The Impact of ESG Disclosures on Bank Performance

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The Impact of ESG Disclosures on Bank Performance: Evidence from Saudi Arabia

By

Tala Sabbagh

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Thesis Advisor: Dr. Alaa Alqudah

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Declaration of Authenticity

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X Tala 18/6/25

Department Chair Signature:

X 18/6/25

College of Business Dean Signature:

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Supervisor's Name: Dr. Alaa Alquah.

Signature: ____________________

Department Chair:

Signature: ____________________

الاهداء

الحمد لله حبا وشكرا وامتنانا، ماكنت لأفعل هذا لولا فضل الله فالحمد لله على البدء وعلى الختام

......

(وَآخِرُ دَعْوَاهُمْ أَنِ الْحَمْدُ لِلَّهِ رَبِّ الْعَالَمِينَ)

لم تكن الرحلة قصيرة ولا ينبغي لها أن تكون، لم يكن الحلم قريبا ولا الطريق كان محفوفاً بالتسهيلات لكنني فعلتها، وها انا وصلت إلى نهاية رحلتي الجامعية بعد تعب ومشقة وبعد خمس سنوات في سبيل العلم والحلم، وها انا اليوم أختم بحث تخرجي فالحمدالله حباً وشكراً وامتنانا على البدء والختام

الى الذي لا ينفصل اسمي عن اسمه ذلك الرجل العظيم، الى الذي افتخر أني ابنته، من دعمني بلا حدود وأعطاني بلا مقابل إلى من علمني أن الدنيا كفاح وسلاحها العلم والمعرفة، إلى من غرس في روحي مكارم الأخلاق داعمي الأول في مسيرتي وسندي وقوتي وملاذي بعد الله... **" والدي الحبيب"**

إلى من جعل الله الجنة تحت اقدامها، واحتضنني قلبها قبل يديها، إلى التي ظلت دعواتها تضم اسمي دائما وسهلت لي الشدائد بدعائها، إلى اليد الخفية التي أزالت عن طريقي الاشواك، إلى القلب الحنون... **"والدتي الحنونة"**

إلى خيرة أيامي وصفوتها، إلى الاعمدة الثابتة في حياتي، إلى من امنو بقدراتي، إلى من ساندوني عند ضعفي وسقوني بالحب، دمتم لي سند لا عمر له، أرضي الصلبة وجداري المتين، إلى من شد الله بهم عضدي فكانوا خير معين... **"أخواني وأخواتي"**

إلى من شاركوني الطريق، وتحلوا بالأخلاق ... وتميزوا بالوفاء والعطاء، إلى أصدقاء السنين وأصحاب الشدائد الى من سعوا معي في إتمام هذه المسيرة **"صديقاتي العزيزات"**

إلى من امتن له بكل الشكر والتقدير لمساعدته في بحث تخرجي **"الدكتور: علاء القضاة"** على توجيه ومساعدته لي في إتمام هذا البحث، فجزاه الله كل خير

وأخيراً من قال انا لها "نالها" وأنا لها، ماكنت لأفعل لولا توفيق من الله ... ودعاء والدي ودعم اخواني واخواتي، كل الشكر لنفسي على الصبر والعزيمة والإصرار ها انا اليوم اختم كل ما مررت فيه بفخر ونجاح الحمدالله من قبل وبعد راجيه من الله تعالى ان ينفعني بما علمني.

فالحمدالله على التمام والختام

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All praise and thanks belong to Allah in love, gratitude, and recognition. I would not have accomplished this without His grace. So, praise be to Allah for the beginning and the end.

"And the conclusion of their call will be, Praise be to Allah, Lord of all the worlds.

The journey wasn't short — nor was it meant to be. The dream wasn't near, and the road wasn't paved with ease. But I did it. I've reached the end of my university journey, after years of effort and struggle, after five years spent chasing knowledge and chasing a dream. Today, I conclude my graduation project — and I say, with love and deep gratitude: all praise be to Allah for the beginning and the completion.

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To the best of my days and the solid pillars of my life. To those who believed in me, who stood by me in my weakness, and poured their love into me. You are my unshakable ground, my firm wall, and my everlasting support. Allah strengthened me through you, and you were the best of companions… **my brothers and sisters**.

To those who shared this path with me, who led with manners and stood out with loyalty and generosity. To the friends of the years and the companions of hardship. To those who walked beside me until we reached the end… **my dearest friends**.

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And finally… to the one who said, "I can do it" — and did it.
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I wouldn't have made it without Allah's will, my parents' prayers, and my siblings' support.
All thanks to me for the patience, determination, and persistence.
Today, I close this chapter with pride and success.
Praise be to Allah — always and forever.
And I ask Him to make what I've learned a benefit in my life ahead.

Praise be to Allah for the completion and the end.

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Abstract

Saudi banks must buplished their Environmental, Social, and Governance (ESG) in order to showe their ethical duty, sustainability, and transparency. This research investigates the relationship of Environmental, Social, and Governance (ESG) disclosures and the banks performance in Saudi Arabia during the period 2018 to 2024. The study's primary goal is to determine whether banks that actively report on their ESG efforts have better financial results. As we used a quantitative approuch, using a secondary data from the banks annual reports, ESG disclosure, and financial statements. As we used the regression analysis to test how is the relationship between ESG components and the financial performance (ROA) of the banks. However, the research results showes that the ESG disclosues have an positev impact on the finacial performance. In addition, Environmental, and the Social pillars were statistically significant, while the Governance was less pronounced. So these results highlight that reporting ESG will improve the financial outcomes and supporting the goal of vision 2030 in Saudi Arabia.

Keywords: ESG Disclosure, Financial performance, Bank Size, Return on Assets, Saudi Arabia

الملخص

يتعيّن على البنوك السعودية الإفصاح عن ممارساتها البيئية والاجتماعية والحوكمة (ESG) من أجل إظهار التزامها الأخلاقي، واستدامتها، وشفافيتها. تهدف هذه الدراسة إلى تحليل العلاقة بين الإفصاحات البيئية والاجتماعية والحوكمة (ESG) والأداء المالي للبنوك السعودية خلال الفترة من عام 2018 إلى عام 2024. الهدف الرئيسي من البحث هو معرفة ما إذا كانت البنوك التي تفصح بفاعلية عن ممارساتها في ESG تحقق نتائج مالية أفضل. تم اعتماد منهج كمي باستخدام بيانات ثانوية تم جمعها من التقارير السنوية للبنوك، والإفصاحات البيئية والاجتماعية والحوكمة، والقوائم المالية. كما تم استخدام تحليل الانحدار لاختبار العلاقة بين مكونات ESG والأداء المالي للبنوك، المتمثل في العائد على الأصول .(ROA) أظهرت نتائج الدراسة أن الإفصاح عن ESG له تأثير إيجابي على الأداء المالي للبنوك. كما أن عنصري البيئة والمسؤولية الاجتماعية كان لهما تأثير معنوي وإحصائي، في حين كان تأثير عنصر الحوكمة أقل وضوحًا. تشير هذه النتائج إلى أن تبنّي ممارسات ESG والإفصاح عنها يعزز النتائج المالية، ويدعم أهداف رؤية المملكة 2030 نحو تنمية مستدامة في القطاع المالي.

الكلمات المفتاحية :الإفصاح عنESG ، الأداء المالي، حجم البنك، العائد على الأصول(ROA) ، المملكة العربية السعودية

Chapter One: Introduction

The relationship between Environmental, Social, and Governance (ESG) disclosures and the financial performance of banks has become an important focus of attention in today's international financial arena. Banks and other firms are been required to report how they address the governance of their firm, the ethical conduct of their businesses and sustainability. There are stakeholders responding to ESG reports - that want to know how firms are managing their risks related to social and environmental issues, including investors, regulators and consumers. In the financial markets, ESG disclosures have become very important in recent years and have become required disclosures in some countries. Its worth noting that banks in the financial sector have started the implementation of ESG practices under the Vision 2030 goals developed by Saudi Arabia. That said, there is no research on whether ESG disclosures are actual determinants of financial performance for banks in Saudi Arabia. This study seeks to explore the relationship between the financial performance of Saudi banks and ESG disclosures.

1.1 Background

In recent years, Environmental, Social and Governance (ESG) factors have garnered immense prominence in the global financial industry as an effective means to evaluate a company's sustainability and ethical footprint. ESG disclosures define the published, non-financial information to be reported that explains a company's environmental measures, social responsibilities and governance measures. ESG disclosures are growing ever more important to stakeholders from investors to regulators to the general public, as a means of gaining insight into a firm's long-term risks and opportunities which are not measured via traditional financial performance metrics. Typically, investors have been most concerned with the returns on their investments, with less concern on how they were to be achieved. The financial sector is in a period of change where the shift is toward greater accountability and transparency with investors accessing all engaged in managing their funds. As pension and retirement investors become more cognizant of where and how their money is invested, they are demanding more ethical and responsible investment options. While impact investing, ethical investing, sustainable investing and socially responsible investing have been established for some time, ESG has now become the standard measure for determining how corporations considered their operational environmental footprint, social interactions and governance.

The Environmental aspect of ESG considers how companies respond to environmental issues, especially climate change, resource usage, pollution control, and waste management. Firms that ignore environmental responsibilities expose themselves to financial penalties, reputational damage, and legal consequences, while those that proactively adopt sustainable practices are better positioned for long-term success. The Social component addresses how a company manages relationships with employees, suppliers, customers, and the broader community. Fair labor practices, workplace safety, respect for human rights, and product responsibility all fall under this pillar. Companies that neglect these areas risk reputational harm, employee dissatisfaction, and regulatory action. Finally, the Governance dimension

focuses on corporate leadership, transparency, ethical decision-making, shareholder rights, and internal controls. Strong governance promotes integrity, reduces the risk of scandals or fraud, and ensures fair and responsible management. In the banking sector where trust, accountability, and risk management are fundamental ESG disclosures play a vital role in building credibility, ensuring regulatory compliance, and attracting responsible capital.

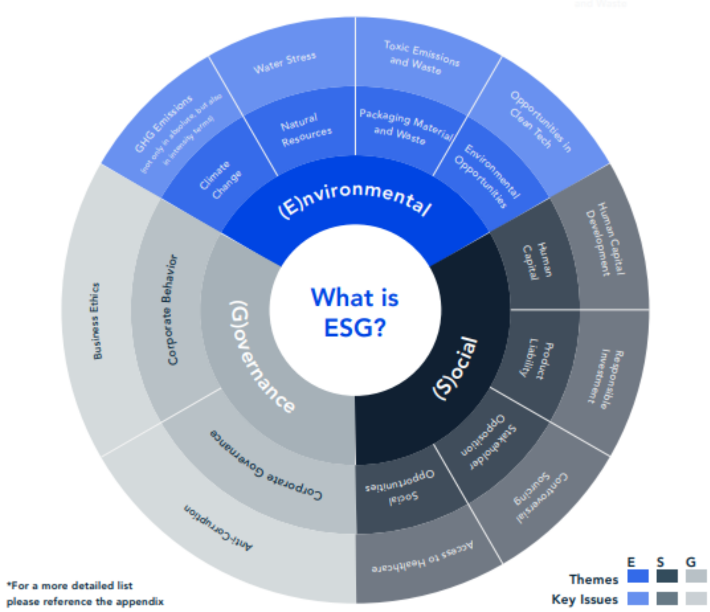

Figure 1: Key Themes and Issues Under Environmental, Social, and Governance (ESG) Pillars

1.2 ESG Progress in Saudi Arabia

Saudi Arabia is taking strong steps to apply ESG (Environmental, Social, and Governance) principles as part of its Vision 2030 plan. The country has set a goal to reach net zero emissions by 2060 and has launched the Saudi Green Initiative, which includes over 60 projects and investments worth more than SAR 700 billion to support the green economy. Government bodies and private companies are working together to apply ESG frameworks. For example, Tadawul has issued ESG disclosure guidelines, and Riyad Bank has created a Sustainable Finance Framework to support green activities. The Saudi Electricity Company also published its Green Sukuk Framework in 2020 to support environmental efforts in line with Vision 2030. The Public Investment Fund (PIF) plays an important role in driving ESG by supporting sustainable investments both inside and outside the Kingdom. The Future Investment Initiative (FII Institute), based in Riyadh, has also developed an inclusive ESG framework for emerging markets. Officials and company leaders stress that ESG is not only about money. It's about protecting the environment, supporting communities, and building a better future. Saudi Arabia aims to lead in ESG by focusing on strong governance, environmental responsibility, and social progress.

1.3 Problem Statement

As the topic of ESG disclosures and bank performance is important because it connects financial success with responsibility. Today, banks are expected to do more than just make profits they are also expected to protect the environment, treat people fairly, and follow strong governance practices. In Saudi Arabia, this is especially important as the country is moving toward a more sustainable and diversified economy under Vision 2030. ESG practices help banks build trust with investors, customers, and regulators. They also help reduce risks that could lead to legal issues, financial loss, or damage to reputation. Understanding the link between ESG and bank performance can help banks make better decisions, improve their long-term stability, and attract responsible investors. It also supports the country's goals for a greener and more transparent financial system. That's why this topic matters for banks, the economy, and the future.

1.4 Research Objectives

This research aims to achieve the following objectives:

1. To investigate how Saudi Arabian banks' financial performance is affected by ESG disclosures.
2. To analyze which ESG factors (Environmental, Social, or Governance) have the strongest relationship with bank profitability.

In this research, the main goal is to investigate the relationship between ESG disclosures and the financial performance of banks in Saudi Arabia. The study aims to find out whether banks that are more active in reporting their environmental, social, and governance practices perform better financially compared to others. This includes looking at how ESG factors like sustainability, fairness, and transparency affect key financial indicators such as profitability,

return on assets (ROA), and return on equity (ROE). The research will also explore which part of ESG (Environmental, Social, or Governance) has the strongest influence on a bank's performance. By doing this, the study hopes to give a better understanding of how ESG reporting can support the growth and stability of banks in Saudi Arabia, and how it fits into the country's long-term economic goals.

1.5 Hypothesis

So in this research we will answer about **Does ESG disclosure improve bank performance in Saudi Arabia?** As we have two hypothesis:

H_0 (Null Hypothesis):

The null hypothesis (H_0) states that there is no significant relationship between ESG disclosures and the financial performance of Saudi banks. This means that whether a bank reports its ESG practices or not, it has no clear effect on financial indicators like Return on Assets (ROA) or Return on Equity (ROE). If this hypothesis is accepted, it would mean that ESG reporting does not have a direct impact on how well the bank performs financially.

H_1 (Alternative Hypothesis):

The alternative hypothesis (H_1) suggests that banks with higher ESG disclosures perform better financially. This means that banks which are more transparent about their environmental, social, and governance activities are likely to have stronger financial results. If the data supports this hypothesis, it would show that ESG plays an important role in improving bank performance in Saudi Arabia.

Chapter Two: Literature Review

This chapter reviews earlier research that examined the connection between banks' financial performance and Environmental, Social, and Governance (ESG) disclosures. It outlines the evolution of ESG reporting, particularly in the Saudi banking industry, and demonstrates how scholars have looked at the financial impacts of ESG policies in various settings. Since ESG has grown in importance in company reporting, numerous studies have attempted to quantify its effect on performance metrics such as return on equity (ROE) and return on assets (ROA). ESG is also receiving increased attention in Saudi Arabia, particularly as a result of national initiatives like Vision 2030 that support financial sector sustainability and transparency. This chapter's overview of the literature provides a current and pertinent perspective on the subject by concentrating on studies that were published between 2018 and 2024. It covers both domestic and foreign viewpoints, with a particular emphasis on Saudi Arabia. The goal is to comprehend the application of ESG practices in Saudi banks, the obstacles they face, and whether or not financial outcomes and ESG reporting are positively correlated. The chapter is structured according to major issues that emerged in the research, such as the development of ESG policies, empirical results on ESG and performance, green banking, and the potential influence of bank size.

2.1 The effectiveness of green banking in saudi arabia (Alamri, 2023)

In a thorough analysis, Razan Alamri (2023) lays out the conceptual framework for green banking in Saudi Arabia, placing it within the framework of the Kingdom's Vision 2030 goal as well as the fields of economic modernization and environmental sustainability. The conceptual underpinnings of green banking are presented in this paper, which links it to the broader area of sustainable finance, which emerged in the 1980s as a result of increased awareness of environmental degradation and the social repercussions of unchecked economic growth. According to Alamri, "green banking" can simply refer to financial practices that place a high priority on social governance and environmental responsibility, encouraging banks to reduce their environmental impact through both internal operations and external investments.

According to Alamri, green banking is a financial model that actively supports economically sustainable behaviors by offering services including socially conscious investment portfolios, green loans, and green mortgages. In addition, the approach promotes paperless banking, energy-efficient internal operations, and the incorporation of environmental risk assessments into lending and investing choices. Historical examples of early adopters of this strategy include HSBC's 2005 pledge to become carbon neutral and Triodos Bank in the Netherlands. More recently, organizations such as Saudi Arabia's Al Rajhi Bank have introduced sustainable finance frameworks in partnership with international organizations, indicating the region's increasing acceptance of green banking.

It's important to note that Alamri makes a distinction between eco-friendly banking and green banking. Eco-friendly banking places more emphasis on openness and moral banking practices, especially when it comes to the distribution of client assets, even if both models encourage sustainable investment and work to lessen environmental damage. Eco-banks tend to prioritize investments in renewable energy, sustainable infrastructure, and ethical businesses over ventures that harm the environment. This contrast highlights the importance of accountability and quantifiable environmental impact in green finance, which is a major issue in Alamri's work.

The article lists a number of the main advantages of green banking. These include promoting long-term sustainability objectives, drawing in eco-aware millennial consumers, improving brand recognition, and possibly forming alliances with governmental and nonprofit institutions. Additionally, by making investments in cutting-edge technology and environmentally friendly business models, green banking may promote innovation and reduce the financial risks connected to climate change. Alamri also highlights how green banking may help achieve the Sustainable Development Goals (SDGs) of the UN, particularly by providing targeted finance for initiatives in the fields of sustainable energy, poverty alleviation, healthcare, and education.

The report highlights that Saudi Arabia has significant obstacles in implementing green banking, despite its encouraging potential. These include the lack of a strong legislative framework, the general lack of knowledge about environmental sustainability, and the high expenses of switching to green operational methods, especially in an oil-dependent nation. Alamri emphasizes that the development of green banking will continue to be constrained in the absence of robust institutional and political backing, particularly unambiguous direction from the Saudi Central Bank (SAMA).

One of the main topics of Alamri's work is the regulatory environment. She looks at national and international policy changes meant to promote sustainable finance. Organizations like the Network for Greening the Financial System (NGFS) and the Sustainable Banking Network (SBN) are becoming more and more important in directing regulators and central banks around the world. Green bond frameworks, Environmental Due Diligence (EDD) procedures, and the use of voluntary guidelines like the Green Bond Principles (GBPs) and Climate Bonds Standards are among the policy measures described in the article. China and the United Kingdom are commended for their aggressive legislative strategies. For example, the UK's net-zero pledges and China's required green finance disclosures serve as regulatory models that may influence comparable developments in Saudi Arabia.

The study also notes a number of drawbacks and hazards related to green banking. These include the potential for organizations to inflate or fabricate the environmental advantages of their operations, a risk known as "greenwashing," the absence of standardized definitions and reporting metrics, and the challenge of controlling the financial risks involved in investing in novel and untested green technologies. Furthermore, some financial institutions may be discouraged from embracing these models due to the greater upfront expenses of implementing green practices and the lack of technical know-how in sustainable finance.

In conclusion, Alamri’s work provides a holistic overview of the role of green banking in supporting sustainable development, particularly in the context of Saudi Arabia. The article emphasizes that green banking holds significant potential to reshape the banking sector by aligning financial practices with environmental and social priorities. Nevertheless, Alamri stresses that meaningful progress will require coordinated efforts between banks, regulators, policymakers, and consumers. The article concludes by advocating for clear regulatory frameworks, increased education and public awareness, and the development of practical incentives to support the growth of sustainable finance in the Kingdom.

2.2 The effect of ESG disclosure on firm performance (Firmansyah et al., 2023)

2.2.1 Overview of Saudi Policy on ESG Reporting

As part of its larger national reform program, Saudi Arabia has made deliberate efforts in recent years to encourage Environmental, Social, and Governance (ESG) reporting. The Saudi Exchange established official ESG reporting guidelines in 2021 with the goal of assisting over 200 listed companies and prospective public corporations in improving their disclosure procedures. A major regulatory step toward increasing openness and boosting investor trust is represented by these requirements. ESG has received strong backing from the Kingdom's government. Policies that promote ESG disclosure and investment are in line with Vision 2030's goals, which include strengthening the financial market infrastructure and diversifying the country's economy. Al-Rumaih, the CEO of the Saudi Exchange, claims that local and international investment decisions are more influenced by ESG principles. These days, voluntary ESG reporting is seen as a key sign of a company's long-term viability and stability. To encourage the implementation of ESG, several Saudi institutions have joined forces. These include the Capital Market Authority, the King Khalid Foundation, and a number of ministries, including those in charge of finance, commerce, investment, energy, the environment, economy and planning, human resources, and social development. Together, these groups strive to integrate ESG concepts into business operations in order to create a robust and sustainable economy. The focus on ESG is a reflection of the increasing understanding that fulfilling changing stakeholder expectations and achieving sustainable growth depend on ethical corporate conduct.

2.2.2 ESG Disclosure and Financial Performance

The results of empirical studies looking at the connection between firm success and ESG disclosure are not entirely consistent. According to a number of studies, such as those by Ahmad et al. (2021), Alareeni and Hamdan (2020), and Bahadori et al. (2021), there is a positive correlation between ESG initiatives and better financial outcomes. This is because ESG initiatives encourage businesses to adopt socially and environmentally responsible practices. For instance, Ahmad et al. (2021) found that companies with greater ESG transparency typically report superior financial results using data from FTSE350-listed UK companies. In a similar vein, Friede et al. (2015) examined research conducted up until 2015 and discovered that 90% of them indicated a favorable relationship between ESG and performance. Other researchers, however, present data that are in conflict. When evaluating business performance using Economic Value Added (EVA), Atan et al. (2016) found no discernible correlation between ESG and firm performance. Bătae et al. (2021) discovered that CSR may have a detrimental impact on business performance, especially in the European banking industry. In their analysis of Norwegian companies, Giannopoulos et al. (2022) found a positive correlation with Tobin's Q but a negative correlation with ROA. It's interesting to note that El Khoury et al. (2021) proposed a non-linear (concave) connection, indicating that ESG is beneficial at moderate investment levels but harmful at excessive ones. ESG performance also lessens the chance of stock market crashes, according to Gao et al. (2022). The current study aims to review this relationship in the Saudi Arabian context, which is politically and economically distinct from Western democracies, in light of the lack of agreement.

2.2.3 Environmental Disclosure and Financial Performance

According to studies like those by Abdi et al. (2022) and Al Amosh et al. (2022), there is a positive correlation between financial performance and environmental disclosure, suggesting that companies that practice environmental responsibility may see an increase in stakeholder trust and operational efficiency. However, some research (e.g., Ahmad et al., 2021; Duque-Grisales & Aguilera-Caracuel, 2021; Saygili et al., 2022) documents adverse consequences, contending that environmental initiatives frequently include substantial initial expenses that diminish immediate profitability. Duque-Grisales & Aguilera-Caracuel (2021) contended that excessive ESG-related costs could impede operational efficiency, while Saygili et al. (2022) noted that environmental disclosure had a detrimental impact on Turkish enterprises' performance. Given that resolving environmental issues is expected to improve a company's reputation and operational success, the stakeholder theory predicts a positive link.

2.2.4 Social Disclosure (CSR) and Financial Performance

Social disclosure, often aligned with CSR, is the second pillar of ESG. Again, the empirical findings are conflicting. Research shows that social activities can improve company performance, especially by lowering costs and strengthening stakeholder connections (Abdi et al., 2022; Ahmad et al., 2021; Bahadori et al., 2021). These findings include a range of scenarios, including a sample of 24 emerging nations, the US, India, Turkey, and the UK. CSR, however, does not always result in financial gains, according to research like Bătae et al. (2021) and Duque-Grisales & Aguilera-Caracuel (2021), especially in the banking and multinational industries. These unfavorable results can be the result of investors' doubts about the real benefits of social spending. Stakeholder theory contends that by enhancing stakeholder participation, social efforts improve corporate performance in spite of these inconsistencies.

2.2.5 Governance Disclosure and Financial Performance

The governance (G) component deals with risk management, ethics, transparency, and board structure. According to research by Maji & Lohia (2022), Ahmad et al. (2021), and others, robust governance frameworks are associated with better financial outcomes because they boost investor confidence and lessen managerial agency issues. However, not every result is favorable. According to Abdi et al. (2022), governance initiatives in the aviation industry actually decreased financial performance, presumably as a result of higher compliance expenses. Menicucci & Paolucci (2022) and Bahadori et al. (2021) also discovered negative relationships in specific sector and geographical situations. Stakeholder theory states that more responsibility brought about by excellent governance should enhance performance.

2.3 Impact of ESG Initiatives on Financial Performance in the Banking Sector (Alamoudi & Hamoudah, 2025)

According to stakeholder theory, which emphasizes that businesses should include sustainability into corporate plans in order to meet stakeholder expectations, there is a correlation between ESG initiatives and financial performance (Freeman, 1984). ESG initiatives are perceived as value-adding processes that boost stakeholder confidence and enhance financial results by increasing cash flow and reputation (Gillan et al., 2021; Diez-Cañamero et al., 2020). This view is supported by earlier research, which indicates that businesses that prioritize sustainability perform better because they are more operationally efficient and have less risk exposure (Alahdal et al., 2024; Campbell, 2007). The continuing economic diversification of Saudi Arabia under Vision 2030 makes the ESG discussion particularly pertinent in this context. According to scholars, in order to improve the performance of listed companies in developing markets like Saudi Arabia, comprehensive ESG legislation is required (Almulhim et al., 2024). In this transition, the banking industry in particular is crucial. Studies indicate that sustainability improves long-term viability and trust, which is why Saudi banks have embraced ESG frameworks more and more in risk management and investment allocation (El Khoury et al., 2023; Mohamed Adnan et al., 2023; Yahya, 2024). According to data from Saudi businesses, including ESG practices improves financial success (Almohanna & Alhussayen, 2024). International research has also shown that ESG-related activities, particularly in governance and environmental disclosure, can have a positive impact on financial outcomes, such as increased ROE and ROA (Lee & Isa, 2023; Nguyen et al., 2022; Yoon et al., 2018; Pulino et al., 2022; Wu et al., 2024). Stakeholder involvement, cost savings, and reputational benefits have also been connected to ESG practices (Zhao et al., 2018; Naeem et al., 2022; Bruna et al., 2022). Some research, nevertheless, challenges this optimistic perspective. Excessive ESG investment has been linked to lower financial performance because of higher expenses and missed opportunities, according to research (Nareswari et al., 2023; Saygili et al., 2022). Additionally, a number of researchers discovered either no effect or just partial benefits, suggesting that the impact of ESG initiatives differs according on the industry, location, or ESG focus of the organization (Lamanda & Tamásné Vőneki, 2024; Bahadır & Akarsu, 2024). For example, environmental disclosures frequently reveal minimal or even negative connections with company performance, although social scores and governance have demonstrated a beneficial influence. The relationship between ESG activities and financial success in Saudi Arabia's banking industry is still unclear due to the conflicting empirical findings.

2.3.1 The Moderating Role of Bank Size

The study uses legitimacy theory, which contends that businesses adopt socially acceptable practices in order to retain stakeholder support, to further investigate the relationship between ESG and performance (Suchman, 1995; Deegan, 2002). In order to maintain legitimacy and strengthen their social compact with society, larger companies must engage more in ESG due to increased public and regulatory scrutiny (Udayasankar, 2008). According to research, the size of a bank may have a big impact on the direction and magnitude of ESG's influence. In order to successfully apply ESG standards, larger banks typically have better infrastructure, more resources, and more operational flexibility. Additionally, stakeholders give them more attention, so maintaining credibility and financial results depends on ESG alignment (Al-Jalahma et al., 2020; Buallay et al., 2020). Smaller banks, on the other hand, might not have the resources or motivation to fully participate in ESG projects, which would restrict their strategic efficacy. Although some research indicates that bank size enhances the financial gains from sustainability initiatives by positively moderating the ESG–performance relationship (Dihardjo & Hersugondo, 2023; Sukesti et al., 2024), others contend that size may not always have a significant moderating effect (Korkmaz & Nur, 2023). According to Abdi et al. (2022), since the advantages of sustainability fluctuate depending on the industry and organizational size, adoption tactics should be customized accordingly. These contradictory findings highlight the necessity of empirical research that is especially targeted at the Saudi banking sector.

2.4 ESG Disclosure and Bank Sector in Saudi Arabia (Abu Hussain, Alsayegh & Boshnak, 2024)

The report "The Role of ESG Disclosure in Enhancing Profitability and Market Value: Insights from Saudi Arabia's Corporate Landscape" provides significant information for the banking industry despite its primary focus on non-financial companies. According to the research, Saudi Arabia's Vision 2030, which promotes sustainability, transparency, and improved corporate performance, has made ESG disclosure more significant in the kingdom. Due to variations in their accounting systems and regulatory requirements, banks were not included in the study's sample. Nonetheless, the authors point out that in the near future, the banking industry will probably come under increasing pressure to implement ESG principles. In order to satisfy investors and regulators alike, Saudi banks will be forced to provide more details about their environmental, social, and governance procedures as ESG becomes a more important consideration in investment decisions. The study also emphasizes how ESG initiatives, particularly in the governance and environmental domains, can raise a business's market value and profitability. Although non-financial companies demonstrated this, banks should also be expected to do so given their significant economic role and high degree of public trust. Since banks will be crucial in assisting the nation's transition to sustainability and responsible finance, the authors recommend that future studies concentrate exclusively on them.

2.5 Environmental Disclosure and Bank Performance in Saudi Arabia (Muneer, 2024)

In the Saudi banking sector, environmental disclosure has become a crucial part of ESG reporting. According to the literature, Saudi Arabian banks are progressively including environmental practices into their public reporting, especially in response to the country's sustainability objective under Vision 2030 and rising stakeholder expectations. Several studies have used the Environmental Disclosure Index (EDI) to assess how well banks report on their ecological impact management, resource efficiency, and energy use. These disclosures continue to have a mixed effect on financial success, nevertheless. According to certain research, environmental disclosure and profitability metrics like return on equity (ROE) and return on assets (ROA) are negatively correlated. This is sometimes ascribed to the extra expenses banks face when putting environmentally conscious operations into place, especially when they are first adopting ESG. These results imply that although environmental reporting shows a dedication to sustainability, it could not result in quick financial rewards. However, research indicates that bigger banks with more robust environmental disclosure policies include Al Rajhi Bank and Banque Saudi Fransi. They are able to balance the demands of investors and regulators with the expense of implementing ESG due to their size and wider financial capacity. This suggests that the relationship between environmental disclosure and financial performance may be moderated by bank size. Due to the research, environmental disclosure can improve transparency, foster stakeholder confidence, and assist long-term strategic alignment with national goals, even though it isn't necessarily financially advantageous in the near term. The literature urges further regulatory guidance and standardization to increase the importance of environmental practices in company performance, although ESG reporting in the Saudi banking industry is still uneven.

Chapter Three: Research Methodology

3.1 Overview

With an emphasis on Saudi Arabia, this chapter examines earlier research on the connection between ESG disclosures and bank financial performance. It emphasizes how ESG has grown in significance within the banking industry, particularly in light of governmental objectives such as Vision 2030. To guarantee current and pertinent findings, the evaluation incorporates research that was published between 2018 and 2024. The chapter examines important subjects like green banking, Saudi Arabia's ESG regulations, the financial impacts of ESG practices, and the potential influence of bank size on this relationship. Finding out how ESG reporting is used in Saudi banks and whether it clearly affects financial performance metrics like ROA and ROE is the goal.

3.2 Research Onion

The research onion model created by Saunders et al. (2016) is a helpful tool for outlining the phases involved in developing a research methodology. The model illustrates the several stages that researchers go through when organizing their investigation. It begins with the research philosophy at the outermost layer and progresses inward through research strategies, approaches, methodological decisions, and time spans before arriving at the core, which deals with data collecting and analysis methods. Every layer aids in directing the researcher toward rational and understandable choices. This approach is beneficial because it systematically arranges the research process and guarantees that each component is interconnected and grounded in sound logic.

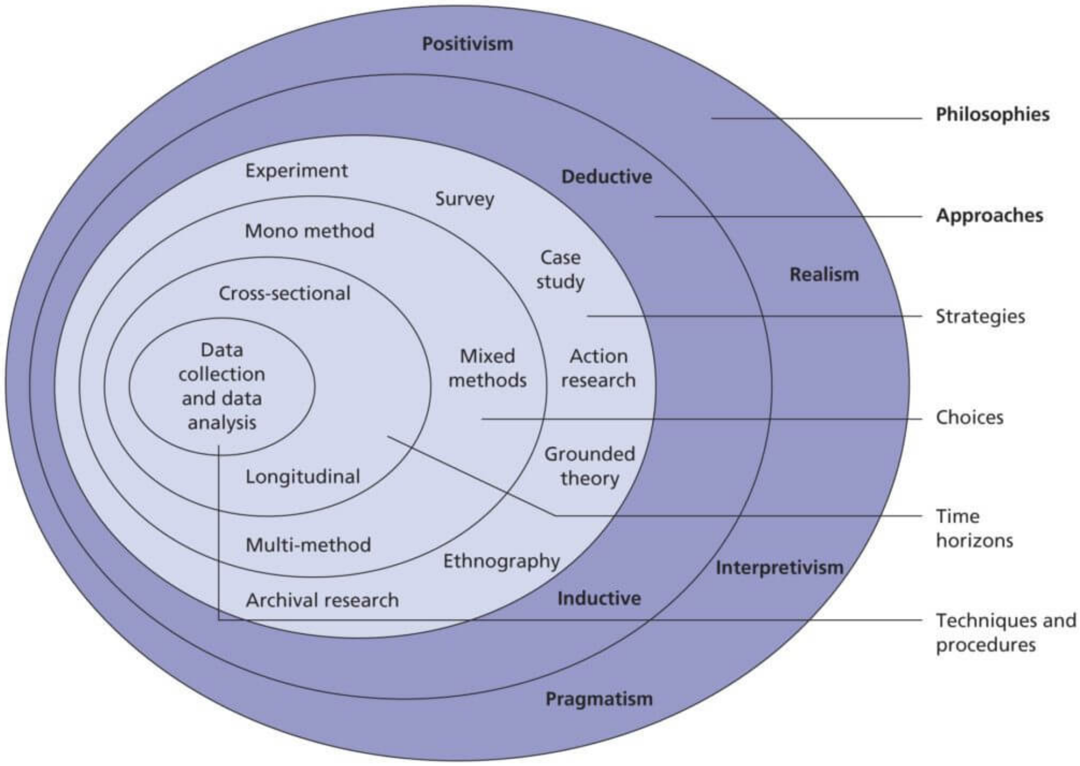

Figure 2: The Research Onion Framework by Saunders et al. (2016)

3.2.1 Research Design

This study uses a quantitative, cross-sectional, and explanatory research design based on secondary data. The goal is to investigate the connection between Saudi Arabian listed banks' financial performance and ESG disclosures. Because it provides the opportunity to generalize the results across the sector and aids in testing the relationship between numerical variables, a quantitative approach is employed. Data gathered between 2018 and 2024, when Saudi Arabia began putting more of an emphasis on ESG through new frameworks and policies under Vision 2030, is used in the study. The study examines trends and connections between financial metrics such as return on equity (ROE) and return on assets (ROA) and ESG reporting. The study can provide precise and unambiguous findings regarding the effect of ESG on bank performance in the Saudi context by utilizing actual financial and ESG reports.

3.2.2 Research Philosophy

It serves as the foundation for the study by outlining the researcher's perspective on reality, the methods used to gather information, and the beliefs and presumptions that underpin the investigation. The philosophy chosen for this study is positivism, which aligns with the goal of employing a quantitative approach to investigate the connection between ESG disclosures and Saudi banks' financial performance. This school of thought holds that knowledge is derived from quantifiable facts and observations, and that historical and present data can be used to forecast the future. Because positivism adopts an objective viewpoint, the variables under study—such as ROA, ROE, and ESG scores—exist apart from the researcher and are observable and measurable. Focusing on facts rather than subjective perceptions or judgments is the goal. Positivism is the most appropriate philosophy because this study relies on actual facts from bank financial statements and ESG reports. This research philosophy is in favor of gathering numerical data, putting theories to the test, and utilizing statistical techniques to analyze the findings. The study intends to provide lucid and impartial findings regarding the relationship between ESG practices and bank performance in the financial sector of Saudi Arabia by employing this methodology.

3.2.3 Research Approach

Since the purpose of this study is to test particular hypotheses by analyzing the relationship between ESG disclosures and financial performance in Saudi banks using actual data, a deductive research approach was chosen. Based on prior research and theory, this method aids in verifying whether there is a quantifiable and rational relationship between ESG practices and financial results. The study can expand on previous scholarly work while evaluating its applicability in the Saudi context thanks to the deductive method. Because it employs observable and quantitative data to focus on cause-and-effect links, it also makes the conclusions more generalizable.

3.2.4 Research Strategy

This part of the study establishes the overall plan for gathering and applying data in order to address the research topic. The descriptive research approach is applied in this study. The objective is to outline the present state of ESG disclosure in Saudi banks and ascertain the relationship between it and their financial results. This approach aids in providing a clear picture of how financial results are impacted by ESG policies and how they are reported. Information is gathered from listed Saudi banks' financial statements, annual reports, and ESG disclosures using a secondary data approach. The researcher can collect organized, trustworthy data that has already been published using this strategy.

3.2.5 Research Choice

This research uses a quantitative, one-method approach in which all data is gathered and examined through statistical and numerical methods. Since the goal of the current study is to investigate how ESG disclosures impact financial indicators such as ROA and ROE in banks, this approach is suitable. The study analyzes the direction and strength of the association between ESG (Environmental, Social, Governance) elements and bank performance using SPSS software. This decision is appropriate for examining financial data and ESG scores provided by Saudi banks since it supports the research goal of testing hypotheses and comprehending quantifiable effects.

3.2.6 Time Horizon

As this study uses a cross-sectional time horizon, data is gathered and examined at a particular point in time rather than across a longer period of time. The study focuses on Saudi banks' financial performance between 2018 and 2024 as well as their ESG disclosures. This enables the researcher to examine a certain time frame and contrast the financial outcomes and ESG practices of several banks throughout those same reporting years. A clear picture of the circumstances at that period is captured by the cross-sectional technique. It still offers solid information for examining the connection between ESG and financial success and is more useful than gathering data over many years. With this approach, the study can identify any trends or distinctions between banks within that three-year period without requiring long-term monitoring.

3.2.7 Techniques and Procedures

This section explains the data collection and analysis process. Secondary data gathered from Saudi Arabian listed banks' annual reports, financial statements, and ESG disclosures will be used in this investigation. The data will span 2018 through 2024, enabling me to compare financial performance and ESG reporting over a certain time frame. Return on Equity (ROE) and Return on Assets (ROA) will be used to gauge the financial performance. Regarding ESG, I will either create a checklist based on the information in the banks' disclosures or use the published ESG rankings.

I'll enter all of the data into SPSS software to perform the analysis when I've collected it. Descriptive statistics will be used to summarize the findings, and regression and correlation tests will be used to examine the connection between financial success and ESG. To make the data easier to read and comprehend, I will use tables, charts, and graphs to explain the findings. This method ensures that the research is based on official data and gives results that are clear, reliable, and objective.

3.2.8 Variables and Measurements

Both independent and dependent variables are included in the study:

Independent Variable: Environmental, Social, and Governance Disclosure
This covers the governance, social, and environmental aspects that the banks have disclosed. A disclosure checklist or ESG scores will be used to measure it.

Dependent Variable: Financial Performance.
Indicators like Return on Equity (ROE) and Return on Assets (ROA) will be used to gauge financial performance.

3.2.9 Population and Sample Selection

Each bank that is listed on the Saudi stock exchange is part of the research population. These banks were chosen for this study because they are obligated to release their financial reports and ESG disclosures, making their data accessible and trustworthy. Only banks that have disclosed both financial performance and ESG data between 2018 and 2024 will be included in the sample. Purposive sampling is used in the selection process, so only banks that satisfy the study's criteria will be included. This entails having transparent ESG data and consistent data over the entire time frame. Depending on the availability of data, the sample size may vary, but the emphasis is on selecting institutions that offer reliable and comprehensive reports. This will assist the study in providing a clear picture of the relationship between Saudi banks' financial performance and ESG reporting.

3.3 Ethical Considerations

Any research project must take ethics into account, but this is especially true when using data from actual organizations. Ethical obligation still pertains to the collection, use, storage, and reporting of information, even though this study is based on secondary data. It is crucial to adhere to professional standards and make sure that no data is exploited or distorted because the study contains financial and ESG disclosure data from Saudi institutions.

3.3.1 Informed Use of Data

While there are no direct human participants in the study, the financial and ESG data are taken from bank reports that are made available to the public. Every source is appropriately cited, and the data is treated with care. Only published materials are included, and no private or personal information is used. A formal request and authorization will be obtained if any direct interaction with institutions is required (for example, clarification from bank authorities).

3.3.2 Confidentiality

The research refrains from identifying specific workers, teams, or internal details of any bank that are not revealed in official reports, even when the data is publicly available. Only the bank-level disclosures and financial performance metrics as stated in annual records are the subject of the study. Only the university supervisor and committee have access to the collected data, which is safely preserved and utilized exclusively for academic purposes.

3.3.3 Responsible Reporting

It is crucial that the research findings be communicated in an honest and civil manner. No bank faces criticism or condemnation. Rather, the emphasis is on finding trends and connections between financial outcomes and ESG practices. No assumptions are made beyond what the data supports, and any restrictions or gaps in the data are described in detail. The objective is to further scholarly knowledge, not to sway public opinion or harm people's reputations.

3.3.4 Beneficence

By providing insightful information about how ESG reporting could enhance Saudi banks' reputation and financial health, the study seeks to bring value. It backs the nation's Vision 2030 transition to sustainability and openness. Policymakers, bank managers, investors, and students who wish to comprehend the significance of ESG in the financial industry may also find the research useful.

3.4 Chapter Summary

The research approach was described in this chapter. The study's main goal is to investigate the connection between Saudi banks' financial performance and ESG disclosures. Using secondary data gathered from banks' annual reports, ESG disclosures, and financial statements between 2018 and 2024, a quantitative research approach is used. SPSS software is used to analyze the data, which includes financial metrics like ROA and ROE. To verify the hypothesis and investigate how ESG affects performance, a deductive technique backed by positivism is employed. A cross-sectional time horizon is used in the study, and descriptive tables and charts are included in the analysis along with regression and correlation methods. Throughout the process, ethical standards are adhered to, particularly with regard to the appropriate reporting of outcomes and the handling of public data. The results of the data analysis and an explanation of the study's key conclusions will be provided in the following chapter.

Chapter Four: Data analysis and findings

This chapter will provide a detailed analysis of the data collected during the study, emphasizing significant trends and conclusions pertinent to the goals of the investigation. Examining the connection between ESG disclosures and Saudi banks' financial performance between 2018 and 2024 is the goal. As we will explened in detail the minimum, the maximum, the average, and the standard deviation value for each variable. Furthermore, the correlation matrix will be shown to measure how strong the relationship is between the variables. Then, the regression results will be explained clearly to test the study's hypotheses. The results are presented to show if ESG has effect on financial performance, based on ROA.

4.1 Descriptive Statistics

Max	Min	Std. Dev.	Mean	Obs	Variable
.7	.196	.131	.399	70	**ESG**
.024	.008	.004	.018	70	**ROA**
11.442	10.289	.293	10.748	70	**Bank size**
5.269	.704	.883	1.787	70	**MTB**

Table1: Descriptive Statistics

Table 1 present the descriptive statistics for the main variables used in this study: ESG, ROA, Bank Size, and Market to Book based on 70 observation.

ESG

The average ESG disclosure is 0.399 with the minimum value 0.196 and the maximum value 0.700, this showes that ESG practices differ from one bank to anther. The stander deviation is 0.131, which means there is some variation among the banks in how much they report on ESG.

Reutaern on Assets (ROA)

For ROA, the average is 0.018, meaning banks in the sample earn about 1.8% return in their assets. The minimum ROA is 0.008, and the maximum is 0.024, with standard deviation of 0.004. Which showes that the profitability is close between banks.

Bank Size

Bank size, measured by the natural log of total assets has mean of 10.748, with a minium of 10.289 and maximum of 11.442. The standard deviation is 0.293. Which reflect slight differences in size between the banks.

Market to Book

The MTB ratio has an average of 1.787, ranging from 0.704 to 5.269. The standard deviation is 0.883, showing that the market value compared to the book value is not the same for all banks.

4.2 Correlation Matrix

(8)	(7)	(6)	(1)	Variables
			1.000	(1) ESG
		1.000	0.219	(6) ROA
	1.000	0.622*	0.258*	(7) Bank ESG size

1.000	0.342*	0.438*	0.070	(8) MTB

Table 2: Pairwise correlations

The study's key variables—ETG, ROA, bank size, and MTB—have a pairwise association, as shown in Table 2. This table is intended to show the relationships between each variable and determine whether any meaningful relationships exist.

ESG and ROA have a 0.219 correlation, indicating a weak yet favorable association. Accordingly, there may be a weak correlation between improved financial performance and increased ESG disclosure.

With a value of 0.258, asterisks show that there is a statistically significant correlation between ESG and bank size. This illustrates that larger institutions tend to have higher ESG transparency. ESG and MTB have a very weak and non-significant association of 0.070. This indicates that there is little correlation between ESG disclosure and the markup value relative to book value.

ROA and Bank Size have a strong positive correlation of 0.622, and ROA and MTB show a moderate positive correlation of 0.438. These results are also significant and show that larger banks and higher market value are linked to better financial performance.

4.3 Variance Inflation Factor

1/VIF	**VIF**	
.517	**1.933**	**ESG**
.55	**1.817**	**Bank size**
.761	**1.313**	**MTB**

.	**1.351**	**Mean VIF**

Table 3: Variance inflation factor

Table 3 presents the Variance inflation Factor (VIF) results for the independebt variables used in this study, which are ESG disclosure, Bank Size, and MTB. The purpose of this test is to check for multicollinearity, which happens when independent variables are highly correlated with one anther. High multicollinearity can effect the accuracy of the regression results and make it difficult to understand the real impact of each variable.

In this table, the VIF value for ESG is 1.933, for Bank Size it is 1.817, and for MTB it is 1.313. The mean VIF is 1.351. These values are all well below the commonly accepred threshold of 5, which indicates thet multicollinearity is not a concern in this model. When VIF values are under 5, it means that the variables are independent enough from each other, and these is no strong overlap in the information they proide.

Also, the 1/VIF values are all above 0.5, which supports the same conclusion the variables can be used in the regression anaysis without causing distortion. This results confirms that the model is statistically sound, and the regression results can be trusted when examining how ESG disclosure, bank size, and MTB relate to financial performance.

4.4 Testing Research Hypotheses

In this section we will explains the regression analysis results for the study. As there is two models were teated. The first one includes overall ESG, and the second separates the three ESG pillars (Social, Envirinmental, and Governance). Both models also include Bank Size and Market-to-Book (MTB) as control variables. The dependent variable in both models is Return on Assets (ROA).

Multiple Regression Analysis						
ROA		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.310	.530		-.585	.560
	ESG	.226	.068	.338	3.351	.001
	Bank size	-.008	.004	-.243	-1.917	.058
	MTB	.000	.020	.001	.016	.987

Table 4: Regression Results Using Overall ESG Disclosure

In this model, ROA is the dependent variable, and the independent variables are ESG disclosure, Bank Size, and the MTB.

ESG

The coefficient for ESG disclosure is 0.226, with a standard error of 0.068. The standardized beta is 0.338, and the t-value is 3.351. This result is statistically significant with a significance level of 0.001, which is below the 1% threshold. This means that ESG disclosure has a clear and strong positive effect on financial performance. In other words, as ESG reporting increases, the bank's ROA also increases. This supports the idea that ESG practices are beneficial for Saudi banks.

Bank Size

The coefficient for bank size is –0.008, with a standard error of 0.004. The standardized beta is –0.243, and the t-value is –1.917.Because the significance level is 0.058, which is marginally above 0.05, the result is not statistically significant. This suggests that bank size and ROA may have a weakly negative connection, but we are unable to provide solid data to support this. It suggests that as banks get bigger, their return on assets might slightly decrease, but the effect is not clear enough to be certain.

Market to Book

The MTB ratio has a coefficient of 0.000, a standard error of 0.020, and a standardized beta of 0.001.With a significance value of 0.987, the result is not significant, and the t-value is 0.016. This demonstrates unequivocally that under this model, ROA is unaffected by the market-to-book ratio. It indicates that the bank's return on assets is unaffected by the difference between its book value and market value.

The primary hypothesis that ESG disclosure enhances financial performance is supported by this model, but there is no discernible impact from the other two variables.

Multiple Regression Analysis						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.450	.635		-.695	.720
	Social Pilar	.061	.029	.271	2.067	.041
	Environmental	.226	.068	.338	3.351	.001
	Governance	.008	.004	.243	1.917	.058
	Bank size	.000	.020	.001	.016	.987
	MTB	.000	.001	-.013	-.100	.921

Table 5: Regression Results Using ESG Pillars

Social Pillar

The coefficient for the social pillar is 0.061, with a standard error of 0.029. The beta is 0.271, and the t-value is 2.067. The significance level is 0.041, which is statistically significant at the 5% level. This result shows that social responsibility activities have a positive impact on bank performance. Banks that invest in their communities, employees, and social programs are more likely to have better ROA.

Environmental Pillar

The environmental pillar has the strongest effect in the model. The coefficient is 0.226, with a standard error of 0.068, and a beta of 0.338. The t-value is 3.351, and the result is highly significant with a value of 0.001. This means that banks that focus on environmental practices like sustainability, green financing, and climate-related efforts tend to perform better financially. It confirms that environmental initiatives play a major role in improving profitability.

Governance Pillar

The governance variable has a coefficient of 0.008, a standard error of 0.004, and a beta of 0.243. The t-value is 1.917, and the result is not significant, with a significance level of 0.058. Even though the beta value suggests a positive relationship, the result is not strong enough to confirm a clear effect. So, governance practices might improve performance, but in this model, we cannot say that confidently.

Bank Size

In the second model, bank size has a coefficient of 0.000, a standard error of 0.020, and a beta of 0.001. The t-value is 0.016, and the result is not significant with a value of 0.987. This shows no relationship between bank size and ROA in this model. Unlike in the previous model, even the slight negative trend disappears.

Market to Book

Finally, the MTB ratio has a coefficient of –0.013, with a standard error of 0.129, and the t-value is –0.100. The significance level is 0.921, which is not significant at all. This confirms again that the MTB ratio does not influence ROA, and market valuation is not a factor affecting bank profitability in this case.

This model shows that the Environmental and Social pillars are the main contributors to financial performance, while Governance, Size, and MTB do not show a strong effect.

Chapter Five: Conclusion

5.1 Discussion of Findings

The purpose of this study was to investigate the connection between Saudi Arabian listed banks' financial performance from 2018 to 2024 and their ESG disclosures. The regression analysis's findings demonstrated that ESG significantly and favorably affects bank performance as determined by ROA. This demonstrates that banks with more robust ESG policies typically have better financial results. The Environmental and Social components of the three ESG pillars clearly had a beneficial impact, whilst the Governance component had a favorable but not statistically significant effect.

The pillar with the most impact was the environmental one, indicating that Saudi Arabian banks that prioritize sustainability, climate-related initiatives, and environmental reporting are more likely to see an improvement in their bottom line. Significant influence was also seen in the social pillar, indicating that banks with a strong emphasis on social responsibility, community involvement, and employee welfare are in a stronger financial position. Although the governance pillar came very near to being important, the outcome was insufficiently powerful. This might be the case due to the fact that governance procedures are already commonly used in the banking industry and may not vary significantly throughout banks.

Other variables like Bank Size and MTB did not show any significant effect on ROA in both models. This suggests that ESG performance, especially in the environmental and social areas, plays a more important role in financial results than the size of the bank or its market valuation.

5.2 Conclusion

The results will be summarized using descriptive statistics, and the relationship between financial success and ESG will be investigated using regression and correlation tests. I will explain the results using tables, charts, and graphs to make the data easier to read and understand. The results from the regression analysis clearly show that there is a positive link between ESG disclosure and financial performance, especially when measured through Return on Assets (ROA).

Among the three ESG pillars, environmental and social factors had the strongest influence, both showing significant and positive effects on ROA.Accordingly, Saudi banks that actively participate in social programs, environmental responsibilities, and sustainability measures typically see higher profits. The governance pillar, on the other hand, demonstrated a positive association but was not statistically significant. This could be because governance norms are already broadly applied throughout the industry and may not vary significantly amongst banks.

As a result, Saudi banks that actively engage in sustainability initiatives, environmental obligations, and social programs generally see higher profits. In contrast, the governance pillar showed a positive correlation, but it was not statistically significant. This might be the case due to the fact that industry-wide governance standards are already widely followed and may not differ greatly throughout institutions.

This conclusion highlights that ESG is no longer just a voluntary or image-based concept, but an important strategic factor that influences real financial outcomes. With Saudi Arabia moving toward a more diversified and sustainable economy under Vision 2030, ESG practices will continue to grow in importance. This study supports the idea that banks should not view ESG as a burden but as an opportunity to improve both financial results and long-term value.

The results of this research are useful for multiple stakeholders including bank managers, investors, regulators, and policymakers who are looking to make more informed decisions based on responsible and sustainable banking practices.Because ESG initiatives are both financially and ethically advantageous, it also encourages additional banks in the area to invest in them.

5.3Future Research Directions

There are still a lot of topics that might be covered in future research, even though this study concentrated on the connection between ESG disclosure and the financial success of Saudi banks that were listed between 2018 and 2024. Extending the study period into 2024 is one potential approach that would enable researchers to track the long-term impacts of ESG on financial performance and determine whether these trends persist or alter as regional ESG policies evolve.

Another important direction would be to include additional financial performance indicators, such as Return on Equity (ROE), Net Profit Margin, Earnings Per Share (EPS), or even stock market performance. Including these different measures could give a broader and more complete view of how ESG practices affect the overall strength and stability of banks.

Comparing Islamic and conventional banks would also be helpful in order to determine whether ESG has the same effect on each. It would be fascinating to investigate if Islamic banks inherently perform better in ESG-related areas or whether the differences are negligible, given that they adhere to Sharia rules, which already place an emphasis on ethics and social responsibility.

Future studies could also examine how internal and external factors, such as investor demands, consumer expectations, and governmental restrictions, affect banks' ESG practices. These elements may contribute to the explanation of why certain banks are more dedicated to ESG policies than others.

Future study could use qualitative techniques such case studies or interviews with bank managers, compliance teams, or ESG officers in addition to quantitative methods. Deeper understanding of the practical application of ESG policies, the difficulties banks encounter, and how they match financial strategies with ESG objectives would result from this.

Lastly, to examine how ESG influences financial results across businesses, comparable study might be expanded to other Saudi Arabian sectors like insurance, energy, or telecommunications. This would contribute to the development of a more thorough comprehension of ESG's function in the larger Saudi economy.

5.4 Recommendations

Based on the findings of this research, two key recommendations are provided — one directed at Saudi banks, and the other at policymakers and regulatory bodies. These recommendations aim to support the development of responsible banking practices that align with both financial goals and national sustainability priorities.

1. Saudi banks should increase their focus and investment in environmental sustainability initiatives.

The regression analysis showed that the environmental pillar of ESG has the strongest and most significant impact on financial performance. This indicates that banks that engage in environmental practices such as green financing, energy-efficient operations, carbon footprint reduction, and sustainability reporting are more likely to see better profitability and stakeholder trust. Consequently, banks must to consider environmental activities as a component of their strategic financial planning, going beyond simple compliance. This can involve introducing green products, making investments in eco-friendly technology, and establishing specific environmental goals in line with Saudi Arabia's Vision 2030 and the country's goal of having zero net emissions by 2060. Programs for educating employees about the long-term financial and reputational benefits of environmental engagement can also be beneficial to banks.

2. Regulators and financial authorities should establish a unified and mandatory ESG reporting framework for the banking sector.

ESG reporting is still optional in Saudi Arabia at the moment, which causes disparities and makes it difficult to compare banks. Regulatory agencies like the Capital Market Authority (CMA) and the Saudi Central Bank (SAMA) should implement industry-specific, well-defined ESG disclosure criteria that are in line with international frameworks like the SASB or GRI in order to solve this problem. In addition to enhancing the caliber and transparency of ESG data, a consistent approach will assist analysts, investors, and policymakers in determining whether banks are genuinely dedicated to sustainable growth. A step like this would enhance Saudi Arabia's standing as a regional leader in responsible finance and boost confidence in the nation's financial industry among domestic and foreign investors.

Implementing these recommendations would allow banks to improve their competitive edge while contributing positively to environmental and social development. It would also ensure that ESG is no longer seen as an optional reporting tool, but rather as an essential part of long-term risk management, value creation, and national economic progress.

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