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Islamic and Socially Responsible Indices: A Case Study of Dow Jones Islamic Market Sustainability Index

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Abstract

Ethical indices provide the investors with the opportunity to invest according to their choices and beliefs. They could either be socially responsible or morally responsible, Islamic indices belong to the second category. On the one hand, the compliance of socially responsible indices focuses on Corporate Social Responsibility (CSR) practices and Environmental, Social, and Governance (ESG) considerations, by applying some strategies such as: best practices, best in class or shareholders advocacy. On the other hand, Islamic indices apply both qualitative screens (by excluding some companies belonging to the prohibited sectors) and quantitative screens (by excluding companies based on their ratios of debt, receivables and cash). In addition to the divergences between socially responsible indices, and Islamic stock indices, many convergences exist, especially their ethical aspect. Dow Jones Islamic Market Sustainability Index (DJIMSI) » has been launched in January 2006, to be the first index in compliance with both Shariah and social investment guidelines. This category of indices attracted the interest of many researchers, and an important literature review has analysed them theoretically or empirically. In this article, the researcher analyzed Islamic and socially responsible indices taking into consideration their context, to compare the similarities and the differences between their screening criteria. In addition, it provides evidence from DJIMSI over the period 2014-2024. It was also found that DJIMSI was highly correlated to his conventional benchmark, showing the same return rates from September 2014 to December 2019. However, from January 2020 to September 2024, DJIMSI outperforms the conventional index.

Keywords: Ethics, screening, Islamic index, socially responsible, sustainability, Dow Jones.

Introduction

Investors' consideration of the ethical dimension is increasingly important and various researchers are interested in it in order to characterize this type of investment. Indeed, ethics translates into the integration of moral, personal and societal values when making an investment decision. It is also the set of investment practices that are

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not limited to financial considerations, but go beyond them to take into account extra-financial dimensions, relating to the environment, society and other stakeholders.

Ghoul and Karam (2007) classify ethical investments into two broad categories: “socially responsible” and “morally responsible”. The first category takes into consideration environmental, social and governance criteria. While the second category concerns criteria related to religion, thus Islamic finance belongs to this category.

In order to meet the demand of investors concerned about ethics in their portfolios, socially responsible and Islamic stock indices were created in the early 1990s (El khamlichi et al., 2021). These indices are derived from conventional indices after a screening process to retain only companies that comply with the requirements of social rating agencies or Shariah committees. Thus, several global stock exchanges have adopted these categories of indices.

In addition to the divergences that exist between socially responsible indices on the one hand, and Islamic stock market indices on the other, convergences exist. This leads to asking questions about the differences that exist between the two categories of indices, about the history of each of them, about the screening criteria that they use as well as the performance that they achieve. Many researchers suggest that there is scope to converge Shariah Screening of stocks with social screening because Shariah considers ethical aspects as part of determining its rules (Tanin et al. 2021). The convergence between SR indices and Islamic ones was also encouraged by many index providers.

This article attempts to provide some comprehensive evidence by placing these indices in their context, by presenting the main SR and Islamic indices and by reviewing the literature that has examined their performance. In addition to the theoretical contribution, this article aims to study the "Dow Jones Islamic Market Sustainability Index” which constitutes a rapprochement between the two categories of indices.

The reminder of the article is structures as follows. In section 1 we present SR stock indices. Section 2 provides more details about Islamic equity indices. In section 3 we highlight the possible convergence between both index categories, and we present a case study of the "Dow Jones Islamic Market Sustainability Index”. The last section concludes the paper.

Socially responsible stock indices

Presentation

The launch of socially responsible stock indices has gone through several stages (El khamlichi et al. 2021). Thus, the first movement took place in 1980 in the

United States at the initiative of a Boston bank that set up the SAFE index (*South Africa Free Equity*), its objective was to identify S&P 500 companies not involved in trade with South Africa, accused at the time of racial segregation against black people. This initiative gained momentum after a United Nations resolution the same year called on governments to suspend their credits and investments in South Africa (De Brito et al., 2005). Many companies withdrew from the country to join the SAFE index and become part of investors' portfolios.

In May 1990, the American agency KLD launched the first ethical index, named the Domini 400 Social Index (OSI 400). This index comprised 400 companies selected based on ethical criteria. For years, the DSI 400 was the only existing ethical index following the disappearance of its predecessor, SAFE, and served as the primary reference for comparing the performance of ethical investments (Le Maux & Le Saout, 2003. The “Calvert Social Index 2000” was created in 1999 to measure the performance of the Russell 1000 benchmark index and was the first to use both positive and negative screening (Havemann & Webster 1999).

In the United Kingdom, NPI indices were launched in 1998 to track the performance of the “FTSE All shares index”. Then, the FTSE4good index appeared following a partnership signed in 2001 between the social agency EIRIS and the London Stock Exchange. This global index is composed of a large family of regional and sector indices and continues to be the benchmark ethical index for the London stock exchange.

In continental Europe, several countries have a more or less diversified offering in terms of SR indices. For example, Germany was the first to provide its stock exchange with an ethical index in April 1997. Indeed, the NaturAktienIndex index was launched to take into account companies that are committed to sustainable development and environmental protection. France is also represented by the offering of the Vigeo (formerly AReSE), this agency played an important role in launching the ASPI (Advanced Sustainable Performance Index) Eurozone index. The Italian stock market has also launched their own socially responsible indices since 2000, namely the “SR ECPI E-Capital Partners indices”. Let's take two indices from this index family: the SR ECPI Global index, which contains the 300 largest companies in terms of their market capitalizations, and the ACPI Euro index, which replicates the performance of 150 European stocks.

Process of selecting SR indices

Socially responsible indices are sub-indices derived from mainstream indices that pass a screening process. This strategy consists of choosing the securities to include or exclude from a stock market index. We distinguish three types of screening (El khamlichi 2014, a):

Negative screening

This is the strategy deployed by the first generation of ethical funds (Burlacu et al. 2004). It works by the elimination of securities of companies deemed "immoral" or “unethical”. The companies whose activity is deemed unethical are excluded (tobacco, alcohol, GMOs, etc.). The exclusion is extended to companies whose practices are considered immoral (corruption, violation of human rights, racial, sexual or religious discrimination, etc.). The *Pax Fund*, created in 1971, was the first SR investment fund open to public savings. Its strategy consisted of eliminating from its portfolio companies that participated in the expenses of the Vietnam War.

Positive screening

This strategy consists of including companies that meet ethical and environmental criteria. In fact, only companies with high social performance are part of the portfolio. This approach, called *best in class*, does not result in the elimination of investment sectors (Le Maux & Le Saout, 2003), it allows the selection of the best-rated companies within each sector.

The mix of screens

This solution consists of using both positive and negative screening. Thus, the supporters of these screens consider that it is a way to put pressure on unethical companies by excluding their stocks, while pushing others to adopt the best practices. Whatever the method used, the ultimate goal of managers is to advance compliance with SR standards and the transparency of extra-financial information.

Most indices are based on a negative screening strategy, which means excluding certain areas of activity deemed unethical by the rating agency. Let's take the example of 3 rating agencies and the sectors excluded by each of them in order to obtain the SR index:

Table 1: *Sectors Excluded by Each of The Main Socially Responsible Indices*

Index provider	SR index	Excluded sectors
FTSE Russel (UK)	FTSE4GOOD	Controversial weapons, weapons systems, tobacco, coal
S&P Dow Jones (USA)	DJSI	Adult entertainment, alcoholic beverages, tobacco, weapons, military contracting, small arms, gambling,
KLD (USA)	MSCI KLD 400	Tobacco, adult entertainment, weapons, nuclear weapons, alcohol, gambling, GMO, Fossil Fuel Extraction, Thermal Coal Power

Source: FTSE Russel (2023), SP Dow Jones (2024), MSCI (2021)

A comparison of the excluded sectors shows that there are some divergences and therefore a lack of standardization. Indeed, a company could be considered as ethical according to the criteria established by an index provider, but could be excluded by another. This could be explained by the fact that sensitivity to one sector or another varies according to the country. Also, differences can be observed between indices of the same country, as it the case for two American ethical indices (DJSI and MSCI KLD 400).

Literature on SR index performance

The link between financial performance and social performance covers important managerial issues for any business leader (Gond and Igalens 2010) given the expected benefits and the costs of the investments made. This has been the subject of several academic studies, but the results are not convergent despite the conducted meta-analyses, systematic and bibliometric reviews (Allouche & Laroche 2005; Hornuf et al., 2024; Ouffa & El khamlichi 2024; Widyawati 2020).

In the case of stock indices, the ethical investor is also interested in the non-financial performance, which is manifested through their social and environmental impact. In other words, it is a quest for "ethical capital" or "ethical added value" (Serret 2003). This same investor also wonders whether his investment is profitable from a financial point of view and whether he must make sacrifices to invest in accordance with his ethical principles. This question remains legitimate in order to know whether social ethics and the financial performance of the company go hand in hand, and whether the shareholder on the one hand and the employees on the other hand can all be winners. Thus, "beating" the reference index (Pérez 2002) by generating additional performance while respecting the SR requirements constitutes an ambitious objective for ethical indices and index funds.

Even if profitability is not the primary objective displayed by ethical investors, as we have just seen, management companies and index providers put it forward in order to legitimize their offer and attract new investors. Some players use it as a marketing argument in the context of disseminating their beliefs and promoting SRI. Thus, according to SRI supporters, ethical indices can generate additional profitability compared to traditional indices thanks to the following factors. First of all, the good governance of the companies included in these indices guaranteed by the reports of rating agencies minimizes social and environmental risks (Serret 2003), which allows the company to build a competitive advantage (Gond & Igalens, 2010). Then, the exclusion of certain controversial sectors makes it possible to protect against potential risks. The latter are manifested by compensation to be paid to the State or to victims in the event of a trial. The example of compensation paid by tobacco companies mentioned by De Brito et al. (2005) can be cited at this level. Also, liquidity flows could move towards socially responsible companies, the latter would mechanically benefit from a financial premium and a low cost of capital.

Some investors who are not very concerned about ethics, however, appreciate *sin stocks* (Hong & Kacperczyk 2009, Blitz & Swinkels 2023). Although this conclusion is qualified by Salaber (2007) based on the country's legal environment and its "aversion to sin". Finally, and given the attractiveness of SRI indices, some believe that flows are shifting from traditional indices to SR indices; this liquidity effect (Le Maux & Le Saout, 2003) can explain the increase in outstanding amounts and mitigate the decline in these indices even during periods of financial market decline.

Considering ethics as a constraint amounts to thinking that it will be penalizing for an investor for several reasons. First, the universe of SR indices is restricted compared to its reference index, hence a lack of diversification (Serret 2003), which causes an increase in volatility in accordance with financial theory (Havemann & Webster, 1999). Second, profitability can be negatively impacted in the short term due to the costs of implementing rules of good conduct in ethical companies (Boutin-Dufresne 2002). Added to this are costs imposed by liquidity constraints (Le Saout & Buscot, 2009) and social constraints. The cost of the latter is low according to Burlacu et al. (2004). The third reason is related to the behavior of investors who can, at any time, withdraw their capital invested in companies adopting socially responsible criteria (Le Saout, 2005). This could result in massive sales movements and would lead to a fall in the price of SR securities.

A whole stream of research has developed around this theme, and their results are very divergent. Thus, for historical reasons linked to the appearance of these indices in the USA, the first studies date from the mid-90s and focused only on the American market. The study by Sauer (1997) focused on the American DSI 400 index by making a comparison with two reference indices: the S&P 500 and the CRSP. The author does not find any significant difference in performance and concludes that ethical screens have no impact on the performance of the indices. This conclusion has been confirmed by other studies on the same index (Abramson & Chung, 2000; Statman, 2000).

In the United Kingdom, the rating agency EIRIS conducted a prospective study (Havemann & Webster 1999) prior to the launch of its ethical indices on the London stock exchange, which took place two years later. The authors of the study chose to apply the ethical screens to the broad FTSE all Shares index; the 5 indices were calculated by an index provider and were compared with the benchmark index. The study concluded that the performance of the indices constituted does not differ from that of the FTSE All Shares benchmark.

In addition to the DSI 400 index, other American indices have been the subject of empirical research. Thus, the DJSGI index has been studied by other researchers. According to Cerin and Dobers (2001), the DJSI index outperforms its benchmark index, the DJSGI, thanks to good corporate governance and exposure to technology sectors characterized by their large market capitalization. Fowler and Hope (2007), for their part, analyzed the characteristics of the index and specified certain methodological biases such as the size effect.

Furthermore, the impact of the ethical index on the companies included in it has been studied in other researches (Cumming et al., 2005, Curran & Moran 2007), the latter specifying the positive impact on the company after the announcement of its inclusion in an ethical index. An explanation can be found in the model proposed by Ricart et al. (2005) who conducted an in-depth analysis of the leading companies in each of the 18 sectors of activity covered by the DJSI. According to the authors, this is an impact on the governance system of these companies so that it complies with the requirements of the ethical index. As for Collison et al. (2008), they looked at the companies in the FTSE4GOOD index and noted that the impact is at the level of improving the quality of information disclosure, while qualifying this conclusion by the fact that many differences could exist within the same family of indices.

A literature has developed in parallel in order to provide a critical look at the performance of SRI. Indeed, some researchers question the measures used, the constraints linked to the weighting of the SR indices taking into account are not sensitive to the same aspects of social responsibility. Other researchers criticize the relevance of performance measures based on stock market indicators (Thibierge & Laguecir, 2012) and propose other alternative performance criteria taking into consideration intangible assets and the investment horizon given that SRI investors are not traditional financial investors.

Moreover, some authors have analyzed the performance of SR investments after the last financial crisis. Thus, Fernandez and Souto (2009) consider that this crisis was a threat since these companies are penalized by additional costs due to their ethical commitment, even if this threat could turn into an opportunity in the long term (Giannarakis & Theotokas, 2011). SR investment is therefore not completely immune to the significant declines that markets experience during financial crises (El khamlichi, 2013).

Islamic stock indices

Presentation of Islamic indices

According Shari'ah standards of AAOIFI (2017), the company shares are divided into 3 categories:

- Shares of companies whose business sector is lawful and which do not engage in lending and borrowing based on an interest rate or in activities deemed unlawful by the Shariah committee. Buying or selling these shares is unanimously deemed lawful**.**
- Shares of companies whose sector of activity is not permitted in Islam (alcohol, weapons, gambling, pork, conventional financial institutions, etc.). Unanimously, investment in these shares is prohibited.
- Shares of companies whose sector of activity is legal but which have exceptional income from other illicit activities, which borrow at interest or place their surplus liquidity in a remunerated account with conventional banks. Opinions are divided concerning this 3rd category between:
    - On the one hand, those who think that it is forbidden, this is the opinion notably of the International Council of Islamic Jurisprudence belonging to the Organization of Islamic Conference [1] (Located in Jeddah, and renamed in June 2011 to: Organization of Islamic Cooperation), and the Council of Islamic Jurisprudence belonging to The Islamic Fiqh Council[2] (Located in Makkah)**.** The *Shariah committees* of some Islamic financial institutions adopt this opinion (for example, Dubai Islamic Bank, Sudanese Islamic Bank as well as Kuwait Finance House).
    - On the other hand, those who have issued legal opinions (*fatwas)* considering that investment in these stocks is permissible under certain conditions and this is the opinion of AAOIFI[3], and the *Shariah committees* of some Islamic banks (for example: Alrajhi Bank, Albaraka , Islamic Bank of Jordan). For its part, the European Council of *Fatwa* and Research issued, in 2004, a decision [4]authorizing Muslims living in the West to invest in these companies if the share of interests is below a fixed threshold (it is 5% for the Islamic stock market indices of Stoxx, S&P, MSCI, and FTSE). This is accompanied by the obligation to purify dividends from the share of interests to the extent of the contribution of the latter in the final result. The decision was based on the example of the values contained in the DJIMI, the Islamic index of Dow Jones.

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[1]Resolutions of 1992, 1993 and 1995 which prohibit such investments in principle, while concluding in the last resolution that the final decision in this regard requires further study and in-depth research.
[2]Resolution of January 21, 1995
[3]Shariah Standard N°21 related to the financial papers (shares and bonds)
[4]Resolution of January 4, 2004

2. Screening criteria

The role of Shariah committees at this level is not negligible. Thus, clearly, one of the most important functions attributed to *Shariah committees* remains the validation of the conformity of the values contained in the Islamic stock index. To be included in this index, stocks must pass qualitative and quantitative screens.

- **Qualitative screens**

From both religious and ethical perspective, *Shariah law* prohibits investing in sectors of activity whose products present risks to human health, which have no real utility or which go against good morals in accordance with the precepts of Islamic law. This prohibition thus extends to cover all so-called "illicit" activities. Thus, from the point of view of *Shariah,* it is prohibited to invest in sectors such as: weapons, alcohol, tobacco, drugs, pork. Also prohibited are: pornography, gambling, as well as investment in conventional financial and insurance institutions that lend or borrow at interest.

- **Quantitative screens**

Quantitative screens concern 3 elements: the level of debts, receivables and interest-generating liquidities. For the Dow Jones Shariah Committee, the 3 previous ratios must be less than 33% of the average stock market capitalization during the last 24 months. Some Shariah Committees add a fourth area which concerns the share of illicit products in the total income of the company. All Islamic stock indices are calculated from a reference index (benchmark) to which the committee applies the various screens previously mentioned to arrive at an index compatible with the principles of Shariah.

The performance of Islamic indices has been analyzed in several empirical studies. The question of the outperformance or underperformance of this category of indices is not unanimous among researchers (El khamlichi & Viallefont, 2015, Hoque et al., 2016; Ennajar & Lagsir, 2024).

Literature review on the performance of Islamic stock indices

Early studies have attempted to raise the main challenges that an Islamic stock market is expected to address and the particularities of this market in terms of practices and regulation (Naughton & Naughton 2000). The first quantitative studies on Islamic stock indices focused on performance measurement had compared the performance of Islamic stock indices with benchmarks or with their conventional counterparts. Thus, the Dow Jones Islamic Index (DJIMI) was studied by (Cerin 2001; Tilva & Tuli 2002; Hakim & Rashidian 2002; 2004; Abul -Hassan 2005; Hussein & Omran 2005; Girard & Hassan 2005; Tag & Hassan 2005; Guyot 2008; 2011; Cherif 2008) . However, other studies have focused only on MSCI Islamic index (Hoque et al. 2016;

Yildiz & El khamlichi 2017; El khamlichi et al. 2021), or on FTSE Shariah (Hussein 2004; Miglietta & Forte 2007; Girard & Hassan 2008; Haddad et al. 2009; Binmahfouz & Hassan 2012) . The Islamic stock indices of Malaysia have been treated by other researchers, notably by (Ahmad & Ibrahim 2002; Albaity & Ahmad 2008; Yusof & Majid (2007; Sadeghi 2008) . The Islamic index of Pakistan Stock Exchange was studied by Nishat (2004) and that of the Saudi stock exchange was studied by Dabeerru (2006).

In addition to previous studies that focused on a single family of indices, other studies have analyzed several Islamic indices at once. Thus we find researchers who have jointly analyzed the DJIMI and FTSE, this is the case of (Elfakhani et al. 2002; Hussein 2005; Kok et al. 2009) . The study of Fahmi et al. (2009) focused on the KLSI and the JKSY, respectively the Islamic indices of Malaysia and Indonesia. Also the study of El khamlichi et al. (2014b) focused on four major Islamic index families.

Several researchers have not found any significant difference in performance between conventional and Islamic stock indices. Tilva and Tuli (2002) studied the Dow Jones Islamic Market US index (IMUS), and found a strong correlation but a similar performance between Islamic and conventional index. Other researchers have confirmed the previous results for the FTSE family Islamic indices (Girard & Hassan 2008; Binmahfouz & Hassan 2012) . Yildiz and El khamlichi (2017) documented that, on a regional basis, the performance of Islamic indices from Asian countries is found to be better than both Latin America and Europe. Hoque et al. (2016) found that Islamic and conventional equity markets move together despite some fundamental differences. In two recent studies Ennajar and Lagsir (2024) highlighted the absence of a difference in performance in times of Covid-19 crisis, while Abdelsalam et al. (2024) documented Islamic index exhibited greater resilience during the pandemic.
The above discussion on earlier studies indicates that the debate on the over-performance or the underperformance of Islamic indices has yet to conclude.

The rapprochement between the two categories of indices

Convergences and divergences

Socially responsible indices that practice sectoral exclusion do so in the same way as Islamic stock indices and the sectors excluded by the two ethical investments are substantially the same (Novethic 2009). However, some exclusions remain specific to Islamic stock indices, such as companies working in the pork sector. In the sectoral exclusion (negative screens) used jointly by Islamic and SR indices, social rating agencies have the particularity of applying positive screens which consist of including in the portfolio the companies that are most respectful of ethical and environmental criteria. Indeed, only companies with high social performance are part of the portfolio.

This practice of thematic inclusion can be accompanied by a normative approach to selecting the best companies in ethical matters called: Best in class.

To attest to the ethical nature of companies that are part of socially responsible stock indices, social rating agencies do the work of evaluating companies according to extra-financial criteria. A parallel can be made with Shariah committees for the case of Islamic stock indices. Some social rating agencies add representativeness constraints in terms of market capitalization, sectors, free float, etc.

Another point of similarity between these two categories of indices is the regular revision process. Thus, a company can only remain included in the index if it continues to respect the criteria set respectively by the social rating agency or the Shariah committee. The revision is generally done every quarter. At the end of this revision, the composition of the index changes taking into account the inclusions and exclusions.

The following diagrams summarize the screening criteria for values of socially responsible stock indices and Islamic stock indices and show that both types of indices follow the same screening logic (figure 1).

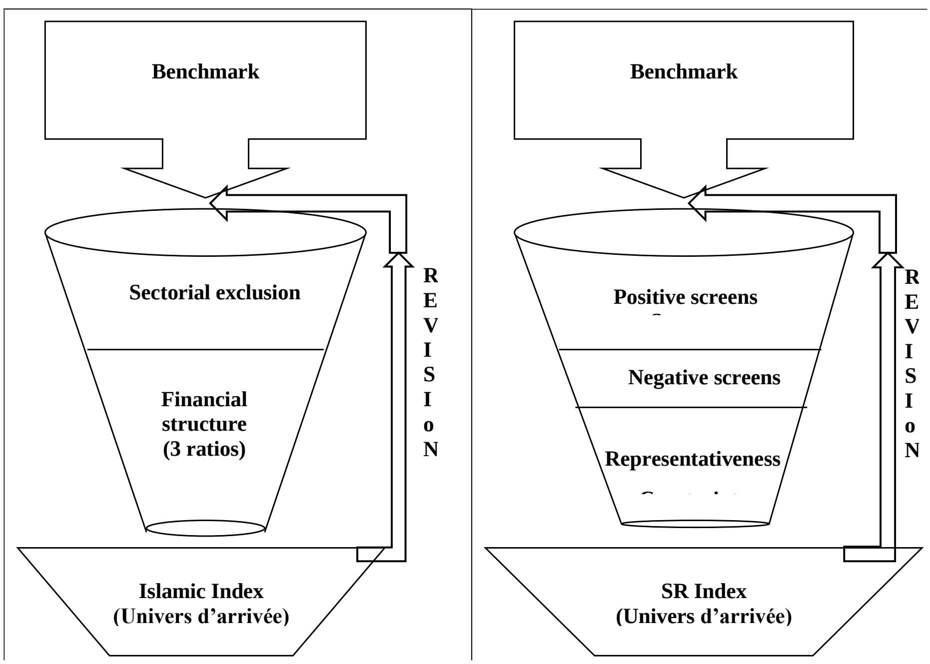

Figure 1: Screening process of Islamic stock indices (left) and socially responsible indices (right) Source: the author

We can see the similarity between the process of constructing socially responsible indices and Islamic stock market indices, the year 2006 saw an effective rapprochement between the two logics through the index: " *Dow Jones Islamic Market sustainability Index* " jointly launched by *Dow Jones Islamic and SAM Sustainable* Group *Asset Management*

Dow Jones Islamic Market Sustainability Index

DJIMSI is an index that contains values that are eligible for both Islamic and socially responsible criteria, by incorporating sustainability criteria into the Shariah screening process. The DJIMSI was calculated for the first time on January 23, 2006, it is composed of a hundred values covering 18 countries. This index provides Muslim investors with the opportunity to invest in accordance with the principles of Shariah and at the same time provides non-Muslims who are concerned about ethics in their portfolios or are looking for performance.

The academic studies focused on this index are scarce. Thus in a comparative analysis, Sadeghi (2015) studied the performance of DJIMSI compared to the overall index during the period 2006-2011. Over the entire period, DJIMSI records a slight outperformance. Binmahfouz and Hassan (2013) found that neither the sustainability screening process nor the Shariah criteria seem to have a negative impact on the performance of the investment portfolios.

Table 2: *Sector breakdown of Dow Jones Islamic Market Sustainability index as of September 30th, 2024*

SECTORS	WEIGHTS
Energy	1%
Health care	23.5%
Information Technology	38.8%
Industrials	10.7%
Materials	4.8%
Consumer discretionary	3.5%
Consumer staples	2.5%
Communication services	11.2%
Real estate	1.3%
Financials	2.7%

Source: the author, based on the data retrieved from SP Dow Jones official website

Table 2 shows the sector Dow Jones Islamic Market Sustainability Index as of September 30th, 2024**.** We can see that the sectors with the most weight in the index are those related to the information technology, the health care, and the communication services. However, the index is less oriented towards energy, the real estate and the financial sectors. Many energy companies are certainly excluded due to environmental reasons. As for the low weighting of financial sector, it is due to fact that the DJISI includes only shariah compliant financial companies (banks and insurance companies)

The comparison between the return of DJIMSI and a conventional index, over the period from September 2014 to September 2024 (Figure 2), shows that the plots of the conventional and Islamic indices appear to be highly correlated advocated by their close movement over the observation period and especially from September 2014 to December 2019. However, we notice that since 2020, the return rate of Dow Jones Islamic Market Sustainable Index was greater than that of the conventional index. This tendency is confirmed for the remaining period until September 2024.

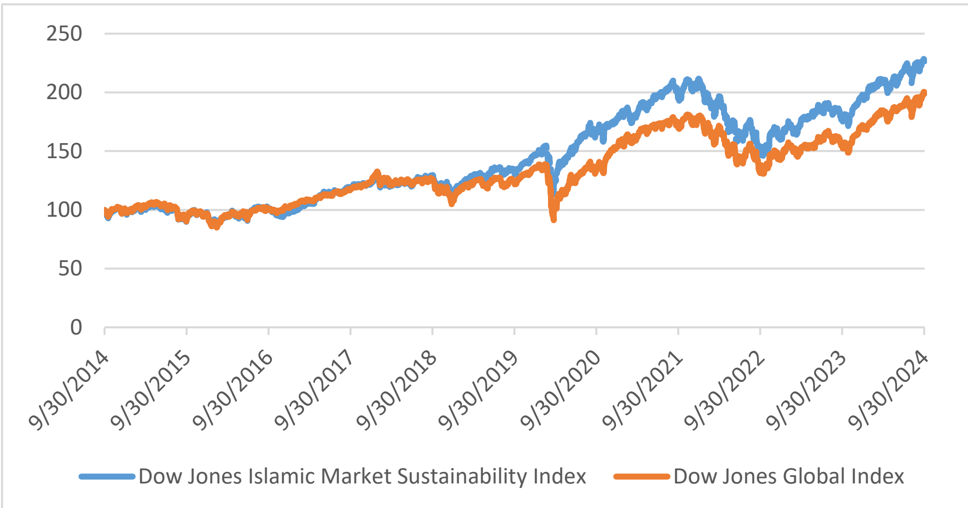

Figure 2: Comparison between DJGI and DJIMSI (September 2014- September 2024)

Source: the author, based on the data retrieved from SP Dow Jones official website

Conclusion

The study of the screening criteria used in Islamic finance and SRI allowed us to see how ethical investment in the stock market follows both a financial and extra-financial logic. Thus, in addition to the interest given to the company's sector of activity, the choice is made using financial ratios to retain only the values that respect the principles required by Shariah and by social rating agencies.

By comparing Islamic stock indices on the one hand and socially responsible ones on the other, we noticed a convergence between the construction processes and a divergence between the criteria used. A standardization effort is necessary so that the two categories of ethical indices gain visibility and credibility among investors concerned about ethics in their portfolios.

The study of the DJIMSI index created in the logic of the rapprochement between the two types of ethical investments, is interesting in this regard. It is an index contains the values that are eligible for both Islamic and socially responsible criteria. By applying both screens, this considerably reduces the investment universe, but allows investors to have a portfolio made up of companies that respect Shariah requirements and even sustainable development.

The analysis of this index sector breakdown shows that the sectors with the most weight in the index are those related to the information technology, and to the health care. However, the index is less oriented towards energy and financial sectors. In terms of performance, DJIMSI appears to be highly correlated to his conventional benchmark over the observation period and especially from September 2014 to December 2019. From January 2020 to September 2024, Dow Jones Islamic Market Sustainable Index outperforms the conventional index.

The findings of our study have managerial implications related to investment decisions, since some investors could apply extra-financial criteria in terms of investment, and wish to invest in stocks that are compliant with the Islamic investment guidelines and determined to be socially responsible. Even if profitability is not the primary objective displayed by ethical investors, management companies and index providers should put it forward in order to legitimize their offer and attract new investors.

In terms of future research directions, future works should go for in-depth analysis to look into the environmental issues in the Islamic finance industry, knowing that the need to care for the environment is strongly required in Islam. In the same vein, researchers could analyse the possibility of the convergence between Shariah principles and socially responsible goals in local stock markets. This can be done by conducting a cross-country analysis or by focusing on one country as a case study.

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