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Examining the Impact of ESG on Organizational Performance: The Literature Review on Investment Sectors of the Middle East and North Africa (MENA)

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ABSTRACT

ESG pertains to integrating environmental, social, and governance concerns into the operations of corporations and investors. The integrated and collective impact of ESG practices on value creation and sustainability for all stakeholders is considered in every available investigation into ESG performance. However, to make more informed ESG investment decisions, it is necessary to comprehend how different ESG components influence value creation for organizations. The Middle East and Northern Africa (MENA) region mostly consists of countries that have abundant natural resources. ESG implementation in the MENA investment sector would likely be influential in boosting its economic growth. In MENA, more research needs to be performed to highlight the significance of ESG in boosting the financial development of the investment sectors. This literature review has highlighted the research papers, reports, and articles from 2019 to 2023 that depicted the ESG growth in the investment sector by emphasizing the examples of the MENA region and the international market. The literature review has shed light on the role and trend of ESG in MENA investment sectors. Further, it comprehensively discussed the ESG financial stability, ESG implementation barriers, and opportunities, ESG role in risk mitigation, and innovation and employee engagement driven by ESG. This discussion would help the MENA investors and the other organizational bodies make educated decisions before any investment.

INTRODUCTION

Within the current business environment, Environmental, Social, and Governance (ESG) considerations have advanced beyond being mere ethical obligations and have become essential elements that drive the success of organizations. The growing focus on ESG shows a big change in how businesses work around the world. Now, sustainable and responsible business practices are not additional services; they are important parts of planning strategies (Alsuhaibani, 2023). In the Middle East and North Africa (MENA), ESG developments are critical on a global scale, given its status as a significant hub for fossil-based energy production (Atef, 2022).

The success of ESG in MENA nations will be significantly influenced by financial growth. Financial development includes the growth and enhancement of various financial institutions, stock exchanges, banks, and other financial elements. In recent years, considerable emphasis has been given to the relationship between finance and ESG disclosure as more and more stakeholders acknowledge their crucial significance for the smooth operation of the economy (Halid *et al.*, 2023).

The past few years have witnessed an enormous rise in the number of securities regulators and trading platforms globally, recognizing the significance of ESG aspects in the investing industry. ESG reporting helps investors find and understand important things that don't show up in a normal balance sheet but have a big effect on a business's risks and potential customers (Halid *et al.*, 2023). Investors are increasingly adopting ESG factors, which will continuously embed into company strategy.

As the ESG market expands, investors demand additional tools to assess the performance of an organization from an ESG position (Landi *et al.*, 2022).

While the inclusion of ESG factors in annual company reports is not required by law, an increasing number of organizations are making public their advancements regarding corporate sustainability. Despite organizations achieving favourable stock market performance, their actions often need to be revised to match the principles and standards upheld by the ESG framework. As a consequence, ESG significantly restricts the options available to investors. The ESG indicator, as described by Serban *et al.* (2022), serves to highlight the correlation between these practices and the achievement of exceptional firm performance that exceeds ethical considerations (Serban *et al.*, 2022).

ESG performance and financial development have been the subject of multiple researches. Ng *et al.* (2020) discovered, for instance, that countries in Asia can only pursue ESG objectives with adequate financial development; thus, the level of ESG achievement increases with the quality of the financial system's development (Ng *et al.*, 2020). In a recent research conducted by Håkansson & Salu (2021), it was shown that various aspects of financial development had distinct impacts on official ESG performance. Furthermore, these influences were seen to have a beneficial effect on all ESG dimensions (Håkansson & Salu, 2021).

Nevertheless, there needs to be more disagreement about the correlation between financial progress and sustained prosperity in the Middle East/North Africa area. This link,

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according to several analysts, is not instantly apparent and could be hampered by things like society and government security. Globally, ESG issues are increasingly recognized as critical components of effective business performance; however, in the MENA investment sectors, more than knowledge regarding the functions and significance of ESG issues is required. Previous academic research has been predominately on the intersection of ESG and financial development in countries in Asia and the Middle East. ESG and organizational performance research should be specifically mentioned for MENA nations in more detail. It is the main basis of this literature review. Thus, this literature review's goal is to get a better understanding of how ESG can help organizations do better, especially in the MENA business sectors.

This literature review provides fresh insight as it shows how MENA sees, uses, and integrates ESG. It helps MENA organizations plan for better financial and non-financial success. The research's findings can also be used to help MENA countries make laws and regulations that encourage responsible investment and support long-term growth.

LITERATURE REVIEW

Importance of ESG for the Investment Sector

ESG-based organizations have come under increasing scrutiny from investors. It is because such firms are more likely to have healthy finances, spend more on development in the long run, and devote more time to improving their operations. Many organizations have revealed their readiness for the implementation of ESG in their different business sectors. The investors and the different management consultants are now using the ESG score as a criterion to evaluate their business performance and overall financial growth (Espahbodi *et al.*, 2019). ESG scores help investors to check the environmental, social, and governance sustainability in comparison to its competitors. The phenomena of ESG are developing, but despite this fact, past research has indicated a positive correlation between ESG and a company's financial performance (Espahbodi *et al.*, 2019; Halid *et al.*, 2023; Miralles-Quirós *et al.*, 2018).

According to Serban *et al.* (2022), ESG factors are the non-financial factors that have gained much admiration among investors (Serban *et al.*, 2022). ESG integration means that investment managers actively seek to integrate ESG opportunities and risks into existing financial analysis and investment decision-making. It involves the use of a systematic procedure and a suitable source of research. Now that investors have come to realize the role ESG factors play in an organization's success, the spotlight has turned to ESG performance. Many investors believe that ESG performance helps the organization in reducing threats, understanding long-term value and achieving sustainable development (Alsuhaibani, 2023; Bahabbaz & Karim, 2023).

General Trends in ESG Research

In the last few years, groups have been rated more on

their ways of protecting nature (E), helping others (S) and being led properly (G). After the 2015 Paris Climate Agreement and the UN's Sustainable Development Goals (SDGs), many companies began using green business plans (Kumar, 2023). Different efforts have been put in place to help businesses know more about ESG policies and issues. The objective is for organizations to see these concerns and regulations as integral components of risk management, distinct from their efforts to contribute positively to the community. The UN PRI, or United Nations Principles for Responsible Investment, has been a part of this effort since it began in 2007 (UNPRI, 2018). ESG investments, as explained by the World Bank (2018), cover the environment part (E). It involves things like climate change, using resources well, pollution control and avoiding loss of nature. It also means stopping too many greenhouse gases from being released. On the social side (S), important parts include safety rules for health, teaching plans, laws about work, and being involved in local community activities. It also includes rights for all people while respecting different backgrounds. At the same time, the governance (G) component encompasses several critical elements, namely corporate governance, law, transparency, corruption, and institutional strength. ESG factors are pivotal determinants of portfolio return and risk from an investment standpoint. Evidently, investment managers must take into their investment decisions considerations pertaining to ESG concerns (Bank, 2018).

A recent research conducted by Landau *et al.* (2020) has proved that the inclusion of ESG data in financial reports significantly impacts market value, thereby establishing the dominance of ESG reports. Meanwhile, Sultana *et al.* (2018) researched the relationship between ESG aspects and investment decision-making in Bangladesh. Data for evaluation was obtained from a questionnaire survey completed by individual investors. The research determined that the incorporation and execution of ESG policies eventually promote profitable investment outcomes, hence facilitating the progress of sustainable development (Sultana *et al.*, 2018). Amel-Zadeh and Serafeim (2018) researched to investigate the reasons and methods by which venture capitalists use ESG data. The poll data was derived from top investment professionals who see ESG information as financially significant for investment success. However, the research findings indicate that investment professionals employ ESG data for a multitude of objectives, such as risk assessment and financial decision-making (Abdelli & Abdelli, 2023; Amel-Zadeh & Serafeim, 2018).

Henisz *et al.* (2019) assert that a robust ESG concept facilitates the generation of more value. It encompasses remarkable expansion, reduction of expenses, interference from regulations and laws, increase in capacity, and optimization of investments and assets (Henisz *et al.*, 2019). Furthermore, in his research, Sridharan (2018) examined the primary reporting structures and metrics that investors consider when administering their portfolio investments. Overall, the

findings indicate that ESG measures vary across various industries (Sridharan, 2018). Nevertheless, the matter of governance remained uniform throughout all sectors. Nonetheless, all these researches prove that ESG trends are crucial for organizational financial performance and for making educated investment decisions.

Overview of the MENA Region

MENA nations are strategically located between Europe, Asia, and Africa. The region includes nations with diverse cultures, governments, and economic development phases. According to the World Bank categorization, the MENA area includes high, middle, and poor nations. These nations are classified as high-income: Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates; and as middle-income: Algeria, Djibouti, Egypt, Iran, Iraq, and Jordan. These countries include poor states like Sudan and Mauritania (Tagliapietra, 2019). Most of the MENA region is made up of emerging Muslim nations rich in natural resources and significant ethnicities. The existence of oil and gas in the region has significantly contributed to the local economy. Nevertheless, this progress has resulted in the emergence of several socio-environmental issues (Kassouri & Altıntaş, 2020). In addition, the area has suffered many problems, including environmental degradation, political unrest, and armed conflict. This literature review aims to give a clear idea of how to integrate ESG considerations into the organization of a MENA country and how, in so doing, to boost its investment decisions (Farah *et al.*, 2021).

ESG in the MENA Region

Even though investors and the authorities finally understand the importance of sustainable and responsible investing these days, the region actually has taken quite a long step forward in several areas of ESG performance. Despite this, there are still many intricate hurdles to clear. The problem of water scarcity, desertification and air pollution is still with MENA nations. These represent major environmental challenges. Water conservation is a common problem in many of this difficult region's countries. Another problem facing the region is rampant desertification. It is the result of human activities being out of control in these arid, desolate lands. Furthermore, Air pollution is also a major environmental problem affecting the municipalities in the area (Alsuhaibani, 2023).

Apart from its broad impact on society, the problems of underemployment and dysfunctional high unemployment rates have serious effects on the entire MENA economy. Factors including inequality, inadequate remuneration, and a large youth population are prevalent problems (Fakih *et al.*, 2020). In addition, MENA has serious governance problems. They suffer from political instability, corruption and weak institutions. Many political disputes and civil conflicts have yielded unfavourable economic and social outcomes. The amount of corruption is very high in many countries. Moreover, weak institutional structures

and supervisory systems in neighboring nations have also hampered their economic development. (Saleh & Fouad, 2022). Sustainable practices are gradually being seen as a must in the MENA area, and more firms and investors are emphasizing ESG performance. The research conducted by Hakansson and Salu (2021) demonstrates a good correlation between financial development and ESG performance in the United Arab Emirates (UAE). It was determined through research that financial development exhibited a positive correlation with ESG performance, while its impact on governance performance was not found to be statistically significant. Scholars hypothesize that this phenomenon could be attributed to the robustness of the United Arab Emirates' legal framework and the regulatory mechanisms implemented to avert potential adverse consequences of economic growth on the government's administrative capabilities (Håkansson & Salu, 2021). Ben Ali and Chouaibi (2023) researched the potential mediating function of environmental, social, and governance (ESG) practices in the relationship between MENA institutions' financial performance and executive incentive compensation. The findings of this study established that ESG practices have a substantial and favourable intermediary impact on the financial performance of institutions in the MENA region. The result indicates that the inclusion of ESG factors strengthens the correlation between executive incentive compensation and the financial performance of institutions (Ben Ali & Chouaibi, 2023) Methodology This literature research examined the latest research papers and publications focused on the impact of ESG in improving the performance of the investing industry. The core focus of this review is to determine the role of ESG incorporation in boosting the growth of the MENA organization and strengthening its investment decisions. Different electronic databases have been utilized for the data collection. These databases include Google Scholar, Research Gate, Scopus, JSTOR, ProQuest, and Web of Science. The articles that have been chosen for this literature review were the research papers written on the ESG role in contributing the MENA organizational performances. All the research papers, reports, and articles that range from 2016 to 2023 have been analyzed to write this literature review. The keywords utilized to search the relevant research article were MENA Region, Corporate Governance, Social Responsibility, Financial Performance, Ethical Investment, Sustainable Finance, Environmental Sustainability, Middle East, and Risk Management. The search phrases were combined using proximity operators (NEAR, NEXT, WITHIN) and boolean (AND, OR) operators.

After conducting a database search for pertinent papers, an initial analysis was conducted on the textual terms utilized in the article's title, abstract, and index keywords. Subsequently, a secondary search was performed across all databases using all the identified keywords, phrases, and MeSH terms. In addition, the supplementary investigation was conducted through a comprehensive

analysis of the bibliographies for each research, paper, and publication. In the final stage, a comprehensive database search was carried out in ProQuest, Google Scholar, and Google for the purpose of locating all relevant articles and reports. The whole information of the found articles was accessed. This article serves as a review. Therefore, not all information regarding the ESG function in enhancing the performance of the investment sector in the MENA region has been presented in its entirety. Conversely, the attention was directed towards including the most noteworthy and pertinent research.

Inclusion Criteria

Several criteria, which are illustrated below, were applied in the process of selecting the pertinent research papers for this literature. Further examination was conducted on the selected research to advance a better understanding of the research criteria.

- Research papers, articles, and reports that were published in the last eight years (2016-2023) were only included to ensure the addition of current trends and developments.
- Research papers, articles, and reports that were written in simple English to ensure their accessibility to a broad audience.
- Research papers, articles, and reports that were part of the high peer review and well-known journals to ensure the review quality.
- Research papers, articles, and reports pertaining to the incorporation of ESG elements into the investment industry of the MENA region.
- Articles that provide insights about ESG's role in bringing financial sustainability, ESG opportunities and barriers, ESG's role in risk mitigation, and its contribution to driving innovation and employee engagement.

Exclusion Criteria

To exclude the irrelevant research and to ensure the best quality literature review, the following criteria have been taken into account:

- Research papers, articles, and reports that were written other than the English language were not considered
- Research papers, articles, and reports that were not part of good quality peer-reviewed journal
- Research papers, articles, and reports that were not related to the ESG influence on the financial performance of the MENA investment sector.
- Research papers, articles, and reports that were older than eight years.

DISCUSSION

Assuring economic progress, environmental prosperity, and societal sustainability, sustainable finance is an essential component of sustainable development. The MENA region is projected to experience a twofold increase in population by the conclusion of 2070 (Borghesi & Ticci, 2019). The expansion poses economic complexities and financial obligations that must be met

to guarantee the well-being of communities and the accessibility of resources for countries, with an emphasis on equality. This expansion increases the urgency of providing people with opportunities, access to essential resources, and sustainable development (Wilmoth *et al.*, 2022). MENA countries also have very large differences in their wealth, which can lead to chances for cross-border business and knowledge sharing in many fields, specifically the financing and investment sector (UNEP-FI, 2022). The MENA area is the most vulnerable, with its rapidly growing population. Therefore, there is a need to find ways to solve these challenges and exploit the potential at the same time.

Financial Stability and ESG Integration

The link between financial stability and ESG integration has been discussed in past literature. In the MENA region, financial development is considered a significant requirement for sustained growth. It is also an imperative aspect of interesting economic growth and dropping scarcity. The benefits of financial development include increased availability of investment opportunities, more convenience in borrowing money from banks, and increased financial stability. Financial development provides the precondition for transitioning to a low-carbon, resource-efficient economy and calls for sustainable investment in ESG. MENA's financial sustainability has played an integral role in the region's economic revolution. MENA financial institutions' total assets in 2019 increased the GDP by 98 %, from 72 % to 92 %, which proves the financial stability of the region (IMF, 2019). The research of the IMF indicates that financial reforms implemented in MENA countries have backed the rise of private sector growth, enhanced credit accessibility, and improved regional financial stability. The relationship between ESG and financial success is complex. Several authors have said that ESG performance, in fact, is simply the costs incurred by the firm and reduces the actual success (Atan *et al.*, 2018; Yilmaz, 2022). On the contrary, other scholars believe there is a positive link between ESG factors and financial performance (Alsayegh *et al.*, 2020; Gao *et al.*, 2023; Ting *et al.*, 2019). Social responsibility has proven to be a financial blessing for organizations in the past. The social performance of the investment sector enhances the public's opinion and reputation of that sector (Buallay *et al.*, 2020; Gangi *et al.*, 2019; Salman & Laouisset, 2020). According to Ng *et al.* (2020), social sustainability in the ESG plays a crucial part in the investment sector's economic sustainability (Ng *et al.*, 2020). Cannon *et al.* (2020) argued that social disclosure enhances profitability by surpassing the industry average and improving operational margins (Cannon *et al.*, 2020). Similarly, Esteban Sanchez, Cuesta-Gonzalez, and Paredes-Gazquez (2017) discovered that workers' motivation has a favourable influence on financial performance but has an adverse impact on community participation and product responsibility. The adverse effect is ascribed to stakeholders' unfavourable

impression of the significant focus on social performance (Esteban-Sanchez *et al.*, 2017).

Another significant factor for sustainable investment sector growth and financial stability is environmental sustainability. Ibrahim & Alola (2020), in their research, explored that the MENA region has expressed concern regarding the environmental impact of nonrenewable energy and its implications for future economic growth. The countries in the MENA region have a vast amount of natural resources. Nevertheless, these resources are finite and should need to be converted into renewable energy. Therefore, environmental sustainability is important in the investment sector, especially in ensuring effective resource utilization, reducing environmental impact and the encouragement of the diversification of economies toward renewable sources (Ibrahim & Alola, 2020).

Yan *et al.* (2023) performed research on the MENA countries from 1995 to 2019. They concluded that eco-digitalization, green finance, renewable energy, and foreign direct investment all have a major impact on carbon dioxide emissions reductions. These factors all encourage environmental sustainability. In contrast, population growth, nonrenewable energy sources, and economic expansion impede the sustainable environment agenda. (Yan *et al.*, 2023).

Similarly, Quirós, Miralles-Quirós, and Redondo-Hernández (2019) provided evidence that European institutions made a positive contribution to environmental problem reduction by implementing policies such as water and paper reduction and electricity conservation plans. These environmental initiatives positively influence the bank's product and analysis, resulting in a strengthening of its competitive advantage (Miralles-Quirós *et al.*, 2019). Conversely, environmental investment could potentially impose a financial burden, and the continued profitability of incremental investments emerged as a pivotal concern and issue.

Governance comprises the framework and protocols necessary to guarantee transparency, accountability, and fairness in the processes of decision making. Organizations are always under pressure to make their businesses more productive and profitable. At the same time, customers, suppliers, investors, and non-governmental organizations constantly encourage them to invest in developing and implementing CSR practices (Alsuhaibani, 2023). In Adams & Klobodu (2018), it has been analyzed that financial development and governance are positively correlated with each other. According to the research, robust governance frameworks play a critical role in nurturing investor trust and attracting capital infusion, thus encouraging economic expansion. Governance failures, including corruption and inadequate rule of law, may also hamper economic expansion (Adams & Klobodu, 2018). Mertzanis *et al.* (2019), in their research, have highlighted that in the previous two decades, the MENA nations experienced a phase of substantial economic expansion. Expanding funds as a result of the wealth created by extracting petroleum resources has

opened up new business opportunities for MENA region countries. The substantial infusion of capital into the financial industry and corporations has led to increased analysis from investors and financiers regarding the need for corporations to enhance their corporate governance practices (Mertzanis *et al.*, 2019).

Opportunities and Barriers to ESG Implementation

ESG implementation for improving the financial performances of the MENA investment sectors also has to go through many barriers and opportunities. The significance of ESG adoption has been emphasized by numerous nations worldwide, with governments and businesses committing to ESG objectives, as it provides a lot of opportunities for growth. By sharing ESG information, businesses can get lower interest rates or bigger loans from banks; investors will use ESG data to help them decide which investments to make. Furthermore, ESG rating data can also be used to see how stock prices change over time or for corporate financial forecasting (Amel-Zadeh & Serafeim, 2018; Gillan *et al.*, 2021; Pedersen *et al.*, 2021).

A lot of research in the past has shown the benefits and opportunities of ESG adaptation. For instance, Buallay (2019) discovered that giving careful consideration to the disclosure of ESG information had a noteworthy influence on the performance of banking businesses (Buallay, 2019). At the same time, Ellili (2022) looked at 30 publicly traded organizations in the UAE between 2010 and 2019. Their findings showed that including ESG information in financial reports improves the quality of those reports and makes investments more efficient (Ellili, 2022). Furthermore, according to Raimo *et al.* (2021), financial institutions can enhance their comprehension and evaluation of loan enterprises' default risk by disclosing ESG information, which would reduce the information asymmetry between organizations and financial institutions (Raimo *et al.*, 2021).

Nevertheless, the implementation process has encountered many challenges, resulting in unanticipated disruptions. Previous research has highlighted the many barriers that impede the effective implementation of ESG. Dmuchowski *et al.* (2023) examined the influence of ESG factors on the expansion of Poland's financial sector. The biggest obstacles to promoting ESG are communication and education. The proposal suggests modifying legislation to ease the access of foreign ESG investors to the domestic market.

Additionally, it recommends partnering with colleges and research organizations to provide relevant information that would promptly improve the public's comprehension of ESG (Dmuchowski *et al.*, 2023). According to Sheehan *et al.* (2023), organizations' evaluations of ESG concerns pose a barrier to their advancement. The company may cause damage to society and the environment if it is unable to prioritize the projects and their respective scopes fairly. According to their findings, the board of directors should establish ESG objectives that are practical and attainable

in order to be proactive (Sheehan *et al.*, 2023). In *et al.*, (2019) stated that the majority of ESG data needs to be dispersed and insufficient. Therefore, a more robust information infrastructure is necessary for data collection and analysis to guarantee that the ESG evaluation will serve as a useful resource for investors' decision-making (In *et al.*, 2019). Similarly, Rumyantseva and Tarutko (2022) stated that the primary barrier to organizations attracting investors is a lack of clear ESG information. The provision of more comprehensive environmental, social, and governance (ESG) information would enhance the organization's ESG ratings and appeal to investors (Rumyantseva & Tarutko, 2022). Thus, while executing the ESG in its investment sector, the MENA region has to go through the following opportunities and barriers. It is, therefore, vital for the MENA region investment sectors to overcome the ESG implementation barrier and get advantages from the opportunities to attract effective investors, promote sustainable economic growth, and enhance organizational financial activities.

Risk Mitigation and ESG Strategies

Investor returns are frequently impacted by risk management, which pertains to the importance associated with environmental, social, or governance considerations. Insurance organizations, along with other low-risk investors, inherently prioritize the risk component. However, some investors pursue "alpha" and view ESG as an investment opportunity. ESG analysis has the potential to enhance comprehension of extended-term patterns, for instance. Some investors even identify social and environmental issues as potential investment opportunities (Gil, 2022). Inderst & Stewart (2018) studied that to incorporate ESG factors into their investment decisions, investors employ a variety of approaches. They were originally used for investments in stocks, but now they are also being used for investments in bonds and other types of assets. These approaches are frequently employed in conjunction and are not mutually exclusive. ESG screening, engagement, and integration account for approximately 99 per cent of assets, while themed and impact investments account for the remaining 1 per cent (Inderst & Stewart, 2018).

Alsuhaibani (2023) has mentioned in his research that several organizations that achieve high rankings in ESG factors have demonstrated their ability to effectively manage risks, adapt to evolving circumstances, and maintain favourable financial performance over time. As more people add ESG factors to their investing choices and see sustainable growth, investors are considering how good a company is on ESG issues in their decisions before deciding where to invest (Alsuhaibani, 2023). Odell & Ali think that putting money into groups that do well on ESG is often a good idea. It can increase people's interest in their securities and make it cheaper for them to get cash. Also, groups that do well in ESG often have better ways to lower risk. It leads to fewer money problems and crises (Odell & Ali, 2016). The best example of such

organizations, specifically in the MENA region, are the organizations in Qatar Free Zone. Organizations in the Qatar Free Zone have implemented comprehensive risk assessment and management plans that cover the ESG components. Adopting this proactive approach not only helps in promptly detecting possible hazards, but also in efficiently taking actions to reduce their impact. These organizations thus show more resistance to regulatory changes and market volatility, which boosts stakeholder trust and makes them more appealing as investments (QFZ, 2021).

Similarly, Smolo *et al.* (2021) mentioned in their research that assuring effective governance, a critical component of ESG, and fostering sustainable development are both imperative objectives of the financial development of emerging economies like the MENA region. The development of local capital markets may contribute to long-term sustainability and lower the risk of financial instability. It is achieved by providing firms with a steady source of funding and decreasing their dependence on lender loans (Smolo *et al.*, 2021). On the other hand, Kotsantonis *et al.* (2016) have highlighted in their research based on previous studies that organizations with higher-than-average ESG ratings have outperformed their competitors in terms of both traditional measures of operational performance and stock market returns (Kotsantonis *et al.*, 2016). Therefore, this research has proven that the investment sectors of the MENA region should highly take into account the ESG metrics to boost its financial performance and mitigate the overall risk.

Employee Engagement and Innovation Derived from ESG

In the fast-paced world of modern business, incorporating ESG factors is seen as a key way to drive growth and make a company more durable. Financial development catalyzes economic expansion in MENA countries. Alsuhaibani (2023) believes that financial development increases GDP by facilitating the acquisition of loans, enhancing the efficiency of financial intermediaries, and stimulating technological innovation in novel ways (Alsuhaibani, 2023). Across multiple sectors within the Qatar Free Zone, innovation is prominent due to ESG principles. Qatar Free Zones organizations have embraced state-of-the-art technologies pertaining to sustainable energy, waste minimization, and effective resource allocation. It serves as an illustration of how considering environmental factors can stimulate the development of innovative products and improve operational processes (Tok, 2020). According to Mrabet & Alsamara (2017), to improve environmental conditions, Qatar organizations and investors reallocate resources into making use of energy more efficiently and promoting economic growth while at the same time moving away from oil and gas-related industry (Mrabet & Alsamara, 2017).

The ESG commitments made by a firm have a strong connection to employee engagement, especially when it comes to social responsibility and the working

environment. The performance of an organization with regard to ESG factors may significantly enhance its reputation, foster customer loyalty, and promote employee engagement, ultimately resulting in sustained financial advantages. According to Donia's (2021) research, ESG approaches have a significant impact on an employee's attitude towards their workplace. These initiatives foster confidence in senior management and instil a sense of pride in the organization (Donia, 2021). Moreover, Gannon & Hieker's (2022) survey findings performed on the FinTech sector show that authentic ESG participation has a favourable impact on

employees' evaluations of potential employers. A focus on ESG, in employee opinion, contributes to long-term financial stability, attracts investors, and is consistent with their values. In addition, the employee highlighted that although ESG may not be a main consideration, it would nevertheless have a secondary influence on their decision-making process. This research has significant practical consequences for organizations that strategically invest in ESG policies (Gannon & Hieker, 2022). Below are the brief findings of all papers discussed in this literature review:

Table 1: Summary of Discussed Research Papers

Research Article	Kind of Research	Findings
Buallay (2019)	Quantitative Analysis	ESG information disclosure had a significant impact on the performance of banking businesses.
Ellili (2022)	Quantitative Analysis	Including ESG information in financial reports improves the quality of those reports and makes investments more efficient.
Raimo <i>et al.</i> (2021)	Qualitative Analysis	Disclosing ESG information enhances financial institutions' comprehension and evaluation of loan enterprises' default risk, reducing information asymmetry.
Dmuchowski <i>et al.</i> (2023)	Literature Review Analysis	Communication and education are primary barriers to ESG promotion. Amending regulations and collaborating with universities and research institutions can enhance public understanding of ESG.
Sheehan <i>et al.</i> (2023)	Literature Review Analysis	Organizations' evaluations of ESG concerns pose a barrier to their advancement. Establishing practical and attainable ESG objectives can help prioritize projects and scopes fairly.
In <i>et al.</i> (2019)	Conceptual Framework Development Paper	ESG data is dispersed and insufficient; a robust information infrastructure is necessary for data collection and analysis to ensure ESG evaluation serves as a useful resource for investors' decision-making.
Rumyantseva & Tarutko (2022)	Mixed Method Approach	Lack of clear ESG information is a primary barrier to attracting investors. Providing comprehensive ESG information enhances ESG ratings and appeals to investors.
Alsuhaibani (2023)	Quantitative Analysis	Organizations with high ESG rankings demonstrate effective risk management, adaptability, and favourable financial performance. Investors increasingly integrate ESG performance as a criterion for investment evaluations.
Odell & Ali (2016)	Conceptual Framework Analysis	Investing in an organization with strong ESG performance is more appealing and can increase demand for its securities and reduce the cost of capital. Robust ESG performance mitigates risk and decreases the likelihood of financial instability.
QFZ (2021)	Report	Organizations in the Qatar Free Zone prioritize ESG components in their risk assessment and management plans, enhancing resilience to regulatory changes and market volatility and making them attractive investments.
Solo <i>et al.</i> (2021)	Dynamic Panel Models	Developing local capital markets through ESG integration contributes to long-term sustainability, lowers the risk of financial instability, and provides firms with a steady source of funding.
Kotsantonis <i>et al.</i> (2016)	Literature Review	Organizations with ESG ratings that are higher than the norm tend to outperform their competitors in terms of operational performance and stock market returns.
Tok (2020)	Quantitative Analysis	Organizations in the Qatar Free Zone embrace sustainable technologies, stimulating innovation and improving operational processes.

Mrabet & Alsamara (2017)	Quantitative Analysis	Qatar organizations and investors reallocate resources towards energy efficiency and sustainable growth, moving away from oil and gas-related industries to improve environmental conditions.
Donia (2021)	Article	ESG initiatives significantly impact employee engagement, fostering confidence in senior management and instilling pride in the organization.
Gannon & Hieker (2022)	Case Study Approach	Authentic ESG participation has a positive impact on employees' evaluations of potential employers, contributing to long-term financial stability and attracting investors. Employees consider ESG as a secondary influence on their decision-making process.

CONCLUSION

This literature review has performed a thorough overview of the ESG role in boosting the financial growth of the investment sector. The literature review analyzed the relationship between financial growth and ESG factors from the past literature papers, reports, and research papers from 2016 to 2023. The literature comprehensively discussed the financial stability of the investment sector implementing ESG, ESG implementation opportunities and barriers, ESG's role in risk mitigation, and its contribution to driving innovation and employee engagement. Many past research examples considering the MENA nations and markets have been highlighted in this discussion. This literature review would help the policymakers and the investment sector employer to effectively integrate the ESG factors into their organization for long-term financial growth.

RECOMMENDATION

On the basis of the above discussion, the MENA region should need to adopt the following recommendations to effectively implement the ESG for the purpose of enhancing the financial growth of its investment sector:

- Implement an awareness campaign for MENA investors, investment organizations, and policymakers to educate them regarding the significance of ESG for the growth of their business.
- Establish rigorous ESG legislation and reporting standards to ensure consistent transparency, uniformity, and clarity. It would help in implementing the ESG criteria in different industries easily and provide MENA organizations with specific requirements.
- Create reliable ESG data collection infrastructure across different MENA investment organizations to improve the accessibility and quality of ESG data. Collaborations with data providers, pressuring businesses to provide ESG data, and financing research projects may all help achieve this.
- Collaborate with the different financial institutions, banks, and credit rating agencies to implement the ESG in the risk assessment framework. This collaboration would encourage the financial institution and bank to offer different kinds of incentives like lower interest rates and larger loan amounts to firms following ESG criteria.
- Encourage collaboration among governments, industry and civil societies for sustainable practices and investment. Public-commercial sector organizations may

facilitate enhanced collaboration in the development of ESG initiatives by promoting the pooling of resources, information, and expertise.

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