A Comparative Analysis of the Firm Specific Determinants of Syariah Compliant Versus Non-Syariah Compliant Firms in Bursa Malaysia

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Abstract
This paper aims at investigating two issues. Firstly, whether there is a significant difference in returns between Syariah compliant and non-Syariah compliant firms listed on the Malaysian stock exchange, Bursa Malaysia; and secondly, whether both types of firms react differently to the same selected firm specific variables. Using panel data techniques, we analyse three hundred (300) firms in Bursa Malaysia for the period from 2000 to 2006. The determinants of stock returns used are market capitalisation, market-to-book ratio, price-earnings ratio, market risk and total debt. The results indicate that there is no significant difference between Syariah compliant firms and their counterparts. In addition, using three (3) different models for estimation (i.e. fixed effect, pooled and random effect models), it is found that the fixed effect model is the best model that fits the data. For Syariah compliant firms, it is found that size and market-to-book ratios are the most significant variables explaining returns. However, for non-Syariah compliant firms, market-to-book ratio and market risk (beta) are the most significant variables influencing returns.

Keywords: Firm Specific, Fixed Effect, Panel Data, Syariah Compliant

JEL Classification: G11, G12

1. Introduction
Stock exchange market is a place for investors to invest and earn attractive returns from their investment. Theoretically, the value of any stock is profoundly determined by the present value of a firm’s expected future...