
The impact of ESG scores on investment returns: Evidence from financial and non-financial institutions in the MENA region

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Abstract

In recent years, there has been increasing attention toward sustainability practices and the integration of Environmental, Social and Governance practices into operational strategies and investment decisions. Despite the growing interest from policymakers, managers, investors and other stakeholders, the financial consequences of adopting ESG initiatives remain unclear, generating inconclusive empirical evidence about their impact on overall firm financial performance.

Considering the current landscape, the aim of this

study is to investigate the influence of the combined Environmental, Social and Governance (ESG) score on firms' investment returns. It compares Financial (FI) and Non-Financial Institutions (NFI), underscoring the effect of ESG initiatives on investment performance across sectors. The research also sheds light on the MENA region as it is insufficiently addressed and is currently transitioning to adopting ESG frameworks.

To achieve this objective, Generalized Method of Moments (GMM) regression is applied on a panel dataset of 89 listed FI and NFI in the Middle East and North Africa (MENA) region spanning 2010-2022 to assess the impact of combined ESG on Total Investment Returns (TIR) in the examined sectors. The findings reveal that the impact of the combined ESG score is sector-dependent, having heterogeneous effect within the contexts of FI and NFI.

This study contributes to current literature theoretically by empirically examining the effect of ESG scores on TIR, while accounting for sectoral differences in the underrepresented MENA region. The findings also provide practical implications for various users. For policymakers, it highlights the need to create a standardized ESG evaluation framework as well as mandating consistent and periodic disclosure of ESG information. Enhanced transparency in understanding ESG dynamics and their impact on TIR provides managers and investors with more reliable information, enabling them to make more informed decisions.

Introduction

Traditionally, risk-return trade-off was the underlying rationale of investment decisions, with investors mainly focusing solely on conventional financial performance indicators. Similarly, profitability measures were highly depended on as a tool for financial performance evaluation. However, overtime, this perspective evolved, as non-financial indicators – specially those related to sustainability – have proved to influence firm performance and overall value.

Since the inception of Environmental, Social and Governance (ESG) by the United Nations in 2004, these scores have been widely applied when assessing firm sustainability efforts. Regulatory developments and increased investor awareness have compelled firms to devote increased focus to their sustainability-related practices as well as disclosing them periodically, thus increasing the availability of non-financial information to all interested stakeholders.

As a result of the heightened stakeholder awareness and increased reporting transparency, the value of ESG practices has progressively increased. In modern markets, regulators and investors have exerted pressure on firms to apply sustainable strategies to ensure long-term resilience and competitiveness as well as enhanced reputation and stakeholder relationships. Consequently, a firm's ESG performance is no longer viewed as a matter of regulatory compliance, but as a key driver of its financial performance.

Considering this profound shift in the investment landscape, researchers are keen on examining the relationship between firms' ESG scores and different financial performance indicators, including risk, profitability and returns. Despite the inconsistent findings, there is a growing body of literature suggesting that ESG scores have a fundamental implication on firm performance.

Accordingly, this research aims at addressing a gap in literature by investigating the impact of the combined ESG score on Total Investment Returns (TIR) on stock returns in the Middle East and North Africa (MENA) region which is currently unexplored within this context. The paper seeks to generate deeper insights into the different effects ESG on returns across Financial Institutions (FI) and Non-Financial Institutions (NFI) to reflect their sectoral distinctions.

Literature Review and Hypotheses Development

Recently, ESG scores have been recognized as key metrics that can be used to evaluate firm performance in terms of their environmental, social and governance dimensions. Their increased popularity can be justified by their ability to capture a firm's ethical standards, competitiveness and overall strategic plans (Friede et al., 2015).

From the Agency Theory perspective, strong ESG performance can contribute to the reduction of information asymmetry between managers and investors. Through embedding ESG practices in a firm's operations and offering non-financial disclosures, the information gap faced by investors when making investment decisions decline (Seker & Sengur, 2021). Presence of ESG related disclosures provide investors with enhanced transparency and confidence in a firm's adherence to rigorous corporate governance standards (Pedersen, Fitzgibbon & Pomorski, 2021).

From a Stakeholder Theory standpoint, which is built on the premise that a firm's success is highly related to the fulfillment of stakeholders' needs, engagement in ESG practices guarantees to a certain extent firm's abidance to ethical standards. Consequently, a firm can attain stakeholders' trust and support and enhanced overall reputation, leading to enhanced market presence and eventually better financial performance (Peng & Isa, 2020). This postulation was asserted by the findings of Elghoul et al. (2017) where they state that since ESG practices are believed to advance the firm-stakeholder relationship, then a firm's performance will be positively influenced, thus implying that there is a positive relationship between ESG scores and shareholder value.

Although a substantial body of literature indicates that firms characterized of having high ESG profiles often experience enhanced financial outcomes, there are some studies that reveal heterogeneity across industries, markets and geographical regions.

A substantial body of research report evidence of a positive relationship between ESG performance metrics and financial performance. Yadav et al. (2024) confirmed this relationship upon the examination of 39 NFI in the Indian market from 2018 till 2021. Within the context of this study, it was noted that the higher the firms' ESG scores, the higher the yielded annual stock returns. Similarly, the analysis of 2,171 US firms from 2017-2020 demonstrated a strong positive association between ES score and stock performance (Albuquerque et al., 2020). This relationship was also supported by the findings of Yin et al. (2023).

Within the MENA region, Shawat et al. (2024) confirmed the presence of a positive relationship between ESG score and financial performance in NFI upon testing a sample of 162 firms. The same pattern is observed in a sample of 59 FI operating in the region from 2010-2021 where higher ESG scores generated higher stock returns which appeared to be more pronounced in larger institutions when considering bank size as a moderating variable in the tested relationship.

Conversely, Upon the examination of a sample of 487 FI operating in 51 countries during the period from 2016-2021, Yuen et al. (2022) reported a negative association between ESG scores and financial performance. This was further supported within cross-country samples in studies conducted by Nugraha et al. (2025) and Okunade (2021) where they identified negative impacts of environmental and social pillars on stock returns.

Although prior research frequently suggests benefits of having high ESG profiles on financial performance, some scholars argue that ESG related practices are largely symbolic and have minimal influence on the operations (Garcia-Meca et al., 2015).

The lack of inconsistency in observations is attributed to limitations in ESG reporting. This stems from the fact that non-financial disclosures report historical information. Moreover, lack of standardized reporting frameworks generates inconsistencies. Furthermore, additional costs might be incurred as result of implementing such activities, which as a consequence, could lead to decreased profitability and competitiveness (Buallay et al., 2023).

Moreover, the magnitude and direction of ESG scores influence on stock performance is highly dependent on country and industry characteristics as well as prevailing economic and political conditions. This premise is supported by the findings of Liu et al. (2023) who revealed that maintaining strong ESG scores can help mitigate economic crises. Similarly, during the COVID-19 pandemic, firms with superior ESG performance proved to avoid the risk of stock return volatility and decreasing firm values (Beloskar and Rao, 2023). Sectoral dependance was underscored by the efforts of Ferrero-Ferrero, et al. (2016).

Overall, despite the heterogeneity of previous literature, majority of empirical evidence suggest that ESG engagement contributes to the enhancement of firm value by positively influencing stock performance. This is most evident in firms adopting large operational scales, coupled with robust governance controls and robust crisis management capability. Despite the progress in ESG research, heterogeneity in operational natures across industries and countries pose challenges for comparability, thus highlighting the importance of standardizing ESG frameworks (Ondoro, 2015).

Consistent with the Stakeholder Theory and prior research underscoring the benefits of ESG initiatives on firm performance, the study proposes the following hypotheses:

H₁ C ESG score significantly and positively impacts TIR in the MENA region

Research Design and Methodology

Variables

To empirically assess the influence of ESG score on financial performance, the firm's TIR will be adopted as a proxy. Given that ESG investments typically emphasize long-term value creation and risk mitigation, the use of TIR rigorously reflect investor-relevant outcomes, as it offers a more holistic perspective by including dividend payments and capital gain, rather than the sole consideration of direct market price changes. The use of this measure is consistent with prior empirical work including Minev, et al. (2025), Nunes, et al. (2023), Kroll (2023).

For the independent variable, combined ESG score collected from the London Stock Exchange Group (LSEG) database will be utilized to assess the firm's performance in terms of its non-financial sustainability initiatives. This proxy has been widely used in previous literature and has been previously implemented in the MENA region (Abu Khalaf, et al., 2025).

In order to test the stability of the results and isolate the influence of ESG score on TIR, the study incorporates a range of firm specific controls, namely firm size, firm age, liquidity, market value and return on equity (ROE) as retrieved from LSEG. Additionally, given the cross-country nature of the analysis, the Gross Domestic Product (GDP) growth rate obtain from the World Bank is incorporated as country-level control variable to account for any macroeconomic differences.

Samples and Data Collection

This study employs panel data comprising 89 FI and NFI listed in the MENA region during the period from 2010-2022. The sample was originally intended to include the top ten leading publicly listed firms across 9 countries based on their annual combined ESG scores, as reported by LSEG. However due to constraints in data availability, one country (Bahrain) contributed to only nine firms reporting ESG data, resulting in a final sample size of 89. The countries examined are Egypt, Qatar, Saudi Arabia, United Arab Emirates, Turkey, Israel, Oman, Bahrain and Morocco.

Model Specification

To investigate the relationship between ESG and TIR in FI and NFI, this cross-industry study controls for firm specific and country specific effects through the use of the below General Methods of Moments (GMM) model:

$$TIR_{it} = \beta_0 + \beta_1 C ESG_{it} + \beta_2 Age_{it} + \beta_3 Size_{it} + \beta_4 Liq_{it} + \beta_5 TQ_{it} + \beta_6 ROE_{it} + \beta_7 GDP_{it} + \varepsilon_{it}$$

Where:

TIR_{it} = Total Investment Returns of firm i in year t

$CESG_{it}$ = Combined ESG Score of firm i in year t

Age_{it} = Firm Age

$Size_{it}$ = Firm Size

Liq_{it} = Liquidity

TQ_{it} = Tobin's Q

ROE_{it} = Return on Equity

GDP_{it} = GDP Growth Rate

GMM was employed as the estimation model as it is recognized for its efficiency and robustness (Hansen, 1982). To ensure the validity of the instruments applied, the Sargan test was implemented. This estimation framework is frequently adopted in empirical research, particularly in studies concerning ESG factors (Abu Khalaf, et al., 2025; Yu et al. 2024).

Upon the application of the GMM model to avoid endogeneity concerns, the Sargan-Hansen test was applied to test for over-identifying restrictions. The results indicate that the model is accurate; reporting no over-identification issues, thus indicating the model is appropriate for use. Furthermore, Arellano-Bond test was utilized to detect the presence of second-order serial autocorrelation. The AR(1) was significant, indicating first-order correlation. Moreover, the AR (2) was insignificant implying no evidence of second-order correlation. The results confirm that the model is appropriately specified.

Empirical Results

Descriptive Statistics

Table 1 FI - Descriptive Results					
Variable	Mean	Standard Deviation	Minimum	Maximum	Observations
TIR	.15	.41	-.58	3.23	180
CESG	48.19	18.73	6.99	90.89	180

Table 2 NFI - Descriptive Results					
Variable	Mean	Standard deviation	Minimum	Maximum	Observations
TIR	.21	.54	-.49	3.77	211
CESG	48.32	22.07	6.53	94.23	211

Table (1) presents the descriptive results of the data employed in the regression models applied to examine the relationship between ESG and TIR in financial institutions.

The data reveal a mean value of 0.15 with a standard deviation of 0.41, this highlights the notable dispersion in the annual returns of FI during the period of the study. This, as a consequence, reflects the increased risk exposure and volatility of returns. The extremes ranging from -0.58 to 3.23 also suggest that although some of the examined firms experience low returns, others were able to generate strong gains for shareholders.

With regards to the combined ESG score, it averaged 48.19 with a standard deviation of 18.73. The minimum of 6.99 was observed in Egypt in 2013, while the maximum of 90.89 was record in Turkey in 2020. This wide dispersion reflects notable improvement in overall ESG performance of FI throughout the years of the study.

For NFI, as presented in table (2), a mean of 0.21 was recorded for TIR. This was coupled with a considerably high standard deviation of 0.51. The extremes ranged from -0.49 to 3.77. This dispersion in the ability to generate returns is similar to that faced by FI examined.

An average of 48.32 was recorded for the ESG score with a standard deviation of 22.07. for NFI, the lowest recorded score was 6.53 in Oman in 2022, while the highest observation was 94.23 in Turkey in 2019. This signals high variability in applied ESG practices of NFI as the sample is composed of different industries that have unique sectoral and operational characteristics.

	TIR	Age	Size	Liq	TQ	ROE	GDP	CESG
TIR	1							
Age	-.08	1						
Size	.15*	.33*	1					
Liq	.16*	.15*	.14*	1				
TQ	.09	-.22*	-.18*	.19*	1			
ROE	.47*	.00	.50*	.02	-.07	1		
GDP	.20*	.02	.17*	.21*	.03	.30*	1	
CESG	.23*	.21*	.54*	.32*	.05	.30*	.15*	1

	TIR	Age	Size	Liq	TQ	ROE	GDP	CESG
TIR	1							
Age	-.07	1						
Size	.07	.34*	1					
Liq	.24*	-.06	.03	1				
TQ	.16*	-.38*	-.20*	.43*	1			
ROE	.33*	-.09*	.14*	.10*	.19*	1		
GDP	.13*	-.01	.11*	.22*	.08*	.18*	1	
CESG	.30*	.18*	.39*	.25*	.13*	.20*	.17*	1

An examination of the correlation matrices (as presented in tables 3 & 4) provide preliminary insights into the linear interdependencies across the utilized variables. The analysis reveal that majority of associations have low to moderate correlation coefficients, thus reducing concerns regarding multicollinearity between variables. The results support the overall validity of the applied empirical framework.

Regression Results

Variable	CESG	
	FI	NFI
CESG	.005*** (.01)	-.008*** (.007)
Age	-.02* (.073)	
Size	.90*** (.000)	1.31*** (.004)
TQ	3.06*** (.000)	.79*** (.000)
Liq	-.10 (.852)	-.52 (.536)
ROE	4.56*** (.000)	.22 (.11)
GDP	-.87 (.105)	-1.50*** (.000)
P-Value for Sargan Test	0.07	0.86

The results of the regression model applied to evaluate the effect of ESG score on TIR in FI, as presented in table (5), indicate that there lies a positive yet weak significant relationship at 1% ($\beta = 0.005$, $p < 0.01$) between the examined variables. The results generated suggest that the hypothesis should not be rejected.

This generally indicates that FI with higher ESG profiles are expected to yield better investment returns for their shareholders, thus underscoring the importance of adopting ESG-related practices and providing transparent and high quality ESG disclosures.

With regards to the regression model applied to examine the same relationship within the context of NFI, an inverse relationship was detected where a weak yet negative significant relationship with a 1% significance level ($\beta = -0.008$) was revealed between ESG scores and TIR of NFI. In this setting, it appears that NFI in the selected sample might be disadvantaged upon adopting ESG practices, resulting in a decrease in their TIR.

Upon examining the control variables in the applied regression models, the results indicate both similarities and differences between FI and NFI.

Across both models for FI and NFI, firms size exhibit strong positive significant relationship with TIR ($\beta = 0.901$; 1.316, $p < 0.01$ & $\beta = 3.061$; 0.79, $p < 0.01$, respectively). Similarly, Tobin Q's revealed the same relationship for both types of institutions ($\beta = 1.316$, $p < 0.01$ & $\beta = 0.79$, $p < 0.01$, respectively). The results indicate that larger firms characterized with higher market values tend to generate better returns to their shareholders within the context of the MENA region.

Firm age reveals a weak negative association with TIR ($\beta = -0.02$, $p < 0.1$), suggesting that younger FI are relatively more capable of delivering higher returns when compared to their older counterparts, though the effect is minimal and appears to be only significant at 10% level.

ROE demonstrates contradictory effects in the sectors under examination. ROE demonstrate strong and significant impact ($\beta = 4.566$, $p < 0.1$) within FI, thus highlighting the role of profitability in the generation of returns. However, for NFI, ROE proved to be insignificant, implying that profitability does not play the same sole in influencing returns outside the financial sector.

Across both models, liquidity seems to be insignificant, signaling that firm's ability to meet its short-term obligations does not have an impact on its total investment returns within the context being examined.

For the macroeconomic factor, the GDP, it exhibited a negative significant impact in NFI ($\beta=-1.504$, $p<0.01$) while it is insignificant for FI. This result indicate that economic conditions may hinder the generation of higher TIR in NFI while has no effect on FI.

Discussion

Generally, there are notable differences across sectors in how ESG is embedded within operations, reflecting the unique characteristics and operational priorities of each industry.

The implementation of ESG practices within FI tends to be typically considered into their risk management strategies, governance mechanisms, investment choices and reporting practices. In contrast to NFI, where the application of ESG activities is inclined to be more operational and resource intensive. This is largely due to the substantial organizational-wide transformations that NFI undergo to modify their core business operations (Naseer, et al., 2025).

In support of the previous reasoning, the findings generated by the regression models designed to examine the influence of ESG score on TIR on both FI and NFI, ESG appears to have heterogeneous effects on the selected sectors despite generating significant associations within the two contexts. The ESG score displayed a positive effect on FI while a contrasting relationship was detected with NFI. The divergent results highlight the sector-dependent correlations between the studied parameters.

Pertaining to the financial sector, the evidence shows that firms characterized to have superior ESG ratings are capable of yielding higher returns. Notably, FI are often regarded as early adopters of certain ESG pillars. This is largely due to their robust governance mechanisms and regulatory structures (Lee & Chen, 2025). Moreover, they have a solid history of embracing innovation, as the sector is recognized for its early adoption of online banking and digital transformation initiatives since the early 2000s (Blominvest, 2008)

These findings are in line with the premise of the stakeholder theory that suggests that firms complying with social demands and stakeholder needs are rewarded with enhanced overall financial performance and returns. These favorable results are consequences from ESG integration that strengthens stakeholder trust in the institution through reduction of information asymmetry and enhancement of investor confidence. Stakeholders often perceive firms' ESG engagement as a signal of sound risk practices and resilient adherence to regulations, which is particularly important within the context of the financial sector.

Accordingly, the ESG score of FI, exhibit their responsibility towards enhancing their sustainable and ethical practices, thus, improving stakeholders perception of the firms as participating in these practices often signals stability and continuity of the firms. Moreover, firms with higher ESG scores are known to be more effective in mitigating operational and regulatory risks. These factors are especially crucial in industries that demand investor confidence such as the financial sector (Malled, et al., 2024).

Considering that this specific industry's demands credibility and adherence to ethical and governance standards, a solid ESG profile would convey financial soundness, reliable risk management strategies, and overall institutional transparency and integrity. This would result in a reduction in investor uncertainty and positively promote firm reputation and as a consequence, mitigating agency conflicts as well as positioning firms to capitalize on competitive advantages as gaining access to lower cost of capital, thus yielding higher returns (Shaddady & Alnori, 2024; Hwang et al., 2024). In that sense, it appears that embedding ESG practices in the operations of FI act as a governance-enhancing mechanism rather than a financial burden.

Conversely, for NFI, superior ESG performance might reduce firms' ability to generate higher TIR reflecting the short-term cost burden of ESG implementation within their operations as indicated by the negative relationship observed in the empirical results (Khamphaphan & Silapates, 2025). This can be justified by drawing on the agency theory which suggests prioritizing ESG investments can potentially result in a reduction in total investment results, as executives' attention might be inclined towards long-term strategies and institutional value rather than maximizing short-term shareholder value (Yin, et al., 2023).

These challenges are more prominent in non-financial sectors, as ESG investments, specifically in environmental and social initiatives may involve substantial expenses upon their adoption and may redirect institutional resources from immediate profit-generating operations that would derive enhanced shareholder value.

The extensive execution of ESG strategies in NFI depends on tangible substantive upgrades to reduce carbon emission rates, improve supply-chain labor standards and the overall optimization of resource

utilization, among many other aspects compared to firms operating in the financial sector (Naseer, et al., 2025). Major investments in such activities and operational adjustments often entail significant costs that would lead to a reduction in immediate and short-term profits, thereby negatively influencing firms' TIR (Zheng, et al., 2025).

This supports the trade-off view of ESG in previous literature; arguing that implementation of such activities is often viewed unfavorably by shareholders as they initially increase operational costs and decline shareholder returns. In such settings, ESG expenditures are likely to be undervalued by investors when these do not yield immediate financial returns.

Nonetheless, upon the adoption of these practices, while costly in their initial phase, they are expected to generate value on the long-run (Naseer, et al., 2025). On that basis, managers often hesitate to effectively execute these measure despite their potential advantages, especially in non-financial firms as they are expected to have a longer payback period owing to the nature of their operations (Garcia & Herrero, 2020).

All things considered, Brogi and Lagasio (2019) believe that despite the general positive implications of increasing ESG scores on financial performance, the outcome is shaped by industry dynamics. They suggested that the influence is generally favorable in the case of FI while, in the industrial sector, it is less advantageous, particularly in the early stages of implementation.

In reference to the firm-level control variables employed with the regression models, both firm size and Tobin's Q reveal a positive and significant relationship with TIR for FI and NFI, indicating consistent influence. The displayed association aligns with evidence reported by Al-malkawi et al. (2018).

Moreover, ROE also displayed a strong positive relationship with TIR in the context of FI, such effect is in agreement with the findings of Yadav, et al. (2024) and Lewellen (2015) within emerging markets. However, it had an insignificant impact in NFI, thus, indicating that the impact of ROE is strongly shaped by the sector. A negative association was noted for firm age in both applied models in harmony with the results generated by Yadav, et al. (2024). Lastly, liquidity proved to have an insignificant impact on TIR within both sectors (Li, et al., 2020; Opoku, 2015).

Addressing the macro-level control variable, a significant negative relationship was detected between GDP and TIR of NFI. Such movement can be attributed to the tendency of TIR to realign during phases of macroeconomic growth.

GDP appeared to be insignificant for FI, indicating the complications of the relationship between GDP growth rate and TIR for FI and that drivers of returns in FI have different dynamics when compared to their non-financial counterparts (Chiang, et al, 2024).

Conclusion and Implications

The article empirically addresses the heightened attention surrounding the adoption of ESG-related strategies and their influence on financial performance. Consequently, the study embarks on exploring the influence of the combined ESG on TIR within the MENA region. The analysis was based on 89 firms representing financial and non-financial industries covering the duration from 2010 to 2022.

The research employed GMM as means to mitigate endogeneity concerns. Empirical evidence reveals novel findings related to the ESG-financial performance relationship as it highlights the sector-dependent effect of ESG score where it positively influences TIR in FI while the impact is reversed in NFI. The variation in impact underscores the industry-specific distinctions in their capacity to leverage sustainability initiatives into financial gains.

In summary, this study delivers a comprehensive examination of the ESG-TIR relationship in the MENA region, consequently, providing reference on synchronizing corporate and societal changes with firm's financial targets while simultaneously. Securing the best interest of their shareholders.

This investigation aims to bridge the gap in existing literature by examining the impact of firms' ESG performance on TIR within the context of the MENA region, responding to the region's underrepresentation in the established body of work.

The study generates significant practical implications for a range of stakeholders. For policy makers, the findings of this research provide valuable insights highlighting the necessity of legally mandating the disclosure of firms' ESG and non-financial disclosures establishing a standardized ESG framework to improve data collection and comparison of firm's ESG scores, so as to provide more transparency and accountability.

Enforcement of such measures assures precise and timely reporting and availability of data. Moreover, this would guarantee uniformity in reported indicators and metrics across firms, consequently promoting greater market integrity and strengthening investor confidence.

Furthermore, due to the prevailing importance of ESG-adoption, it is suggested that firms designate and appoint a Chief Sustainability Officer (CSO) to oversee a complete team charged with ESG-related initiatives. Up till now, such position remains infrequently established in the MENA region (PwC, 2024). It is further advised that ESG alignment with firm strategies is rewarded by policy makers by offering tax benefits and facilitating access to green financing.

Managers can also draw on the findings generated to enhance their firms' overall financial position and more specifically their TIR. For practitioners in FI, their focus should be shifted towards the application of ESG-initiatives that improve their cybersecurity data collection and protection. They should also aim at enhancing their financial inclusion practices as well as implementing sound governance and ethical compliance. The execution of these measures would as a consequence lead to enhanced TIR of their institutions.

However, due to the operational characteristics of NFI and the costs incurred as result of implementing ESG activities, investors may shy away from such firms due to short-term potential reduction in their returns. As a result, managers are advised to develop strategies that successfully balance their financial and sustainability targets, bearing in mind both their short-term and long-term objectives. These recommended measures are expected to reduce agency conflicts by unifying the interests of managers and investors simultaneously (Liao, et al., 2015). Moreover, managers are encouraged to transparently communicate their ESG-related efforts to their stakeholders. This enhances their understanding of the merits of adopting ESG principles into their operational framework and helps attract long-term investors who prioritize both sustainability and financial performance (Suttipun, 2022).

By shedding light on the connection between ESG and financial performance, investors are provided with valuable insights that enhance their screening practices as well as their decision-making process.

Limitations and Recommendations

While data availability in the MENA region remains constrained, the information adopted in this study remains sufficient to draw meaningful conclusions. ESG disclosures and scoring are not yet standardized nor legally mandated across the countries examined in the region, unlike financial disclosures. Due to these restrictions, the study period was limited, thus generating short-term to medium-term market effects, yet still offering valuable indications of emerging trends in the region. Although the author sought to investigate the ESG-TIR relationship at both country and industry levels, however, the lack of sufficient data reduced the sample size significantly upon this disaggregation limited its application.

Despite the limitations outlined, the findings remain valuable as it offers a platform for future research. Subsequent studies may adopt an extended time frame of observations to account for long-term effects of ESG initiatives as the realization of sustainable, societal and financial benefits are often yielded over longer horizons. The extension in the study period might also allow researchers to incorporate more countries as they are expected to apply regulations mandating the disclosure of non-financial information. Examination of countries independently, is projected to provide results that reflect the unique characteristics of each nation. Likewise, segmentation of industries would reveal in-depth insights regarding each industry's characteristics and life-cycle.

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