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Environment, Social and Governance Reporting and Firm Performance: Evidence from GCC Countries

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Abstract

The aim of this research is to investigate the impact of ESG reporting on firm performance, Environment, Social and Governance (ESG) are a triple-bottom-line approach that combines financial gains with adhering to social, governance and environmental norms. In addition, the study's objective is to determine the relationship between ESG disclosure and firm performance in Gulf Cooperation Council (GCC) listed companies. ESG scores and other samples for 91 firms from 6 GCC countries were collected for this purpose over a three-year period from 2019, 2020 and 2021. The sample comprised nine diverse industries. The dependent variables are Return on Assets (ROA) and market capitalization , experimental variables are environmental pillar score, social pillar score, governance pillar score and overall ESG score and the control variables: size, leverage. The study found that ESG scores and governance pillar scores have a positive impact on a firm's market value but environmental and social pillar scores were not significant. In addition, there is a strong relationship between all ESG disclosures and ECG scores.

Keywords: Corporate governance, Environment, ESG disclosure, Firm efficiency, Firm performance, Social.

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1. Introduction

Financial failures in the United States of America have a negative impact on the global economy resulting in the 2008 global financial crisis. It raised questions on accountability risk and corporate governance. Management should not engage in any fraudulent reporting that would degrade the company's position and defame the firm's value[1]. A high level of

reporting is required for economic stability and proper functioning. Reporting is not limited to financial information but non-financial matters like ESG (environmental, social and governance) should be properly disclosed. The term ESG came into prominence when it was first introduced by the United Nation's Principles of Responsible Investment (UNPRI)[2]. The trend of ESG disclosure has been continuing and the investment of professionally managed portfolios exceeds USD 17.5 trillion globally[3].As a part of the environmental communications strategy, the environmental report should be synchronous with the Annual and Financial Report[4].

It illustrates that firms' interest in the environment, social responsibility and sustainability disclosure has improved markedly, especially for larger companies or groups[5]. The measurement of the adequacy of CSR governance is indicated by a three-dimensional metric the ESG (environmental, social and governance performance) score[6]. ESG ratings can help to incorporate CSR issues and the Corporate Social Responsibility (CSR)–Corporate Social Performance (CSP) framework[5]into the business to make it more effective, operationalize, ethical and sustainable [7].

According to the survey on sustainability reporting, more than three forth of global companies have now started reporting on sustainability compared to one- half in 2013 [8].ESG is a triple-bottom-line approach that combines financial gains adhering to social and environmental norms. Firms are facing pressure to effectively share true and fair reports with stakeholders in regards to environment, society and corporate governance (ESG)disclosure[9]. ESG is an investment approach that leads to long-term value growth and is a sensible, practical and realistic plan to maximise shareholders' wealth. It is an application of a good intention to bring good people and technological innovation for a sustainable planet, profit and people[10].Sustainability performance measurements are one of the most recognizable concepts commonly used in non-financial reporting. The creation of a set of sustainability performance indicators simplifies the process of assessing and evaluating the corporate sustainability achievement for firms and stakeholders. Additionally, sustainability reporting offers organizations the level of transparency that all stakeholders require. Sustainability reporting's primary elements are environmental, social and governance (ESG) [11]. Furthermore, success is not limited to one issue like climate change, diversity and disclosures alone. It's about to broaden thinking, inculcate all the parameters together and do more across the business from investment to sustainable innovation. Bringing together the best people and the most advanced technology to go deeper and act faster [3]. ESG reporting enables a business to tackle the biggest challenges of today and capture the best opportunities of tomorrow. For the advancement of society, businesses should take a lead role in sustainable development and systemic change in the area of social inclusion. There is a need for reskilling the reporting pattern and broadening the area from financial to Environment, Social and Governance (ESG) to make the reporting system more fruitful. It presents the relationship between the quantity and the quality of environmental disclosure[12].

2. Literature Review

The review of the literature was done to find research gaps. To learn about the existing work, research papers published in international journals, books and magazines were studied. The present study is relevant to society, so a crucial question can be raised about whether ESG disclosure practices can create any value for positive firm performance (FP) or maximise shareholder wealth. So, in order to find the answers to the questions and to understand the relationship of firm performance to environment, social and governance as well as overall ESG, this section is divided into four categories:

1. Environmental reporting.
2. Corporate social reporting.
3. Corporate governance reporting.
4. Studies relating to the overall Environment, Social and Governance (ESG).

2.1. Review Regarding Environmental Reporting

Several literatures have been reviewed and found to focus on environmental issues. In this section, papers are reviewed related to environmental reporting.

The paper describes the environmental accounting system in Taiwan and the relationship between the environmental and financial performance of corporations. It presents the result that there should be a positive relationship between the environmental performance and financial performance of companies [13]. Another paper is about the companies that operate in industries and contribute significantly to pollution of Serbian pollution, such as energy, cement manufacturing, the petrochemical industry and iron manufacturing. The results indicate that Serbian enterprises are not following a systematic approach. They are not including environmental issues and environmental information in financial statements but presenting them in a separate report or in a separate section of the glossy brochure [14]. Another group of papers addresses with issues such as the environment and internal management [15]. The two-panel data regression models have been applied in the paper to measure the relationship between environmental responsibility performance, social responsibility disclosure and tax aggressiveness which is found to be negative. It has been identified that corporate governance fails to strengthen the negative impacts [16]. The next study will measure the relationship between return on assets and stock market returns. The research correlates Romanian accounting regulation changes with companies' characteristics and the influence of financial audit on financial performance and concludes that increasing environmental and social protection could have an impact on financial performance in the long run, as a positive correlation was detected between social or environmental performance and stock market returns one year after the changes occurred[17].

As studies on environmental scores have been much in demand find out and particularly for GCC countries so, the first hypothesis has been framed:

- *H_{01}: The environmental score has no significant impact on financial performance in GCC countries.*

2.2. Impact of Social Reporting and Financial Performance

The relationship between CR reporting and accounting profit has been measured. Content analysis is implemented to evaluate corporate reporting (CR)[18, 19].Some papers focused on social disclosure which means additional costs. The CR reporting level has no relationship to higher accounting or market based valuation variables. The results show that companies with a market value and book value showing the highest rates are far from socially accountable[19]. While CSR reporting and its impact on historical economic context are measured in another paper[20]. The relationship between reporting companies has been measured with statistical correlations. Results show that size characteristics measured by assets and revenues cannot be correlated to the extent of corporate social responsibility reports published by companies, but there is a significant negative relationship between change in revenues and return on equity and social and environmental disclosure for the sampled companies [18].

Environmental studies have been in high demand particularly for GCC countries. So the next hypothesis has been framed:

- *H_{02}: There is no significant impact of social responsibility scores on firm performance in listed companies in GCC countries.*

2.3. Impact of Corporate Governance Reporting and firm Performance

Most of the studies focus on the board of directors' size, composition and board independence as well as the audit committee's size, composition and audit quality Al-Homaidi, et al. [21]. Some of research added one more factor,i.e. foreign and institutional ownership for the study Almaqtari, et al. [22]. In addition, some more factors incorporated such as corporate governance practices, internal auditing, management processes, internal control processes and risk identification processes, cost-effective alternative assurance mechanisms,Richard and Odendaal [23]and internal assurance mechanisms with external assurance provisions are presented [23]. At the same time, firm efficiency is measured through return on equity (ROE) and the market- to- book ratio [24].

Most of the authors focused on corporate governance mechanisms and applied aspects like the board of directors, audit committee and audit quality to the study. The result reveals that there is no significant impact of corporate governance mechanisms on the quality of financial reporting. It is suggested to develop models of financial reporting quality and revise the role of corporate governance[21]. The study makes a novel contribution to the body of literature on corporate governance in India. It provides contemplative insights related to corporate governance mechanisms [22]. Other studies point out cost-effective alternative assurance mechanisms in integrated reporting (IR) in South Africa. It describes how corporate governance practices can be applied and reported to enhance the credibility of corporate reporting [23]. Some of the authors have included financial innovation in their study. The study explores the effect of corporate governance on financial innovation in Taiwan's banking industry. The results find that the impact of corporate governance on banks' innovative financial services has increased. Additionally, it has been observed that banks are more profitable and valuable when their financial innovation services are more worldwide [25]. One of the studies found a relationship between corporate governance and stock market performance. The multiple linear regressions technique has been used. The results revealed that financial and stock market performance as measured by (return on equity and the market to book ratio) significantly correlated with the adoption of the hybrid corporate governance approach. The study focuses on corporate governance and its impact on business performance in the context of Moroccan listed companies [24]. As most of the research focused on corporate governance mechanisms, financial innovation and cost effectiveness but no one included a corporate governance score for measurement of firm efficiency. So the next hypothesis has been framed:

- *H_{03}: There is no significant impact of the corporate governance score on firm performance in listed companies in GCC countries*

2.4. Impact of ESG Score and Financial Performance

The first group of studies looked into the relationship between ESG reporting with industry performance such as energy, cement manufacturing, the petrochemical industry and iron manufacturing and IT industries.Knezevic, et al. [14];Siew [26]; Egorova, et al. [27].

The following researchers focus on the literature review of ESG disclosure:

Environmental reporting practices of industries that contribute significantly to pollution in Serbia have been measured. The results indicate that there is no systematic approach established by Serbian enterprises regarding environmental issues and environmental information is rarely included in financial statements but rather in a separate report or a separate section of the glossy brochure Knezevic, et al. [14]. Rather than applying individual ESG scores, the researcher applied "distance" from the industry average for measurement. It seems more impactful. Corporate size is found to be a significant background factor as well as social, environmental and governance responsibility which has emerged as a key competitive factor for modern businesses [5, 28].

The study has emphasized the level of activities through ESG reporting and will assist the government in determining the degree of environment, social and governance activities in Indian companies. The research presents the extent of ESG disclosure in firms' annual and sustainability reports and creates a CSR index based on the Global Reporting Initiative (GRI) framework and listing agreement clause 49 [2].

This research focuses on the level of risk associated with poor economic, social, and governance management. This research investigates the impact of ESG risk management on corporate performance and long-term growth[29].

The paper aimed to find a relationship between ESG performance and operational efficiencies. There have been positive relationship discovered between ESG performance, operational efficiencies, stock performance and cost of capital[9].

the study, 'ESG s cores and its Influence on firm performance: Australian Evidence' aimed to investigate the impact of ESG factors on the performance of information technology (IT) companies. The study showed that IT companies are not currently the leaders in terms of ESG rating leading to the conclusion that IT companies have the opportunity to develop their ESG practice, if their development will improve the position of the company and will have a positive effect on its performance[26]; [27].

The study contributes to existing research within Corporate Social Responsibility (CSR) governance by providing insights on the effects of ESG activities for leading Swedish companies. The findings may be of material interest not only to company leadership and investors but also to regulators and policymakers interested in learning about the business implications of ESG activities and policies[30].

- *H_{04}: There is no significant relationship between the overall ESG (environmental, social, and governance) score and firm performance in listed companies in the GCC countries.*

2.5. Identification of the Research Gap

Is there a relationship between a company's ESG performance (ESG) and financial performance (FP)? How does the performance of each ESG pillar affect the company's FP? Answering these questions is the central focus of this study. After reviewing these papers, the following research questions comes in mind.

- Is there any association between the environmental score and firm performance in listed companies in the GCC countries?
- Is there any association between the social responsibility score and firm performance in listed companies in the GCC countries?
- Is there any association between the corporate governance score and firm performance in listed companies in the GCC countries?
- Is there any association between the overall ESG (environmental, social and governance) score and firm performance in listed companies in the GCC countries?

3. Research Methodology

Research work is based on secondary data. Data has been collected using the Thomson Reuters Database. The study proposed to examine 200 top companies from GCC countries for a period of five years. Due to the unavailability of data, the final sample was reduced to 91 companies with three years of data i.e. from 2019 to 2021 in order to make a balanced panel. The following equation has been framed to explore the impact of ESG disclosure on firm performance:

$$Firm\ Performance = \beta_0 + \beta_1 ESG\ Disclosure\ Variables + \beta_2 Control\ Variables + \varepsilon_t$$

Accordingly, independent variables are identified and put in the equation as follows:

$$ROA_{i,t} = \beta_0 + \beta_1 ENV_{i,t} + \beta_2 SOCIAL_{i,t} + \beta_3 GOV_{i,t} + \beta_4 ESG\ SCORE_{i,t} + \beta_5\ Size + \beta_6 LEV_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$\mathrm{LN}MC_{i,t} = \beta_0 + \beta_1 ENV_{i,t} + \beta_2 SOCIAL_{i,t} + \beta_3 GOV_{i,t} + \beta_4 ESG\ SCORE_{i,t} + \beta_5\ Size + \beta_6 LEV_{i,t} + \varepsilon_{i,t} \quad (2)$$

Table 1presents the list of variables used in this study.

Table 1.
List of variables.

Variable	Definition
Dependent Variables	
ROA	Return on Assets = Net Income after tax / Total Assets
Mkt Cap	Natural log of Market Capitalization
Experimental Variables	
ENV	Environmental Pillar Score
SOC	Social Pillar Score
GOV	Governance Pillar Score
ESG Score	Overall ESG Score
Control Variables	
Size	Natural log of Total Assets
Leverage	Total Debt/Total Assets
Industry	Dummy Variable for Type of Industry (Financial, Basic Material, Consumer Non-Cyclical, Consumer Cyclical, Industrials, Real Estate, Technology, Utilities, Energy)

Table 2 presents the country-wise distribution of the sample. It is found that the maximum number of companies is from Saudi Arabia i.e. 30 which represents 32.97% of the total sample of 91 companies.

Table 2.
Company-wise distribution of sample.

Country	Companies	
	Number	%
Bahrain	5	5.49%
Kuwait	11	12.09%
Qatar	17	18.68%
Oman	10	10.99%
UAE	18	19.78%
Saudi Arabia	30	32.97%
Total	91	100%

Among other countries, the UAE constituted 19.78%, Qatar 18.68%, Kuwait 12.09%, Oman 10.99% and least number of companies were from Bahrain i.e. 5.49%.

Table 3 displays the industry-wise distribution of samples.

It is found that maximum number of companies is from "Financials" sector which represented 46.15% of the entire sample. "Basic Materials", "Real Estate" and "Technology" were the other most represented sectors. Other sectors included in the sample were "Consumer Non-Cyclical", "Consumer Cyclical", "Industrials", "Utilities" and "Energy". Thus, the sample represents almost all the industries. "Financial" was chosen as the base category for the industry dummy variable.

Table 4 presents the descriptive statistics of the variables under study.

Table 3.
Industry-wise distribution of sample.

Industry	Number of Companies	% of Companies
Financials	42	46.15%
Basic Materials	12	13.19%
Consumer Non-Cyclical	4	4.40%
Consumer Cyclical	2	2.20%
Industrials	3	3.30%
Real Estate	10	10.99%
Technology	10	10.99%
Utilities	3	3.30%
Energy	5	5.49%
Total	91	100%

Table 4.
Descriptive statistics.

Variables	Mean	Median	Maximum	Minimum	Std. Dev.	C. V. %)
ROA	0.032	0.016	0.379	-0.370	0.060	191.34%
LNMC	22.249	22.365	28.527	18.279	1.778	7.99%
ENV	15.661	2.876	83.943	0.000	21.680	138.44%
SOCIAL	26.602	20.229	81.004	0.378	20.499	77.06%
GOV	48.310	48.917	92.000	2.650	22.778	47.15%
ESG_Scores	30.826	27.676	72.076	0.000	18.291	59.34%
LEV	0.118	0.063	0.672	0.000	0.146	123.49%
LNTA	23.051	22.966	27.080	18.654	1.639	7.11%
WACC	0.075	0.072	0.198	0.020	0.025	32.95%
ACI	58.811	66.667	100.000	0.000	36.568	62.18%
B_SIZE	9.033	9.000	13.000	5.000	1.666	18.44%
BD_ATT	34.442	50.000	94.737	0.000	35.254	102.36%
IBM	49.380	50.000	98.750	1.429	28.403	57.52%

Note:ROA: Return on assets, LNMC: log of market capitalization, ENV: environmental score, SOCIAL: social score, GOV: governance score, ESG Scores: total ESG score, LEV: leverage, LNTA: log of total assets.

It was found that ROA ranged between 37.9% and -37%. This shows a wide variation in the values of ROA which is further evident by the value of C. V. of 191%. However, the mean value of ROA is 3.2%. Regarding the three disclosure scores of ESG, it is found that environmental disclosure has a mean value of 15.66 with a maximum score of 83.94 and minimum of 0. Eder, et al. [31]. It also has value of C. V. as high as 138.4%. Social Pillar Score has a maximum value of 81 and minimum of 0.378 with a mean value of 26.6. Governance Pillar Score has a maximum value of 92 and minimum value of 2.65 with a mean value of 48.310. The overall ESG score has a maximum value of 72.08 and minimum value of 0.00 with a mean value of 30.826 Ioan, et al. [32]. Leverage has the lowest value of 0, indicating some debt-free companies in the sample. Mean value of leverage was 0.118 and has high value of C. V. i.e. 123.49%. WACC has a maximum value

of 19.8% and minimum of 2% with an average value of 10.9. Audit Committee Independence has a value ranging between 100 and 0, board size between 13 and 5, board attendance between 94.7 and 0 and independent board members between 98.75 and 1.

3.1. Correlation Matrix

Table 5 presents the correlation matrix among the variables under study. It can be observed that ROA has a positive correlation with LNMC and ENV but in all cases the value of the correlation is low. Surprisingly, there is a negative relationship between ROA LNTA, SOCIAL and GOV. In the case of LNMC, it has a moderately positive relationship with ENV, SOCIAL, GOV, ESG scores and LNTA. This shows that market value is positively correlated with ESG disclosures. All three ESG disclosures (ENV, SOCIAL, GOV) are positively correlated with each other and with overall ESG scores. Both control variables (LEV, LNTA) show negative correlations with ROA and LNMC. ESG scores have a positive correlation with LEV and LNTA.

Table 5.
Correlation matrix.

Variables	ROA	LNMC	ENV	SOCIAL	GOV	ESG SCORES	LEV	LNTA
ROA	1.000							
LNMC	0.326	1.000						
ENV	0.110	0.414	1.000					
SOCIAL	-0.038	0.402	0.752	1.000				
GOV	-0.152	0.241	0.316	0.428	1.000			
ESG SCORES	-0.015	0.471	0.741	0.906	0.665	1.000		
LEV	-0.065	-0.044	0.091	-0.016	0.120	0.003	1.000	
LNTA	-0.039	0.801	0.310	0.423	0.272	0.497	-0.098	1.000

Note:ROA: Return on assets, LNMC: log of market capitalization, ENV: environmental score, SOCIAL: social score, GOV: governance score, ESG Scores: total ESG score, LEV: leverage, LNTA: log of total assets.

Table 6 presents the results of the estimation of Equations 1and 2. The POLS (Pooled Ordinary Least Square) model was estimated at the outset and the results were tested for random effects using the Breusch-Pagan L-M Test. Significant test values led to the estimation of a random effect model, the results of which were tested for fixed effects using the Hausman Test. Significant test values led to the estimation of a Fixed Effect Model for both the dependent variables. Table 6 displays the coefficient values along with the t-statistic in parentheses; a significant t-statistic has been marked with *.

Table 6.
Results of panel data regression.

Variables	ROA			Market Cap.		
	Pooled	Random	Fixed	Pooled	Random	Fixed
C	0.124 (2.202)*	0.014 (0.857)	-2.296 (0.00)*	2.993 (3.030)*	22.979 (0.000)*	24.709 (0.00)*
ENV	0.001 (2.462)*	0.001 (2.938)*	0.001 (1.189)	0.022 (4.620)*	0.000 (0.130)	0.000 (0.554)
SOCIAL	-0.002 (-3.715)*	-0.000 (-0.538)	-0.000 (0.760)	-0.014 (-1.564)	0.000 (0.757)	0.000 (0.829)
GOV	-0.000 (-3.716)*	0.00 (0.017)	0.000 (1.128)	-0.001 (-0.267)	0.000 (1.630)	0.000 (1.881)**
ESG Score	0.002 (2.939)*	0.000 (1.089)	-0.002 (-2.247)*	0.004 (0.345)	-0.001 (-1.490)	-0.001 (-1.797)**
LEV	-0.026 (-1.027)	-0.074 (-2.198)*	-0.297 (-3.965)*	0.078 (0.178)	0.122 (1.796)**	0.180 (2.637)*
LNTA	-0.003 (-1.207)	0.002 (0.497)	0.104 (4.882)*	0.832 (18.695)*	-0.032 (-1.736)**	-0.107 (-5.576)*
Adj R^2	0.083	0.025	0.763	0.672	0.003	0.999
F	5.099*	2.146*	10.132*	93.916*	0.855	12512.52*
F Sig.	0.000	0.049	0.000	0.000	0.527	0.000
D-W	0.774	2.229	3.068	0.043	0.801	2.068
BPLM	114.95* (Cross Section)	N/A	N/A	256.83* (Cross Section)	N/A	N/A
Hausman	N/A	44.127*	N/A	N/A	213.87*	N/A

Note:*and **represents significant at 5% and 10% level of significance respectively.
(WACC weighted average cost of capital; BD_ATT board attendance; ACI audit committee independence; IBM independent board members;BPLMBreuschPehan Lagrange Multiplier; D-W Durban Watson statistic).

It is found that in the pooled model for ROA, all ESG disclosure variables – ENV, SOCIAL, GOV and ESG scores were found to be significant. The F value was significant but the Adjusted R-square value was only 0.083. Random effect model for cross-section) showed major changes in the results as the adjusted R-square value decreased and only ENV and LEV were found to be significant. In the fixed effect model, the adjusted R-square rose to 76.3% and ESG Score, LEV and LNTA were found to be significant at the 5% level of significance. LNTA showed a positive impact on ROA where as the ESG Score and LEV had a negative impact.

The pooled model for LNMC showed that only LNTA was significant at the 5% level of significance. A significant BPLM value led to the estimation of a random effect model for the cross section which did not show any significant improvement in the results. The Hausman test revealed the existence of fixed effects and accordingly a fixed effect model was estimated. GOV and ESG scores were significant at the10% level of significance and LEV and LNTA were significant at the 5% level of significance. Both equation-estimation results show that GOV (positive) is significant in explaining the market value of the firm whereas the overall ESG score is significant in explaining both market value and ROA. The ESG score in both cases has a negative sign which indicates that ESG scores have a negative impact on firm performance. ENV and SOCIAL were found to be insignificant in both equations.

Thus, H_{01} and H_{02}could not be rejected at the 5% level of significance for both market value and ROA. H_{03} is rejected in the case of market value but H_{04} is rejected for both market value and ROA.

Table 7.
Estimated models for industry dummy.

Model	ROA		LNMC	
	Coefficient	**t-Statistic**	**Coefficient**	**t-Statistic**
C	-0.211	-2.485*	-1.995	-2.182*
ENV	0.000	0.793	-0.009	-2.094*
SOCIAL	0.000	-0.846	-0.014	-2.095*
GOV	0.000	-0.971	-0.011	-2.774*
ESG Score	0.000	-0.037	0.042	3.724*
LEV	-0.118	-3.480*	-1.701	-4.383*
LNTA	0.010	2.859*	1.010	25.376*
"Basic Materials"	0.073	4.316*	2.168	11.627*
"Consumer Cyclicals"	0.158	4.487*	2.421	6.615*
"Consumer Non-Cyclicals"	0.072	2.877*	2.016	7.665*
"Energy"	0.037	1.482	2.176	7.828*
"Industrials"	0.043	1.514	1.056	3.556*
"Real Estate"	0.032	1.851	1.307	7.018*
"Technology"	0.072	4.244*	1.576	8.848*
"Utilities"	0.065	2.264*	1.143	3.780*
Adj R^2	0.115		0.804	
F	3.534*		80.784*	
F Sig.	0.000		0.000	
D-W	0.774		0.067	

Note:* represents significant at 5% level of significance respectively.
(ENV: environmental score, SOCIAL: social score, GOV: governance score, ESG Scores: total ESG score, LEV: leverage, LNTA: log of total assets, D-W Durban Watson statistic).

3.2. Industry Effect

Table 7 displays the estimated models for ROA and LNMC using industry dummy variables. It is found from the results that for the ROA model, LEV and LNTA are significant. The coefficients for "Basic Material", "consumer cyclicals", "consumer non-Cyclical", " technology" and utilities" are significantly different from those of the base category i.e. "Financials".

Thus, it is observed that industry dummies are significant in explaining firm performance. In the LNMC model, surprisingly coefficients for all variables were found to be significant and positive. This shows that the market value of all other industries is higher than "Financials". The adjusted R-square value for this model is 0.804. Thus, both the models and the industry dummies were found to be significant. In other words, it can be concluded that there is a significant difference in the firm performance across different industries.

4. Conclusion

ESG has become an area of interest for researchers as well as for investors. The present paper attempts to find the relationship between ESG scores and its various pillars with firm performance. For this purpose, ESG scores and other data were obtained from the Thomson Reuters Database for 91 companies from 6 GCC countries for a period of three years i.e. 2019, 2020 and 2021. The sample consisted of 9 different industries. The collected data was divided into three categories: independent variables (ENV, SOC, GOV and ESG Score), Control Variables (Size, Growth, and Industry) and

dependent variables (ROA and Mkt Cap). Panel data regression with fixed effects was used to analyze the data. ESG scores, ENV, SOCIAL and GOV are found to be positively correlated with Mkt Cap but ROA had negative correlations with all these variables except ENV. Results of panel data regression showed that ESG scores and GOV have a positive impact on firm performance measured by market value. When industry dummies were introduced in the model, it was found that the firm performance of all the industries was significantly different from "financials". The lower impact of ESG variables on firm performance may be attributed to the inadequate information provided by these variables about the true sustainability practices of a company.

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