

The Effect of Environmental, Social, and Governance (ESG) Ratings on Financial Performance: Evidence from MENA Countries

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Abstract : This study addresses the gap in understanding the effect of environmental, social, and governance (ESG) practices on firm performance within the Middle East and North Africa (MENA) region. Using a sample of 340 publicly traded firms across ten MENA countries (2007-2017) and employing ordinary least squares (OLS) regression, the study evaluates how ESG ratings impact both accounting-based performance measures—such as return on assets (ROA), return on equity (ROE), and earnings per share (EPS)—and market-based measures like Tobin's Q and dividend yield. Results reveal that ESG ratings positively and significantly influence financial performance, particularly in countries with strong regulatory environments. This research contributes empirical insights to the literature on ESG's financial impact, particularly by comparing cross-country data within the MENA region. It provides valuable guidance for investors and managers aiming to enhance financial outcomes through sustainable business practices.

Keywords : ESG ratings, financial performance, MENA countries, environmental disclosures

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