons
3	Coal Mining	Coal
4	Pesticide	Investment Trusts
5	Nuclear	Companies involved in nuclear power generation with strict requirements
6	Genetically Modified Organisms	
7	Gambling	Companies involved in manufacturing and marketing of infant formula and breast milk substitutes with strict requirements
8	Pornography	
9	Alcohol	

Source: website of Bursa efek Indonesia and Bursa Malaysia

Meanwhile, the quantitative criteria in question include a ratio of debt to total assets of less than 45 percent and non-halal income to total business income of less than ten percent. These criteria are the essence of the difference between Sharia and non-sharia issuers. According to the official website of the Indonesian Stock Exchange, as many as 569 shares out of a total of 890 shares registered on the Indonesian Exchange are sharia shares. This means that Indonesia provides 63.9 percent of Sharia stock options. Many of these stocks are high-capitalization stocks. Thus, it becomes logical that ISSI performs better than sin stocks.

This section analyzes the performance of sin stocks and socially responsible stocks in the context of Malaysia and explores why these results differ from those in Indonesia. To answer this, the researchers divided it into two parts, namely (1) differences in the performance of ethical shares in the Malaysian and Indonesian SRI categories and (2) differences in the performance of ethical shares in the Malaysian and Indonesian sharia categories. The researcher proposed several reasons for the discussion in part one. According to the Bursa Malaysia page, the SRI screening process does not involve excellent financial ratios. SRI screening in Malaysia is purely based on ESG scores and business sectors. The ESG score in question is at

least 2.9, adopted from the FTSE Russell ESG assessment method. Furthermore, the business sectors that are excluded are in Table 3. Before employing the screening, a stock must be a constituent of the Malaysia Emas stock exchange index. This index combines the top 100 stock index and the small caps index. Small caps refer to stocks with low capitalization value. So, it would be logical if ethical stocks in Malaysia were defeated by sin stocks (Farish & Karim, 2021; Sagbakken & Zhang, 2022; Statman, 2008). Furthermore, gambling sector issuers dominate sin stocks, and gambling is legal in Malaysia and is not included in the negative list of ethical stocks. Thus, the perception formed is partially negative. Therefore, investors ignore this and only focus on performance.

There are differences in the performance of Malaysian and Indonesian Sharia shares. This fact is quite interesting, considering that the Malaysian Sharia stock market is considered to be more mature than Indonesia, according to the Morningstar report. This is indicated by the greater availability of Malaysian Sharia shares, namely 76.5% compared to 63.8% in Indonesia, and several reports claim that Indonesia is still identified as a rapidly evolving market. However, the performance of Malaysian Sharia shares is lower than sin shares. Researchers

Table 6. Business Activity Ratio

Benchmarks	Assessments against company
The 5% benchmark	Companies with a level of mixed contributions from activities that are clearly prohibited, for example, <i>riba</i> , liquor, pork, and gaming
The 10% benchmark	Companies with a level of mixed contributions from activities involving prohibited elements affecting most people and difficult to avoid, for example, interest income from fixed deposits, tobacco-related activities, etc
The 20% benchmark	Companies with a level of mixed contributions from mixed rental payments derived from non-Sharia-compliant activities such as rental payment from premises involved in gambling, liquor, etc
The 25% benchmark	Companies with the level of mixed contributions from activities that are generally permissible by Sharia and have the element of <i>maslahah</i> (reasoning to prohibit or permit something based on the public's benefit), but other elements may affect the Sharia status of these activities. For example, hotel and resort, share trading, stockbroking, etc

Source: website of Bursa Malaysia

suspect this is due to differences in the criteria for screening Islamic shares (Beloskar & Rao, 2023; Tanin et al., 2023). The Sharia Advisory Council applies business activity ratio rules to a share to be categorized as a Sharia share. This ratio is presented in Table 4. This table implicitly explains that Sharia share issuers may also operate in non-sharia business fields at a specified percentage. Sharia investors may, therefore, need help to become fully compliant with Sharia. This can shape investors' perceptions of Sharia shares, which may need to be more comprehensive or find similarities with conventional shares (Xiao et al., 2017). Ultimately, investors focus only on the return and risk trade-off and ignore sharia aspects (Elton & Gruber, 1997; Fabozzi et al., 2008).

CONCLUSION AND SUGGESTION

Ethical investments, including socially responsible investments and faith-based shares, are one category of investment instruments becoming increasingly popular as demand increases. However, its performance in developed countries is often recorded as worse than that of the opposite share category, sin shares. Therefore, investors suffer from lost

opportunity costs. This research aims to compare the performance of sin stocks and ethical stocks in Indonesia and Malaysia, which have very different cultures and religions, which can cause differences in investor characteristics.

The research results show that sin stocks perform better in Malaysia than in Indonesia. This exciting difference in findings is due to differences in screening criteria and regulations regarding alcohol and gambling. The implications of this research are helpful for academics and practitioners. For academics, this research contributes to filling this gap by providing insight into differences in stock performance in identical country categories. Future research could study how much financial sacrifices ethical investors are willing to accept. Sin stock in this study is limited to the sextet of sin. At the same time, other sectors are contrary to the spirit of SRI, such as the mining sector, genetically modified organisms, and other sectors included in the negative list. This is one of the research limitations that needs to be improved in future research. Future research could exert this sector as a comparison to produce comprehensive findings on unethical investment. Another area for improvement is in the sample country. A

future study could use several developing countries with identical cultures to produce a conclusive answer regarding the comparison of the performance of sin stocks and SRI stocks.

The results of this research could be used by practitioners to make investment decisions in Indonesia and Malaysia. In other words, investing in ethical shares in Indonesia has two benefits: utilitarian and expressive (Statman, 2004). Utilitarian benefits refer to profits, and expressive benefits refer to investors' satisfaction due to their involvement in solving environmental, social, and governance problems. Additionally, investor satisfaction is caused by allocating funds to shares that follow religious values and teachings. On the other hand, Malaysian ethical investors need to think wisely to mitigate losses.

Declaration of AI and AI-assisted technologies in the writing process

During the preparation of this work, the authors used GRAMMARLY in order to fix grammatical errors, enhance readability and language quality. After using this tool/service, the authors reviewed and edited the content as needed and take full responsibility for the content of the publication.

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