

# A REVIEW OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PRACTICES AMONG SAUDI LISTED COMPANIES: TRENDS, CHALLENGES, AND POLICY IMPLICATIONS

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**Abstract:** *Environmental, Social, and Governance (ESG) practices are becoming integral to corporate strategy and market competitiveness globally. In Saudi Arabia, this transition is accelerated by strategic national visions, including Vision 2030 and the Saudi Green Initiative (SGI), alongside regulatory guidance from the Saudi Exchange (Tadawul). This paper examines the current state of ESG adoption among Saudi listed companies through a dual-method approach: a structured review of recent empirical studies and policy developments (2021-2025), and a pilot content analysis of five anonymized listed firms. Our analysis indicates a discernible hierarchy in disclosure quality, with governance practices being the most robust, followed by social and environmental disclosures. The findings underscore significant challenges, including inconsistent data quality and capacity gaps, particularly in environmental reporting. We synthesize key enablers for improvement, such as the adoption of digital reporting taxonomies, TCFD-aligned risk quantification, and integration with the nascent voluntary carbon market. The paper concludes by proposing a sequenced policy roadmap emphasizing convergence with International Sustainability Standards Board (ISSB) standards, the development of sector-specific guidance, and enhanced assurance mechanisms. This study contributes to the literature by framing ESG implementation as a systemic data engineering challenge and offering actionable technology and policy roadmaps for issuers and regulators in the Saudi market.*

**Keywords:** : ESG; sustainability reporting; corporate governance; Saudi Arabia; Vision 2030; ISSB; voluntary carbon markets

## 1. Introduction

The global corporate landscape is increasingly defined by the integration of Environmental, Social, and Governance (ESG) factors into investment decisions and regulatory frameworks. Once a voluntary endeavor, sustainability reporting is rapidly transitioning toward mandatory regimes in major jurisdictions, such as the European Union's Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). This global convergence is increasingly anchored by the baseline standards developed by the International Sustainability Standards Board (ISSB) and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Major

firms devote significant resources towards improving their environmental impact, developing and establishing alternative techniques and approaches, reducing energy consumption, improving packaging, enhancing the use of reusable materials.

In Saudi Arabia, the ESG agenda is inextricably linked to the nation's transformative Vision 2030 and the accompanying Saudi Green Initiative (SGI). These strategic frameworks commit the Kingdom to ambitious targets, including achieving net-zero emissions by 2060, sourcing approximately 50% of its power from renewables by 2030, and reducing annual emissions by 278 million tons of carbon dioxide equivalent (MtCO<sub>2</sub>e) by 2030. To align corporate practices with these national objectives, the Saudi Exchange (Tadawul) introduced its ESG Disclosure Guidelines in 2021, providing a foundational framework for listed companies to enhance transparency and comparability. Concurrently, market infrastructure is evolving, exemplified by the Public Investment Fund (PIF) and Tadawul Group-backed Regional Voluntary Carbon Market Company (RVCMC), which has partnered with private sector to launch a carbon credit exchange platform. A pivotal development on the reporting front is the agreement between the Saudi Organization for Chartered and Professional Accountants (SOCPA) and the IFRS Foundation to translate ISSB standards into Arabic, signaling a clear intent to align with global sustainability reporting benchmarks.

While empirical evidence on ESG in Saudi Arabia is growing, it often reveals mixed results regarding the financial impacts of ESG performance. Studies suggest that governance and social factors have historically had a stronger influence on firm value than environmental factors, though this dynamic is shifting. This paper addresses a gap in the literature by synthesizing recent regulatory, market, and empirical developments to provide a timely analysis of the evolving ESG landscape in Saudi Arabia. We move beyond identifying associations to propose a practical roadmap focused on the technological and data infrastructure necessary for robust ESG implementation. By framing ESG data pipelines as a system engineering challenge, this study offers novel insights for issuers, regulators, and policymakers seeking to enhance the quality, reliability, and decision-usefulness of ESG information.

## **2. Literature Review**

### **2.1 ESG and Corporate Sustainability**

Governments are faced with multidimensional ecological challenges and energy insecurities and are forced to adopt new development strategies. The integration of ESG principles is now widely regarded as a strategic imperative rather than a peripheral ethical concern. A substantial body of research links robust ESG practices to enhanced long-term financial performance, superior risk management, and stronger corporate reputations, thereby creating sustainable competitive advantages. From a theoretical standpoint, this aligns with the Resource-Based View, where ESG capabilities are seen as valuable, rare, and inimitable resources, and with Stakeholder Theory, which posits that addressing stakeholder concerns is central to long-term success.

Frameworks such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the TCFD provide structured guidance for disclosure. GRI offers a comprehensive framework for sustainability reporting, SASB focuses on industry-specific, financially material issues, and TCFD provides guidance for disclosing climate-related risks and opportunities, including governance, strategy, risk management, and metrics and targets.

The financial materiality of ESG, however, is context dependent. Recent studies in emerging markets indicate that the impact of ESG on profitability and valuation varies by pillar and overtime. For instance, a 2025 pan-emerging market study found that governance and social pillars historically had a more pronounced positive impact, though environmental factors have gained significant prominence post-pandemic due to shifting investor priorities and regulatory pressures. This underscores that the ESG-performance relationship is moderated by macroeconomic conditions, industry characteristics, and the maturity of regulatory frameworks.

## **2.2 ESG in Emerging Markets**

Emerging economies face a distinct set of challenges in implementing ESG practices, including weaker regulatory enforcement, fragmented institutional frameworks, and a scarcity of technical expertise. This often results in a higher risk of "greenwashing" and undermines the credibility of ESG disclosures. A critical barrier is the lack of standardized, reliable ESG data, particularly among small and medium-sized enterprises (SMEs) that dominate these economies and lack the resources for sophisticated data collection and verification.

Despite these hurdles, global capital flows are exerting significant pressure for change. International financial institutions, such as the International Finance Corporation (IFC), are actively promoting the adoption of global standards like IFRS/ISSB and GRI. The growth of sustainability-linked loans and green bonds in emerging markets provides a tangible financial incentive for firms to improve their ESG transparency, as investors increasingly demand decision-useful data as a precondition for capital allocation.

## **2.3 ESG in the Gulf Region**

Research on ESG in the Gulf Cooperation Council (GCC) has accelerated, driven by national diversification agendas like Saudi Vision 2030 and the UAE's Net Zero 2050 strategy. A 2025 mixed-methods study of 117 companies across Saudi Arabia, the UAE, and Qatar found divergent progress levels, with the UAE leading in environmental performance, Saudi Arabia showing moderate, reform-driven improvements, and Qatar lagging, particularly in governance and social dimensions.

A consistent regional pattern is the relative strength of governance and environmental disclosures compared to social indicators. This imbalance can be explained through institutional theory, which identifies coercive (regulatory), normative (professional), and mimetic (imitation) pressures. Initiatives like the GCC Exchanges Committee's unified ESG indicators (2023) represent a normative push for harmonization. However, the voluntary nature of many guidelines and capacity gaps within firms continue to constrain transparency and comparability across the region.

## **3. Research gap and contribution**

While regulatory frameworks are evolving and initial empirical studies exist, there remains a need for a synthesized analysis that connects policy developments, empirical findings, and practical implementation challenges specific to Saudi Arabia. This paper addresses this gap by providing a timely thematic analysis of emerging trends and formulating a forward-looking policy and technology roadmap. Our contribution is twofold: first, we consolidate the fragmented evidence on Saudi ESG practices; second, we introduce a pragmatic perspective

that treats ESG data management as a critical system engineering problem, proposing concrete steps for enhancing data quality and assurance.

#### 4. Methodology

This study employs a two-pronged methodological approach:

1. Policy and Literature Synthesis: We conducted a structured review of regulatory documents, market announcements, and empirical academic studies published between 2021 and 2025. This included an analysis of Tadawul's ESG guidelines, SGI targets, SOCPA's activities regarding ISSB standards, financial sector climate disclosures, and the development of the voluntary carbon market via RVCMC.
2. Pilot Content Analysis: To generate indicative insights into current disclosure practices, we performed a qualitative content analysis on the most recent sustainability or annual reports of five anonymized Saudi listed companies from diverse sectors. Disclosures were mapped to nine key indicators, categorized into the three ESG pillars:
  - Environmental: Carbon Emissions, Renewable Energy, Waste Management.
  - Social: Diversity & Inclusion, Health & Safety, Community Engagement.
  - Governance: Board Independence, Anti-Corruption, Shareholder Rights. Each indicator was scored using a simple ordinal scale: 0 (not disclosed), 1 (partial disclosure), or 2 (full disclosure). This pilot study is designed to reveal patterns and is not intended for statistical generalization.

**Table 1: Results**

| Company   | Carbon Emissions | Renewable Energy | Waste Management | Diversity & Inclusion | Health & Safety | Community Engagement | Board Independence | Anti-Corruption | Shareholder Rights |
|-----------|------------------|------------------|------------------|-----------------------|-----------------|----------------------|--------------------|-----------------|--------------------|
| Company A | 2                | 1                | 2                | 1                     | 2               | 1                    | 2                  | 2               | 1                  |
| Company B | 1                | 0                | 1                | 0                     | 2               | 0                    | 1                  | 2               | 1                  |
| Company C | 0                | 0                | 1                | 2                     | 1               | 1                    | 2                  | 1               | 2                  |
| Company D | 2                | 2                | 2                | 1                     | 2               | 2                    | 2                  | 2               | 2                  |
| Company E | 1                | 1                | 0                | 1                     | 1               | 2                    | 1                  | 1               | 0                  |

The pillar-level averages reveal a clear hierarchy: Governance is the most strongly disclosed pillar (mean  $\approx 1.47/2$ ), followed by Social (mean  $\approx 1.27/2$ ) and Environmental (mean  $\approx 1.07/2$ ). At the company level, composite scores show significant variation (range  $\approx 0.89$  to  $\approx 1.89$ ), indicating substantial disparity in overall ESG disclosure maturity among listed firms.

## 5. Discussion

The findings from our pilot analysis align with broader GCC evidence, which consistently points to governance-led disclosure maturity. The relative strength of governance reporting likely reflects earlier and more established corporate governance reforms in the region. The weaker performance in environmental disclosure, particularly on metrics like renewable energy adoption, highlights a critical gap that must be addressed to meet national SGI targets.

Our synthesis of recent empirical studies (summarized in Table 2) confirms a generally positive but nuanced association between ESG and corporate performance in Saudi Arabia, with results varying by the specific ESG metric, period, and sector analyzed.

**Table 2. Selected Empirical Evidence for Saudi-listed Companies (2019–2025)**

| Study (Year)                  | Sample Period | ESG Measure              | Main Finding                                                                       |
|-------------------------------|---------------|--------------------------|------------------------------------------------------------------------------------|
| Ali et al. (2025) [10]        | 2019-2023     | Custom Disclosure Index  | Positive association between ESG disclosure and ROA                                |
| Firmansyah et al. (2023) [11] | 2010-2020     | Bloomberg ESG Score      | Mixed results; ESG negatively associated with Tobin's Q; component-level variation |
| IJRSS (2025) [17]             | 2010-2023     | Panel GMM ESG Score      | ESG positively associated with ROA, ROE, and Tobin's Q                             |
| CMA Study (2023) [16]         | 2013-2021     | ESG & Governance Reforms | Positive link between ESG and financial sustainability                             |
| AIMS Press (2025) [12]        | 2021-2022     | Refinitiv ESG Score      | Mixed results across GCC; Saudi Arabia shows improvement                           |

Moving forward, practical priorities for Saudi issuers should include:

- **Materiality Assessment:** Conducting double materiality assessments aligned with both Tadawul guidelines and ISSB S1 and S2 standards
- **Data Architecture:** Developing robust IT systems for ESG data capture, processing, and audit trails to ensure reliability
- **Climate Risk Quantification:** Implementing TCFD-aligned scenario analysis to quantify climate-related risks and opportunities
- **Assurance Readiness:** Preparing for limited assurance requirements by strengthening internal controls over ESG data
- **Carbon Market Engagement:** Strategically utilizing the RVCMC platform for credible carbon credit transactions and offset strategies

## 6. Policy Implications

Based on our analysis, we propose a sequenced policy agenda to accelerate robust ESG adoption:

1. **Formal Endorsement of ISSB Standards:** SOCPA and the Capital Market Authority (CMA) should formally endorse ISSB S1 and S2 as the core sustainability reporting baseline for Saudi Arabia Digital Reporting Infrastructure: Develop and publish a mandatory XBRL taxonomy for ESG reporting to automate data collection and enhance comparability
2. **Phased Assurance Mandate:** Introduce a requirement for limited external assurance on a core set of ESG metrics, starting with the largest listed companies
3. **Transparency for Voluntary Carbon Markets:** Mandate detailed disclosures on the use of carbon credits, including project type, certification standard, and retirement details, to ensure market integrity
4. **SME Support:** Develop simplified toolkits and capacity-building programs tailored to the needs of small and medium-sized enterprises
5. **Capacity Building:** Leverage SOCPA and Tadawul to conduct extensive training programs for preparers, auditors, and board members on ESG reporting and assurance

## 7. Conclusion

Saudi Arabia's ESG ecosystem is advancing at a remarkable pace, driven by strong top-down political will and evolving market infrastructure. Our analysis indicates that while governance disclosure is relatively mature, significant opportunities for improvement remain in the depth and quality of environmental and social reporting. The convergence towards global standards like ISSB, coupled with investments in digital reporting and assurance frameworks, will be crucial for enhancing the reliability and decision-usefulness of ESG information.

## 8. Limitations and future research

This study is limited by its pilot-scale content analysis, which, while illustrative, is not statistically generalizable. Future research should expand this effort to a longitudinal panel of the Top 100 Tadawul-listed companies over a 5-10 year period. Furthermore, triangulating automated data from providers like Bloomberg and Refinitiv with manual content analysis would provide a more robust measure of disclosure quality. Finally, as the SGI and RVCMC mature, future studies should develop and analyze sector-specific transition metrics to track corporate alignment with national climate and sustainability goals.

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