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Does Corporate Performance Mediate the Relationship Between ESG Risks and Foreign Ownership? Evidence from Saudi-Listed Companies

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Abstract

This study examines the impact of Environmental, Social, and Governance (ESG) Risk on foreign ownership of Saudi-listed companies, with corporate performance serving as a potential mediator. Using 2023 data from 117 listed companies on the Saudi Stock Exchange, we investigate whether ESG risk scores influence foreign investors' decisions and whether return on equity (ROE) mediates this influence. The findings suggest a high negative correlation between foreign ownership and ESG risk in a way that foreigners least desire firms with higher ESG risks. While ESG risk negatively affects ROE, its statistically non-significant mediating effect on foreign ownership exists. Also, Board size positively affects foreign ownership by reflecting the structural function of boards in welcoming outsiders. Bootstrap test of robustness confirms that the indirect effect of ROE is insignificant. The study contributes to the expanding literature on foreign investment and ESG by asserting the direct role of ESG risk on the investor's behavior.

Keywords: ESG Risk Ratings, Foreign Ownership, Corporate Performance, Signaling Theory

JEL Classification: M14; G32; F21

Introduction

Foreign investment is an important source of economic growth, guaranteeing capital inflow, enhancing corporate governance, and improving market efficiency. Foreign investors, by offering outside money and expertise, constitute a critical input in maximizing firm performance and encouraging transparency in corporate decisions (Dahlquist and Robertsson, 2001). However, with evolving international investment strategies, Environmental, Social, and Governance (ESG) considerations have emerged as the subject of foreign risk assessment (Eccles et al., 2014). Increasingly, investors incorporate ESG risks into their screening processes, perceiving them as indicators of a firm's long-term sustainability, moral behavior, and susceptibility to regulatory issues. They are usually followed by poor corporate governance, environmental shortcomings, and social problems, thereby rendering firms undesirable to foreign investors (Dyck et al., 2019). These investors will prefer to invest in firms with solid ESG histories, which reflect good management and resilience to environmental and social shocks (Amel-Zadeh and Serafeim, 2018).

Despite growing attention to ESG in investment policies, there remains limited empirical evidence on the impact of ESG risks on foreign ownership, especially in emerging economies. Earlier research has primarily used developed economies, where regulatory frameworks and

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ESG reporting norms are well established (Liang and Renneboog, 2017). The Middle East, and Saudi Arabia in particular, is, however, an untapped but now extremely relevant setting.

This study attempts to bridge this gap by examining the relationship between ESG risks and foreign ownership of Saudi-listed firms. Specifically, it investigates whether ESG risk repels foreign investors and if and to what extent a company's performance acts as a mediator for these two variables. So, the current study confirms the empirical evidence on the trend towards greater engagement in emerging economies for ESG. This is in line with Saudi Vision 2030 reforms, which are aimed at diversifying the economy, drawing foreign capital, and raising corporate governance standards. The research carries important implications for investors, corporate managers, and policymakers keen on enhancing market attractiveness as a means of promoting sustainable investment behavior in the region.

The rest of this paper will be organized as follows: Section 2 focuses on the theoretical background by examining relevant theories and reviewing the crucial literature on the impact of ESG on foreign ownership. Section 3 describes the data and the methodology. Section 4 presents and discusses empirical results. Finally, section 5 concludes the paper.

Background Theories and Literature Review

Background Theories

Several theories provide the foundation for explaining the relationship between foreign ownership, firm performance, and ESG Risks. The current section provides an overview of relevant theoretical perspectives.

The famous Agency theory introduced by Jensen and Meckling (1976) deals with manager-shareholder conflict issues. Agency risks may be amplified by ESG risks when the manager engages in unethical and unsustainable practices. In contrast, well-established ESG governance frameworks reduce agency costs, improve firm performance, and boost investor confidence (Shleifer and Vishny, 1997). Foreign investors, often faced with information asymmetry when investing in emerging economies, prefer to invest in firms with robust governance and ESG frameworks.

Stakeholder theory (Freeman, 1984) holds that firms should react to the interests of all stakeholders. Organizations with good ESG practices demonstrate obedience to ethical and sustainable conduct and, therefore, enhance their image and profitability. This, as a result, makes them desirable to foreign investors seeking stable and responsible investment (Donaldson and Preston, 1995). Inversely, following this theory, ESG Risks decrease firm performance and so deter foreign investors.

The resource-based view (Barney, 1991) suggests that a company's competitive edge lies in its unique resources and capabilities. ESG initiatives can be conceived as strategic resources that provide companies with a competitive edge through operational efficiency, reduced costs, and innovation (Hart, 1995). Superior ESG performance can enhance the financial resilience of companies, acting as a mediator for foreign investment in Saudi-listed companies.

The signaling theory proposed by Spence (1978) outlines how firms communicate information to external investors. Firms that publish high ESG performance signals send positive information to foreign investors, indicating that they are safer and have better governance in place (Connelly et al., 2011). In emerging markets like Saudi Arabia, where there are transparency problems, high ESG disclosures can establish investor trust and foreign

ownership. A company with lower ESG risk scores thus implies good performance on its environmental, social, and governance dimensions, indicating better corporate behavior and lower risk exposure to sustainability-related threats, which encourages foreign investors to participate in these firms (Fatemi et al, 2018).

The combination of these theories provides a comprehensive framework for understanding how ESG risks affect foreign ownership and the mediating role of corporate performance.

Literature Review

- *ESG Risks and Foreign Ownership*

Several studies have agreed that a strong ESG performance positively affects both macro and micro foreign ownership. At the macro level, countries with strict environmental policies, good governance, and social protection attract more foreign direct investment (FDI) by reducing risks and ensuring long-term stability (Chaklader et al,2024). Additionally, Csordása and Al-Dalahmehb (2024) found that countries with advanced ESG standards are world investors, believing in the good quality of rapidly developing Western nations. Statistical tests demonstrated that countries in the developing phase, whose values were relatively similar to those of the most developed region, offered appealing substitutes for foreign capital. In contrast, Li and Wangui 's (2023) results showed that only Environmental factors affect foreign investment, while social and governance variables have an insignificant effect on FDI.

At the micro level, firms with high ESG scores, and so with low ESG Risk ratings, attract greater foreign ownership as investors appreciate transparency, sustainability, and ethical practices (Temiz et al, 2023). The same idea was reported by Alregab (2022), who showed that ESG performance is a key driver in attracting long-term foreign capital inflows into the Saudi Stock Market.

Zhang et al (2023) utilized China's A-share non-financial listed companies' data from 2012 to 2022 to examine the impact of enterprise ESG performance on foreign ownership. The research found that ESG performance has a positive and attractive effect on foreign ownership. The mechanism research showed that ESG performance improves foreign ownership by reducing information asymmetry, improving corporate reputation, and increasing investment returns. Furthermore, Khodijah (2023) found a positive relationship between ESG performance and foreign ownership for non-financial companies listed on the Indonesia Stock Exchange from 2015 to 2019. Hence, we develop the following hypothesis.

H1: ESG Risk ratings have a negative and significant direct effect on foreign ownership

- *ESG Risks and Corporate Performance*

Abundant literature indicates that companies with improved ESG scores are more likely to possess better firm performance because of lower perceived risk and increased growth opportunities. Rossi et al. (2021) found a positive association between ESG and the financial performance of 225 listed companies from European countries. Wu et al (2022) explained the positive relationship between ESG scores and firm performance by the fact that strong ESG performance acts to offset corporate financing constraints and reduce corporate financial risk, thereby enhancing firm value.

Even in less ESG-intensive businesses, such as those in the oil and gas or mining industries, studies reveal that the rise in ESG considerations has been associated with a generalized positive

effect on firm performance. Empirical research has also identified that there exists a strong correlation between ESG consideration incorporation and positive business results. In the context of the Saudi Stock Exchange, Sharawi et al (2024) found that the increase in ESG disclosures positively and significantly influences firm performance measured by ROA, ROE, and EPS. Chaabouni et al.'s (2025) results confirmed this conclusion. The authors underscored a negative relationship between ESG Risk rating and ROE for Saudi-listed companies. These findings suggest that even in sectors traditionally less aligned with ESG principles, these factors can contribute to long-term value creation and risk mitigation. Therefore, the study proposes hypothesis H2.

H2: ESG Risk ratings have a negative and significant effect on firm performance

- *Mediating role of Corporate Performance on the relationship between ESG Risk and Foreign Ownership*

The relationship between Environmental, Social, and Governance (ESG) practices and foreign ownership has been of strong interest in research literature. However, preliminary findings suggest that firm performance may be a significant mediating factor in this relationship. Bilyay-Erdogan and Öztürkkal (2023) researched firms in 22 emerging economies and established that higher ESG engagement has a positive impact on firm performance, as reflected through Return on Assets (ROA) and Tobin's Q. More importantly, they established that the positive impact of ESG practices in enhancing firm performance is more pronounced for firms with higher foreign ownership. This shows that foreign investors are especially attracted to firms that exhibit high ESG commitment, which consequently enhances corporate performance. Also, maintaining ESG practices ameliorates firm value, which attracts foreign investors to participate in this firm. By promoting sustainability, ethical business conduct, and strong corporate governance. This, in turn, boosts investor confidence and attracts foreign investors who seek stable and responsible investment opportunities. Kang (1997) underlined that foreign investors overweight shares of firms with good accounting performance, low unsystematic risk, and low leverage in the Japanese Market. Abundant literature (Aggarwal et al, 2005; Douma et al, 2006) suggests that companies with greater ESG scores draw foreign investors due to enhancing performance, perceiving lower risk, and more significant growth. In the same vein, Prasanna (2008) highlighted that Earnings per Share (EPS) and share return are significant factors influencing the investment decisions of foreign investors in the Indian Capital Market.

The relationship between foreign ownership and ESG risk is increasingly recognized as being corporately performance-driven. Those companies that actively decrease ESG risk have improved financial performance, which strengthens their competitive standing and makes them more attractive to foreign investors. By encouraging sustainability, good business practices, and good corporate governance, those companies make themselves more financially sound and less risky to invest in. As a result, foreign investors will be more willing to participate in companies with high ESG commitments since such firms signal long-term profitability and sustainability. Furthermore, corporations with greater financial performance are perceived as being less risky to invest in, which further provokes foreign ownership. This relationship suggests that corporate performance is a crucial mediator of the ESG risk-foreign investment relationship, entrenching the argument that ESG engagement not only triggers financial performance but also the international investment appeal of a firm.

Drawing upon these findings, we hypothesize that:

H3: Corporate performance plays a mediator role in the relationship between ESG Risk ratings and foreign ownership.

Materials and Methods

Data Source and Definition of Variables

This study examines the effect of ESG Risks on foreign ownership through corporate performance. Variables are collected from the Saudi Stock Exchange (TADAWUL) and Sustainalytics. Initially, the dataset encompassed all listed companies; however, due to the limited availability of ESG risk scores, the final sample was narrowed to 117 firms. These ESG risk scores were exclusively accessible for these companies, with data covering the year 2023. The sample selection was based on the availability of comprehensive ESG data, financial performance indicators, and governance variables for that specific period. Table 1, shown below, presents the data and sources used.

	Variables	Measures	Data Sources
Foreign ownership	FO	Proportion of foreign administrators	TADAWUL
ESG Risks	ESG RISK	A company's exposure to Environmental, Social, and Governance (ESG) risks	Sustainalytics
Return on Equity	ROE	Net Income to Shareholders' Equity	TADAWUL
Board size	BoardSize	Number of administrators on the board	TADAWUL
Firm Debt	Debt Equity	Debt-to-equity ratio	TADAWUL
Firm size	FirmSize	The logarithm of total Assets	TADAWUL

Table 1. Definition of Variables

Foreign ownership is the dependent variable measured by the percentage of foreign members on the board of directors. The independent variable is ESG risk scores, which show the company's exposure to Environmental, Social, and Governance risks. The ratings evaluate a company's level of risk and its effectiveness in managing or mitigating those risks. ROE, the Benchmark for corporate performance, represents the mediator variable. Control variables include Board size, reflecting the number of administrators on the board, Debt to equity ratio, as a proxy of firm debt, and firm size, assessed by the logarithm of total Assets.

Models

In our study, we aim to investigate, firstly, the estimated associations between ESG Risks and foreign ownership. Board characteristics (board size), firm debt, and firm size control this relation. Secondly, we study the moderating influence of corporate performance on this relationship. The conceptual model is depicted in Figure 1.

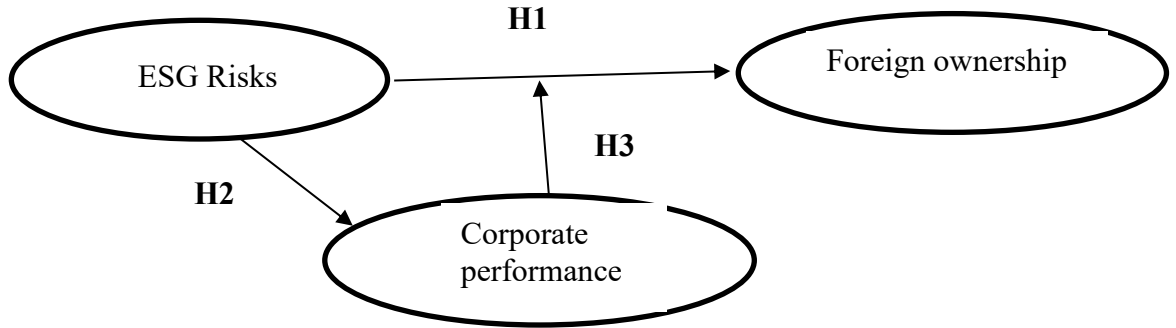


Figure 1: Conceptual Framework

To examine these relations, we utilize Baron and Kenny's (1986) mediation model that outlines mechanical process of conducting mediation tests. The model includes four basic steps.

The initial step involves observing a direct association between ESG risks and foreign ownership. This consists of ascertaining if there is higher foreign ownership with diminishing ESG risks. For this, we develop the following model:

$$FO_t = \alpha_0 + \alpha_1 ESGRisks_t + \alpha_2 Boardsize_t + \alpha_3 Firmsize_t + \alpha_4 Debt_Equity_t + \varepsilon_t \quad (1)$$

Second, we investigate the influence of ESG risks on firm performance (equation 2), analyzing how environmental, social, and governance risks affect a firm's financial performance. Third, we research the relationship between firm performance and foreign ownership (equation 3), determining whether additional foreign investment is drawn by superior firm performance.

$$ROE_t = \alpha_0 + \alpha_1 ESGRisks_t + \alpha_2 Boardsize_t + \alpha_3 Firmsize_t + \alpha_4 Debt_Equity_t + \varepsilon_t \quad (2)$$

$$FO_t = \alpha_0 + \alpha_1 ESGRisks_t + \alpha_2 ROE_t + \alpha_3 Boardsize_t + \alpha_3 Firmsize_t + \alpha_4 Debt_Equity_t + \varepsilon_t \quad (3)$$

In step 4, we interpret the results to conclude about the mediating role. If the effect of ROE is significant, we proceed to check for mediation, observing whether the direct relationship between ESG risks and foreign ownership decreases or disappears when corporate performance is held constant (equation 3). A significant reduction in the impact of the ESG Risks coefficient demonstrates partial mediation, whereas a non-significant effect after holding the corporate performance confirms a full mediation effect.

Results and Discussion

Descriptive Statistics

Table 2 presents the descriptive statistics for the key variables used in the analysis, including the number of observations, mean, standard deviation, minimum, and maximum values.

Variables	Obs.	Mean	Std. Dev.	Min	Max
FO	117	.0774	.043	.005	.20

ESG Risks	117	32.193	9.013	13.6	51.8
ROE	117	.126	.177	-.527	.932
BoardSize	117	9.752	1.706	6	14
Debt_Equity	117	.893	1.731	0	17.05
FirmSize	117	20.765	22.514	14.230	26.470

Table 2. Descriptive Statistics

The descriptive statistics reveal diverse distributions across the variables. FO has a mean equal to 0.0774 with a range of 0.005 to 0.2, and a low variability (standard deviation of 0.043). There is a wide range of ESG risks, with a mean of 32.193. Some firms manage risks well (min equal to 13.6), while others face significant ESG challenges (max equal to 51.8). ROE has a mean of 0.126 with a moderate variability from -0,5277 to 0.177. Most firms have board sizes between 6 and 14, with an average of about 10 members. The Debt-to-Equity Ratio is 0.893, suggesting that firms have, on average, less debt than equity. However, the high standard deviation (1.731) suggests large heterogeneity in leverage between firms, with a wide range from completely equity-financed firms to firms with excessive use of debt (17.05). Similarly, Firm Size averages 20.765 with a very high standard deviation of 22.514, which means the firms are not uniform in size. The minimum of 14.230 for small firms and the maximum of 26.470 for the largest firms describe the diversity of firm sizes within the sample.

Variables Correlations

Table 3 presents the correlation matrix between the independent variable and the control variables.

Variable	ESGRISK	BoardSize	FirmSize	Debt Equity
ESGRISK	1.0000			
BoardSize	-0.0695	1.0000		
FirmSize	0.0494	-0.0265	1.0000	
Debt Equity	-0.1270	0.0152	0.0430	1.0000

Table 3. Correlation of Variables

The correlation matrix shows that all correlation values are weak, so there is no multicollinearity problem between variables.

Results

Table 4 displays the baseline regression results for drivers of foreign ownership

Dependent Variable: FO				
Variable	Coef.	Std.err	t. stat.	Prob.
ESGRISK	-.0012***	.0004	-2.92	0.004
Boardsize	.0038*	.0022	.1.68	.0.096

Firmsize	.0016	.0015	1.10	0.275
Debt Equity	.00004	.0022	0.02	.0.984
cons	.0466	.0417	1.12	0.267

Table 4. Baseline Regression Results for FO (Step 1)

Note: *, ** and *** indicate 10%, 5% and 1% significance levels, respectively

The regression results show that both ESGRISK and Boardsize coefficients are significant, however, firm size and debt coefficients are not. A 1% increase in ESG Risk scores (ESGRISK) diminishes foreign ownership by 0.0012, but a 1% rise in board size (Boardsize) increases foreign ownership by 0.0038. These findings imply that while foreign ownership is negatively affected by ESG Risk, it is positively affected by board size. But neither firm size nor debt-to-equity ratio influences foreign ownership.

Table 5 presents the regression analysis with ROE as the dependent variable and examines how ESG risk and firm factors influence the mediator. This step is crucial to estimating its mediating effect in the complete model.

Dependent Variable:				
ROE				
Variable	Coef.	Std.err	t. stat.	Prob.
ESGRISK	-.0044**	.0018	-2.44	0.016
Boardsize	-.0154	.0095	-1.61	0.110
Firmsize	.0033	.0064	0.51	0.610
Debt Equity	-.0342***	.0195	1.75	0.082
cons	.3779**	.1791	2.11	0.037

Table 5. Regression Results for ROE (Step 2)

Note: *, ** and *** indicate 10%, 5% and 1% significance levels, respectively

Regression results indicate that a one-unit increase in ESG risk is associated with a 0.0044 decrease in ROE. Similarly, a one-unit increase in the debt-to-equity ratio diminishes ROE by 0.0342. However, board size and firm size don't significantly influence ROE. These results suggest that ESG risk and debt ratio play a significant role in reducing ROE, while the effects of board size and firm size are nonsignificant.

Given the significant relationship between ESG and ROE, we can proceed to Step 3. Table 6 presents the regression analysis of FO with ROE as a mediator, added to the independent variable ESGRISK and control variables, to examine its mediating effect in the ESG risk-FO relationship.

Dependent Variable:				
FO				
Variable	Coef.	Std.err	t. stat.	Prob.
ESGRISK	-.0011 **	.0004	-2.46	0.016
ROE	.03631	.02264	1.60	0.112
Boardsize	.0044*	.0023	1.95	0.054

Firm size	.0016	.0015	1.06	0.294
Debt Equity	.0032	.0046	0.69	0.493
cons	.0286	.0434	0.66	0.510

Table 6. Regression Results for FO with ROE included (Steps 3 and 4)

Note: *,** and *** indicate 10%, 5% and 1% significance levels, respectively

Table 6 demonstrates that ESG Risks affect negatively and significantly foreign ownership (FO) at a level of 5%, but ROE has an insignificant positive impact on FO. Among the control variables, only Boardsize influences FO significantly. In particular, a 1% rise in board size led to an increase of 0.0044 in foreign ownership.

Since ESGRISK remains significant even when ROE is not, it suggests that ROE does not fully mediate the relationship between ESG risk and FO. Instead, it appears that ESG risk has a direct influence on FO, and the mediating role of ROE is insignificant.

Robustness Test

To ensure the robustness of the mediation effect and account for potential non-normality in the indirect effect, we proceed with a bootstrap analysis (Preacher and Hayes; 2008). Table 7 displays the results of this robust test.

Variable	Coef.	Std.err	z	P value	95% Conf. Interval
Indirect Effect (bs 1)	-0.0000397	0.0000291	-1.36	0.173	-0.0000968 to 0.0000174

Table 7. Bootstrap Results

The 95% confidence interval [-0.0000968, 0.0000174] includes zero, indicating that the indirect effect is not statistically significant.

Discussion

The baseline regression results (Table 4) display a direct, significant negative effect of ESG Risk rating on foreign ownership. So, we confirm H1. This result suggests that a higher ESG Risk discourages foreign investors from investing in Saudi firms. This finding is correlated with several studies (Temiz et al, 2023; Alregab, 2022 and Zhang et al., 2023). Those studies show that foreign ownership increases with strong ESG that promote sustainable business operations. The same in the Saudi Arabia context, cross-border investors are risk-averse, especially in ESG matters. The problems are connected to a lack of ESG transparency and environmentally destructive business practices. Therefore, Saudi Arabia created regulatory reforms under Vision 2030, seeking to improve good governance, sustainability, and transparency in the aim of attracting foreign investment that prioritizes long-term sustainability and good business practices.

Concerning control variables, only board size has a significant impact on foreign ownership. A larger board size is associated with higher levels of foreign ownership. This result confirms Yatim et al.'s (2016) findings in Malaysian companies, but it is contrary to the research of Bajaher et al (2022), who found an insignificant relationship between variables.

For Saudi-listed companies, board size can signal improved governance, compliance with

international best practices, and more transparency in doing business. These are attractive to foreign investors who look for stability, accountability, and the ability to operate efficiently in an international economy. Therefore, larger boards will likely result in higher foreign property as they are better able to meet international capital requirements.

On the other hand, neither firm size nor debt-to-equity ratio affects foreign property. This insignificant effect reinforces the idea that foreign investors may be more concerned with the style of governance, compliance with regulations, and market stability, rather than traditional factors related to a firm's size and capital structure.

The step 2 results of Baron and Kenny's (1986) method (Table 5) demonstrate a significant negative relationship between ESG Risk scores and corporate performance measured by ROE. So H2 is confirmed. Rossi et al. (2021), Sharawi et al (2024), and Chaabouni et al. (2025) reach the same conclusion. Authors indicate that by minimizing ESG-related risks via improved governance, sustainability initiatives, and ethical business practices, companies are likely to register long-term performance, secure investors, and build a positive reputation, which results in better corporate performance. The negative relationship between ESG Risk scores and ROE for Saudi-listed companies suggests that poor ESG practices can encroach on corporate performance because they bloat operational costs, deter investment, and undermine the firm's long-term opportunities for growth. As Saudi Arabia continues its development into an ever more sustainable and transparent economy under Vision 2030, corporations failing to manage ESG risks can be anticipated to find it increasingly difficult to maintain healthy financial performance, as signaled by lower Return on Equity.

Table 5 also shows that the debt ratio deteriorates Saudi firm value. In Arabie Saudi the key drivers of corporate performance are economic diversification and financial stability (Chaabouni et al., 2025). So, companies with excessive debt may face greater challenges in adapting to market changes, attracting investment, and enhancing their overall value.

The significant relationship between ESG risk ratings and ROE suggests the potential for ROE to mediate. So, we have passed to step 3 and step 4, aiming to study this role.

Findings in Table 6, approved by Table 7, underscore that the impact of ESG risk ratings remains significant even when ROE is not; this indicates that ROE fails to fully mediate the relationship between ESG risk and foreign ownership. Instead, ESG risk seems to directly affect FO, with ROE playing an insignificant mediating role. Then, we reject H3. This conclusion corroborates Khodijah's (2023) outcomes, which affirmed that ESG scores have a direct effect on foreign investment, while reputation has no mediating role in non-financial Indonesian listed companies. Also, our results are in line with both Stakeholder theory and Signaling theory. ESG risk scores are a strong market signal for foreign ownership preference. Investors view ESG risk as an independent driver of investment attractiveness, even more than the sole application of financial metrics like ROE. This encourages the growing emphasis on ESG transparency and governance quality in global investment practice.

The finding that ROE is not a mediator factor suggests that profitability alone cannot offset investors' concerns over environmental, social, and governance risks. Instead, international investors appear to gauge ESG risks apart from the rest of the risks, referring to long-term implications on company sustainability, regulatory risks, and reputation risks. This finding reinforces the increasing importance of ESG factors in investment decision-making in Saudi Arabian capital markets, aligned with global trends where institutional investors select firms

with good ESG performance. Hence, companies that wish to attract foreign investment need to focus on improving both the quality of their ESG and transparency, not only their bottom line.

Conclusion

This study provides important evidence concerning the relationship between ESG risk and foreign ownership of 117 Saudi-listed companies under the year 2023 and how corporate performance acts as the mediator in the relationship.

Evidence confirms that foreign ownership is notably influenced negatively by ESG risk scores, proving that foreign investors are sensitive to ESG risks while making investments. The study also shows that although corporate performance (ROE) shares some relationship with ESG risks, it does not completely mediate the relationship between ESG risk and foreign ownership. Instead, ESG risk has a direct influence on foreign ownership, marking that investors place greater importance on long-term sustainability and governance aspects as compared to short-term financial metrics. In addition, this study discovers that board size is a significant determinant of foreign investment, corroborating that international investors are demanding higher quality corporate governance systems. However, firm size and debt-to-equity ratio are not significantly correlated with foreign ownership, supporting again that the quality of governance and ESG performance are more important than traditional financial ratios in foreign investment. These findings are relevant to Saudi-listed companies seeking foreign capital inflows, as they suggest that improving ESG transparency and adopting best practices in good governance are important drivers towards long-term investment success.

While this study makes a valuable addition to the knowledge domain of ESG risk and foreign ownership trends in Saudi Arabia, it is not without limitations. First, it relies on observations for 2023 only, meaning it is difficult to generalize over time or to take into account potential shifts in investor behavior following evolving ESG regulations. The sample is further restricted to 117 companies, which is fewer than the universe of companies listed on the Saudi Stock Exchange. These limitations are due to the limited availability of ESG risk ratings from Sustainalytics. Future research would be capable of broadening the study using multi-year data and adding additional ESG rankings or qualitative data on business sustainability programs.

Overall, this research confirms the rising trend of ESG-focused investment strategies and communicates a message to Saudi firms that improving ESG transparency and sustainability is imperative to attract long-term foreign investment. In a bid to remain competitive in the global market, companies must shun the short-term profitability mindset and adopt a strong ESG performance in accordance with global best practices.

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