

-RESEARCH ARTICLE-

THE IMPACT OF ESG REPORTING ON CORPORATE FINANCIAL PERFORMANCE: A QUANTITATIVE ANALYSIS OF SAUDI LISTED COMPANIES**Dr. Muhammad Nauman Khan**

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ORCID: <https://orcid.org/0000-0002-0455-4671>Email: m.nauman@arabou.edu.sa**—Abstract—**

In light of the growing regulatory focus on sustainability and ESG disclosure, particularly in emerging economies aiming to diversify their economic base, this research examines the influence of ESG reporting on the financial outcomes of Saudi listed firms across both financial and non-financial sectors. The study utilises data from 90 companies over a seven-year period spanning 2018 to 2024. Using a fixed-effects panel regression approach, the analysis demonstrates that ESG initiatives and reporting exert a positive and statistically significant effect on firm performance, measured by ROA. This suggests that ESG disclosure can enhance profitability by fostering stakeholder confidence and optimising operational processes, consistent with Stakeholder Theory. In contrast, LEV exhibits a negative and significant association with ROA, indicating that the burden of higher interest expenses outweighs the advantages of tax shields, in line with Trade-off Theory. The findings highlight the strategic value of ESG in building investor trust and loyalty, improving risk management, and facilitating economic diversification from oil dependency, while simultaneously enhancing operational efficiency. From a practical and policy standpoint, the results recommend that companies embed ESG considerations into their core business strategies, whereas regulators and policymakers should promote capacity development and establish more transparent ESG reporting guidelines to strengthen sustainable corporate performance. Collectively, these measures contribute to achieving sustainability, which is increasingly imperative.

Keywords: ESG, Sustainability, Vision 2030, and Stakeholder Theory.

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INTRODUCTION

Since the onset of the 21st century, businesses worldwide have experienced a substantial shift towards sustainability, fundamentally altering corporate operations. In response to this shift, Environmental, Social, and Governance (ESG) activities have increasingly become not only strategic but also regulatory expectations for companies to disclose their engagement in these areas (Lamanda & Tamásné Vőneki, 2024). Initially, ESG reporting was largely voluntary, guided by frameworks such as the Global Reporting Initiative (GRI) (Burki et al., 2024). Over time, however, ESG has evolved into a globally recognised standard with regulatory significance. Disclosures now serve as a core indicator of responsible business conduct, reflecting an organisation's dedication to transparency and accountability (Inderst, 2021). As a non-financial metric, ESG provides stakeholders, including investors and regulators, with insights into a company's commitment to sustainable operations and resilience in addressing external challenges, aligning with the United Nations Sustainable Development Goals (SDGs) (Paridhi et al., 2024).

Investors, among all stakeholders, have shown heightened interest in ESG performance. Global sustainable investment reached approximately USD 3.9 trillion by 2021, directed exclusively toward assets with strong sustainability credentials. This surge reflects the recognition of sustainability as a key determinant of long-term firm performance, growth, and competitiveness (Al-Kumaim et al., 2021; Ruan et al., 2024). Investor engagement increasingly demands transparency and accountability; for instance, in 2020, shareholders urged improved reporting on environmental and social matters, including climate risk and racial equity, despite nearly 90 percent of S&P 500 firms issuing ESG reports that year. Shareholder proposals further addressed ESG topics, with 126 initiatives focusing on areas such as reducing greenhouse gas emissions (26 percent) and enhancing operational transparency (15 percent) (Haarstad, 2020).

Despite the growing importance of ESG, operationalising these commitments presents challenges. Sustainability reporting allows firms to position themselves as socially responsible, which can strengthen stakeholder trust and reduce uncertainty in business practices (Adam et al., 2025; Singhania & Saini, 2023). Research indicates that effective ESG engagement may lower capital costs and enhance firm valuations by fostering stakeholder confidence (Priem & Gabbellone, 2024). Additionally, ESG can enhance competitiveness through improved risk management, compliance, and overall organisational sustainability (Asif et al., 2023). However, critics note that ESG involvement does not automatically yield organisational benefits. Implementing ESG frameworks can increase operating costs, including investments in data management, regulatory compliance, and auditing (Adam et al., 2025). Furthermore, allocating resources to ESG activities may incur opportunity costs if these initiatives do not directly contribute to core developmental objectives (Paridhi et al., 2024).

For publicly traded firms, regulatory compliance is critical to maintain profitability, as even minor deviations can erode stakeholder trust and generate significant repercussions (Berger & Bouwman, 2013; Zheng & Wu, 2023). Consequently, firms face the dual challenge of evaluating whether ESG participation tangibly enhances performance. Literature suggests that companies in developed markets benefit from established ESG regulations, which provide both legal guidance and associated advantages (Kateb & Youssef, 2025). Conversely, emerging markets, such as Saudi Arabia, have only recently introduced ESG regulatory requirements. Driven by the Vision 2030 initiative, Saudi regulators now mandate ESG adoption and disclosure, resulting in rapid increases in corporate compliance (Al-Malkawi and Javaid, 2018). Vision 2030 emphasises sustainability, economic diversification, and transparency, reflecting the country's strategic aim to reduce dependence on oil (Nurunnabi, 2017). Although empirical literature remains limited, early evidence suggests that ESG engagement in Saudi firms has contributed to attracting investment, enhancing market valuation, and strengthening consumer competitiveness (Nurunnabi, 2017). Operational efficiency while managing ESG risk also appears linked to improved financial and non-financial outcomes (Shabbir et al., 2018).

Nevertheless, adopting ESG frameworks can introduce additional costs, complexities, and operational challenges (Almulhim & Metwally, 2025). Globalisation compounds these difficulties as firms navigate both international and local regulatory expectations, which may sometimes conflict and adversely affect performance (Abdalla et al., 2024). In Saudi Arabia, limited historical experience with ESG reporting may lead to compliance difficulties and suboptimal outcomes (Aladwey & Alsudays, 2024). Firm-specific factors, including size and industry characteristics, particularly in a bank- and oil-centric economy, further influence the ESG-performance relationship. Against this backdrop, the current study investigates the influence of ESG activities on the performance of listed firms in Saudi Arabia, examining whether ESG reporting and disclosure positively affect firm outcomes in an emerging economy context. Evidence of positive impacts would imply that ESG engagement can build investor confidence, mitigate risk, and confer competitive advantages domestically and internationally.

This research contributes to the literature in two principal ways. First, it provides empirical evidence on the association between ESG practices and firm performance in the Saudi context. Second, it explores the effects of ESG reporting and disclosure in emerging, resource-based economies like Saudi Arabia, where national policies promote sustainability and economic diversification beyond traditional industries. Saudi Arabia was selected for study as one of the world's leading petroleum producers and exporters (Al-Malkawi and Javaid, 2018). Fluctuations in oil prices and the global shift toward green energy have impacted the national economy, motivating the implementation of Vision 2030. Among its objectives, economic diversification seeks to reduce reliance on petroleum production, while mandatory ESG disclosure

aims to attract international investment and incentivise sustainable business practices. These initiatives are intended to improve financial performance by mitigating risk, reducing uncertainty, controlling costs, and strengthening stakeholder trust.

The remainder of this paper is structured as follows: Section 2 reviews the theoretical framework and existing literature on ESG and firm performance. Section 3 outlines the research methodology. Section 4 presents the findings and discussion. Section 5 concludes with the implications of the study.

LITERATURE REVIEW

Theoretical Support

In the context of a global shift towards sustainability, there has been growing scholarly interest in examining the relationship between ESG and firm performance (Lamanda & Tamásné Vőneki, 2024). Various theoretical frameworks address this association, yet this study primarily draws upon Stakeholder Theory (ST) as articulated by Freeman (1984). ST posits that corporate management should account for the interests of all stakeholders rather than exclusively prioritising shareholders. Traditionally, firms have focused primarily on shareholder returns, often shaping policies and practices to serve these interests at the expense of other stakeholder groups. ST challenges this conventional approach by asserting that long-term survival and success require firms to recognise and protect the interests of all stakeholders (Stieb, 2009). By proactively fostering trust, goodwill, and interconnectivity among stakeholders, companies can achieve a competitive advantage and sustain performance over time. It is important to note that ST intrinsically addresses ESG considerations; genuine interconnectedness cannot exist if environmental, social, and corporate governance factors affecting stakeholder groups are disregarded.

According to ST, ESG disclosure can enhance profitability by integrating the interests of investors, customers, employees, and the wider community into corporate decision-making. Transparent practices are essential for maintaining enduring stakeholder relationships (Al-Malkawi and Javid, 2018). From this perspective, ESG initiatives and reporting operate as a communication channel between firms and their stakeholders, cultivating trust and loyalty that can translate into financial and economic benefits otherwise unattainable. Empirical evidence indicates that firms actively engaged in ESG activities often experience higher sales growth, even under uncertain market conditions, as increased stakeholder confidence strengthens consumer relationships.

Other Theoretical Approaches

In contrast to ST, Trade-off Theory proposes that firms will engage in ESG activities only when the anticipated benefits surpass the financial costs associated with such

engagement (Kraus & Litzenberger, 1973). While this theory aligns with ST in recognising the value of ESG, it diverges by emphasising that corporate decisions should weigh cost–benefit considerations. This perspective helps explain the mixed empirical evidence observed in the literature: when the advantages of ESG initiatives exceed their costs, a positive relationship with firm performance emerges; conversely, if costs outweigh benefits, the association may be weak or even negative. Agency Theory (Jensen & Meckling, 1976) posits that agency problems arise when agents act primarily in their own interest rather than that of principals. From this viewpoint, ESG activities and disclosure can potentially reduce firm performance if managers pursue personal gains, such as enhancing their reputation, rather than maximising shareholder value. In such scenarios, resources devoted to ESG may primarily benefit management rather than the firm, and diverting effort from core operations can undermine financial outcomes, producing a negative ESG–performance linkage.

Conversely, Stewardship Theory argues that managers are intrinsically motivated to advance organisational objectives and act in the firm’s best interest (Donaldson & Davis, 1991). When companies adopt ESG practices under this framework, stakeholder trust and loyalty—including among shareholders, investors, customers, employees, suppliers, and even competitors—can increase, creating mutually beneficial outcomes and reducing uncertainty. Similarly, the Resource-Based View (RBV) contends that ESG-related capabilities constitute valuable, rare, and embedded resources that can deliver sustainable competitive advantage and enhance firm performance (Barney, 1991). These resources encompass reputation, credibility, and customer loyalty. Empirical findings suggest that firms actively implementing ESG strategies achieve higher sales growth than those with lower stakeholder trust, even under volatile market conditions (Salem et al., 2024).

Existing Studies

Orlitzky et al. (2003) clarified that although CSR was historically considered a precursor or alternative to ESG, evidence indicates a generally positive association with firm performance. Their meta-analysis of 52 studies revealed that the strength of this relationship depends on the metric used to measure financial performance, with accounting-based indicators showing stronger positive correlations than market-based measures. Similarly, Weber et al. (2014) analysed data from 400 financial firms and over 1,800 firms across North America, Europe, and the Asia-Pacific region. Their results suggested that the financial sector exhibited weaker performance in CSR, business ethics, and product responsibility activities compared to non-financial firms, with North American firms outperforming those in other regions. Positive ESG–performance relationships were particularly evident in the non-financial sector.

Fatemi et al. (2015) examined the impact of ESG on firm value using two valuation models across 400 firms: one based on the effect of ESG on cost of capital growth,

and the other on firm survival probability. Their findings indicate that ESG engagement can enhance firm value by promoting growth, increasing survival likelihood, and reducing cost of capital, even if future cash flows are affected. However, simulation analyses demonstrated that excessive ESG investment may destroy value when marginal costs exceed marginal benefits. [Malik \(2015\)](#) also noted through a literature review that while there is general agreement on corporate responsibilities toward environmental and social stakeholders, the effect of ESG initiatives on firm performance remains theoretically underdeveloped. Positive outcomes have been reported repeatedly, yet consensus is still evolving.

[Ghoul et al. \(2017\)](#) studied 2,445 firms across 53 countries from 2003 to 2010, providing evidence that ESG engagement is positively associated with firm performance, primarily through reduced transaction costs and enhanced resource access. [Fatemi et al. \(2018\)](#) examined US public firms between 2006 and 2011, confirming that ESG activities positively affect firm value and that proper disclosure can mitigate the adverse effects of poor ESG performance. [Buallay \(2019\)](#) investigated 235 European listed banks from 2007 to 2016, finding an overall positive ESG–performance relationship. The study highlighted variation across ESG dimensions: environmental initiatives positively influenced performance, social activities had a negative impact, and governance effects varied, showing positive associations with Tobin’s Q but negative relationships with ROA and ROE. Similarly, [Azmi et al. \(2021\)](#) analysed 166 companies across 31 countries from 2010 to 2015, observing that ESG generally enhances performance, although social initiatives negatively impacted results while environmental and governance efforts contributed positively.

[Cek and Eyupoglu \(2020\)](#) found that ESG activities collectively enhance performance in S&P 500 firms from 2010 to 2015, with social and governance dimensions contributing positively, while environmental initiatives were mostly insignificant. [Di Tommaso and Thornton \(2020\)](#), using GMM on European firms (2007–2018), reported that ESG engagement reduces firm risk through improved risk management, though resource diversion may affect core operations. [Azmi et al. \(2021\)](#) identified a U-shaped relationship between ESG engagement and performance across 251 firms in 44 developing countries, indicating benefits up to an optimal ESG level beyond which performance declines. [Chiaromonte et al. \(2022\)](#) showed that ESG supports stability and performance even during financial distress across 21 economies (2005–2017). [Menicucci and Paolucci \(2023\)](#) observed heterogeneous effects of ESG dimensions in Italian banks, while [El Khoury et al. \(2023\)](#) confirmed non-linear ESG–performance links in the MENAT region. [Lamanda and Tamásné Vőneki \(2024\)](#) reported no significant relationship between ESG and financial or economic outcomes in firms from the Czech Republic, Hungary, Poland, and Slovakia. [Liang et al. \(2024\)](#) found that ESG improves cost efficiency and sustainable performance in European commercial banks. [Al-Malkawi and Javaid \(2018\)](#) confirmed a positive ESG–

performance association in 100 non-financial Saudi firms (2019–2023), showing ESG enhances stakeholder confidence, risk management, and operational efficiency. [Biju et al. \(2025\)](#) observed a positive ESG–performance link across 29 developing economies, limited to the financial sector.

Collectively, these studies indicate that most research on the ESG–performance link has been conducted in developed economies, with limited evidence from developing contexts such as Saudi Arabia. Furthermore, prior investigations often focus exclusively on either financial or non-financial sectors rather than examining both simultaneously. This study seeks to fill this gap by analysing firms from both sectors listed in Saudi Arabia, an emerging, resource-dependent economy.

METHODOLOGY

Data Collection and Variables Measurement

The dataset for this study comprises 90 listed firms in Saudi Arabia, covering a seven-year period from 2018 to 2024, resulting in a seven-year panel. These firms were selected based on the availability of consistent ESG scores and financial statement data throughout the study period. The sample includes both financial and non-financial sector companies, providing a reasonable sectoral representation given the limited availability of ESG data in an emerging market context. [Table 1](#) summarises the definitions, measurement methods, units, data sources, and supporting references for all variables utilised in the analysis. ESG-related information was collected from Bloomberg and the London Stock Exchange Group (LSEG – Workspace). Scores for the environmental, social, and governance dimensions were combined using equal weighting to construct a balanced composite ESG index ([Javaid & Raza, 2025](#)). The dependent variable, Return on Assets (ROA), was employed to capture firm financial performance. Firm-specific control variables include the natural logarithm of total assets, representing firm size, and the total debt-to-equity ratio, capturing financial leverage. Financial data were extracted from annual reports and Bloomberg. While firm size and leverage are standard controls in ESG–performance research, the inclusion of broader macroeconomic or market-level variables was limited by data availability and is recommended as a consideration for future studies.

Table 1: Variable Definitions and Measurement

Variable Category	Variable Name	Measurement	Source
Independent	ESG	Composite Index (0–100%) of ENV, CSD, and CGD Disclosures	Buallay (2019)
Dependent	Return on Assets (ROA)	Net Income / Total Assets	Javaid and Raza (2025)
Firm-Specific Controls	Firm Size (FS)	$\ln(\text{Total Assets})$	Veeravel et al. (2024)
	Leverage (LVEV)	Total Debt / Total Equity	Veeravel et al. (2024)

$$ROA_{it} = \alpha + \beta_1 ESG_{it} + \gamma_2 FS_{it} + \gamma_3 LEV_{it} + \varepsilon_{it} \text{-----(1)}$$

Equation 1 is employed to model the relationship between ESG and firm performance for Saudi Arabian firms. In this specification, 'i' denotes the individual firm, while 't' indicates the time period. The coefficient 'α' represents the intercept when all independent and control variables equal zero. The vector 'γ' captures firm-specific control variables, and 'ε' denotes the error term. To estimate the model, fixed-effects panel regression analysis was conducted following the Hausman test to determine the appropriate estimation method.

RESULTS AND DISCUSSION

Table 2 presents the descriptive statistics for the study sample. The dataset comprises 630 observations, representing 90 firms over seven years. The composite ESG index shows an average score of 58.67, with values ranging from 0 to 100. A standard deviation of 12.31 indicates moderate dispersion around the mean, although some extreme scores are evident, including a minimum of 20 for an energy-sector firm and a maximum of 92 for a banking-sector firm. This pattern suggests that banks generally achieve higher ESG scores, whereas energy firms, due to the nature of their operations, tend to record lower scores on average. The mean ROA is 1.82 percent, with a standard deviation of 0.91, reflecting variability in firm financial performance. Extreme values highlight sectoral differences, with some real estate firms reporting negative ROA up to 1.50 percent and telecom firms achieving ROA as high as 4.30 percent.

Firm size (FS), measured as the natural logarithm of total assets, has a mean of 23.41 and a standard deviation of 1.60, indicating a relatively homogeneous asset base among the sampled firms. Sectoral variations exist, with technology firms tending toward smaller asset bases, while capital-intensive oil and gas firms possess the largest asset holdings. Financial leverage (LEV), calculated as the total debt-to-equity ratio, has a mean of 0.72, implying that on average, firms utilise USD 0.72 of debt for every USD 1 of equity financing. The cross-sectional standard deviation of 0.18 indicates notable variability across firms. Utilities firms exhibit the lowest leverage, whereas banking firms show the highest, reaching 1.05. These results demonstrate heterogeneity in firm performance and characteristics across sectors, warranting further examination through correlation analysis and panel regression.

Table 2: Descriptive Statistics

Variable	Mean	Std. Dev.	Minimum	Maximum	Sector (Min)	Sector (Max)	Obs
ESG Score	58.62	12.31	20.00	92.00	Energy	Banking	630
ROA (%)	1.82	0.91	-1.50	4.30	Real Estate	Telecom	630

FS	23.41	1.60	19.10	27.90	Technology	Oil & Gas	630
LEV	0.72	0.18	0.15	1.05	Utilities	Banking	630

Table 3 reports the results of the pairwise correlation analysis for all study variables. The findings indicate that ESG is positively and significantly correlated with ROA and FS, whereas its correlation with LEV is negative and statistically insignificant. FS demonstrates a positive and significant relationship with all other variables. Conversely, LEV is negatively and significantly associated with ROA, while its correlation with ESG remains positive but non-significant. Overall, these patterns provide initial support for the subsequent regression analysis and suggest that multicollinearity is not a concern within the dataset.

Table 3: Correlation Matrix

	ESG	ROA	FS	LEV
ESG	1.000			
ROA	0.381***	1.000		
FS	0.518**	0.178**	1.000	
LEV	-0.112	-0.264**	0.231***	1.000

Note: *** means 1%, ** means 5% and * means 10%.

Table 4 presents the outcomes of the Hausman test. The null hypothesis of this test indicates that a random-effects model is suitable, whereas the alternative hypothesis supports the use of a fixed-effects model. The results indicate that the fixed-effects specification is appropriate for the present analysis.

Table 4: Hausman Test

Test	Statistic	P-Value
Hausman Test	19.837	0.003

Table 5 presents the fixed-effects panel regression results. The R-squared indicates that 31.2% of within-firm variation in ROA is explained by the model, with the remaining 68.8% in the error term. The F-statistic of 18.94 is significant at 1%, confirming that the coefficients are jointly different from zero and that the model fits well. The Durbin-Watson statistic of 19.81, near the ideal of 20, shows no autocorrelation, and the Pesaran CD test confirms the absence of cross-sectional dependence. ESG activities have a significant positive effect on firm performance, with a one-unit improvement in ESG reporting and disclosure corresponding to a 0.021% increase in ROA. These results align with [Orlitzky et al. \(2003\)](#), [Fatemi et al. \(2018\)](#), [Bualay \(2019\)](#), [Liang et al. \(2024\)](#), and [Al-Malkawi and Javaid \(2018\)](#), while contrasting with [Lamanda and Tamásné Vőneki \(2024\)](#) and partially aligning with [Azmi et al. \(2021\)](#) and [Menicucci and Paolucci \(2023\)](#). Enhanced ESG engagement improves transparency and accountability, fostering stakeholder trust and loyalty, which ultimately drives performance gains ([Al-Malkawi and Javaid, 2018](#); [Fatemi et](#)

al., 2018; Veeravel et al., 2024). Among control variables, FS has an insignificant effect on ROA, consistent with Berger and Bouwman (2013), who note that size effects are context-dependent. LEV shows a significant negative association, indicating that higher leverage raises financial risk and interest burden, offsetting potential tax benefits. This result aligns with both Agency Theory and Trade-off Theory (Jensen & Meckling, 1976; Kraus & Litzenberger, 1973).

Table 5: Panel Fixed Effects Results

Variable	Coefficient	T-Stat
ESG Score	0.021*** (0.005)	4.20
BS	0.005 (0.007)	0.71
LEV	-0.124*** (0.035)	-3.54
Constant	-0.192** (0.097)	-1.98
R ² (Within) = 0.312		
F-Statistics = 18.94***		
DW = 19.81		
Pesaran CD= 1.624475 (P Value= 0.1043)		

Note: *** means 1%, ** means 5% and * means 10%.

Table 6 presents the outcomes of the Variance Inflation Factor (VIF) analysis. The results indicate that multicollinearity is not a concern among the independent variables, as all VIF values are below the commonly accepted threshold of 10. This confirms that the estimated beta coefficients are reliable and not subject to distortion due to collinearity.

Table 6: VIF Test

ESG	1.456
BS	1.801
LEV	1.743

CONCLUSION

The study confirms that ESG activities and disclosure significantly enhance the performance of Saudi Arabian listed firms across both financial and non-financial sectors. ESG engagement improves transparency and accountability while mitigating associated risks, thereby fostering stakeholder trust and loyalty. Strengthened stakeholder confidence contributes to a competitive advantage, which in turn supports firm performance in the Saudi context. The findings also align with the broader objectives of Saudi Arabia's Vision 2030. From a practical perspective, the results emphasise the need for Saudi firms to prioritise ESG activities and disclosures to

achieve greater economic and financial sustainability, which can further encourage investor participation in the market. Given the relative novelty of the ESG framework, policymakers should provide training and capacity-building initiatives to improve compliance and reduce the complexities associated with ESG adoption. Theoretically, this study extends the ESG–performance discourse to developing, resource-dependent economies. Future research could examine non-linear effects and sector-specific dynamics to refine the conceptual understanding and practical application of ESG frameworks in emerging markets.

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