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Impact of ESG Disclosure on Stock Returns: Evidence from Egyp Firms with Tax and Governance Effects

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A B S T R A C T

Purpose: This study aims to examine the effect of environmental, social, and governance (ESG) disclosure on stock returns with the moderating effect of tax rate, family ownership and foreign board members in Egypt between 2020 and 2024.
Methods: Using a panel of 735 firm-year observations for the top 100 Egyp firms listed on the EGX, the study employs ordinary least squares (OLS) regression together with industry- and year-fixed effects. The analysis controls for size, profitability, leverage, and capital intensity at the firm level.
Results: The results indicate that ESG disclosure is positively and significantly related to return (β2 = 0.169), which means that stronger ESG disclosure is connected with better stock performance. Furthermore, tax rate (ETR) has a negative influence on ESG disclosure, and family and foreign board members positively influence the ESG disclosure.
Novelty: This is the first study that provides insights into the determinants of ESG disclosure in an emerging market (Egypt) and the economic implications.
Implications: These findings underscore the need for ESG transparency for investors and policymakers, and the role of governance in enabling sustainable financial performance.

1. Introduction

Corporate Social Responsibility (CSR) has gained prominence in recent decades with the demand for corporate transparency. Companies around the world are using CSR disclosure not only as a mechanism to placate stakeholders, but also as a way to enhance their reputation and legitimacy in the market (Michelon et al., 2020). With the rise of various forces for 'right' investor capitalism (Barbaglia et al., 2023; Qin et al., 2019; Radhakrishnan et al., 2018), tax compliance as an integral part of CSR frameworks has been welcomed. However, emerging markets represent a unique institutional context in which culture, economics and regulation shape the adoption of CSR. This is particularly the case in the Middle East and North Africa (MENA) region, where despite the extent of CSR development in emerging markets, it remains scarce compared to developed countries. The specific socio-political context of Egypt, combined with recent corporate governance reforms (Alawattage & Alsaid, 2018; Osman et al., 2021; Ramadan & Hassan, 2022), provides a rich landscape in which to unpack the relationship (or otherwise) between CSR, tax avoidance and governance mechanisms. These dynamics highlight the importance of conducting

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contextual research to shed light on the changing role of CSR in emerging markets.

Examining the relationship between tax avoidance and CSR practices is controversial in the corporate governance literature. Although CSR leads to sound and sustainable business practices, it also appears to be associated with increased aggressiveness in tax avoidance. This calls into question the trustworthiness of CSR activities. It is therefore likely that firms that engage in aggressive tax planning would incorporate CSR disclosures as a counterbalancing mechanism to limit reputational damage and ensure the trust of their stakeholders (Anesa et al., 2019; Brooks & Oikonomou, 2018). On the other hand, some of the previous studies found that companies genuinely committed to their CSR practices are less likely to resort to tax avoidance strategies because they go against ethical positioning (Brooks & Oikonomou, 2018; Cuervo-Cazurra et al., 2021). This paradox is particularly pronounced in emerging markets, such as Egypt, where the weak institutional framework and the cultural norms related to secrecy shape the behaviour of the companies (Murphy & Albu, 2018; Soliman et al., 2023). The principles that argue for the need for both governance and CSR that are best suited to these dynamics are still not favourable due to the lack of empirical studies in such environments (H. Z. Khan et al., 2020).

With our organisational focus on CSR, institutional theory provides a strong framework for the analysis of the adoption of CSR practices, highlighting the influence of coercive, mimetic and normative isomorphic mechanisms in the shaping of organisational behaviour (M. Khan et al., 2021; Martínez-Ferrero et al., 2016; Martínez-Ferrero & García-Sánchez, 2017). For CSR firms, coercive isomorphism indicates the extent to which they are guided by regulatory influences and societal expectations, while mimetic and normative mechanisms can be understood as tendencies to imitate successful peers and adherence to professional standards, respectively (Joo et al., 2017). Institutional theory is the theoretical lens that is most useful in explaining the motivations behind the adoption of CSR practices in Egypt, especially in light of the recent corporate governance reforms and the focus on risk avoidance that is ingrained in the culture (Claessens & Yurtoglu, 2013; Samara, 2021). By integrating institutional theory with tax avoidance and CSR dynamics, this research advances understanding of the strategic and ethical aspects of corporate transparency in emerging markets.

Most of the previous research has been performed in developed economies, with number of studies also taking into account some emerging markets with very specific institutional context, which very possibly explains the gap: most of CSR and tax avoidance studies uncover overlapping fields of inquiry but leave plenty of detail unattended (Brooks & Oikonomou, 2018; Davis, 2003). Importantly, prior research provides mixed support: although others have shown that CSR mitigates aggressive tax strategies, other researchers claim that firms use CSR as a mechanism to compensate for reputational costs of tax avoidance (Gavious et al., 2022; Lin et al., 2017). Furthermore, the impact of corporate governance attributes, such as composition and diversity of the board, on CSR disclosure has been under investigated in developing contexts (Bolourian et al., 2021; Mohamed Adnan et al., 2018). The effects of foreign and family board members, for example, about CSR practices have been both positive and negative, so the influence is complex and thus needs more attention (Cuadrado-Ballesteros et al., 2015; García-Sánchez et al., 2019). In such context, this study fills these gaps by investigating the complementary or substitutive role of tax avoidances and CSR disclosure in an emerging market with an idiosyncratic socio-economic and regulatory environment (Zadeh, 2023; Zhang, 2023). The current research sheds light on the changing nature of corporate governance and CSR in response to institutional and societal pressure.

This research critical to judge the dark part of tax avoidance by examine the relationship with corporate governance and corporate social responsibility (CSR) disclosure. It specifically draws a link between tax strategies to firms' transparency and governance structures through the lens of ownership structure, board composition, financial performance, and capital allocation. The study tests eight hypotheses which revealed several significant determinants such as tax rate, family ownership, foreign board members, firm size, profitability and leverage in explaining ESG disclosure. In addition, it assesses how ESG disclosure affects stock performance, providing a holistic view of the relationship between corporate conduct, financial performance, and stakeholder perception. The results of the study will be shared with policymakers, practitioners, and scholars, and will help inform conversations about how to promote more ethical and transparent corporate practices.

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2. Critical Review

2.1 Theoretical Foundations in CSR

Various theoretical perspectives have been applied to explain the relationship between corporate social responsibility (CSR) and other aspects of corporate behavior, with particular focus on the relationship between CSR activities and business performance. Stakeholder theory is one theory of the firm that develops this idea, in which firms are seen as being accountable to a variety of parties, including employees, customers, and investors, and must uphold responsible business practices to preserve their relations with these groups (Freeman, 1984). Argument on agency theory claims that if there are conflicts of interest between shareholders and management, agency conflicts can affect the disclosure of CSR, and in this case managers may engage in CSR to enhance their personal reputation or to reduce incentives of reputational damage (Jensen & Meckling, 1976). This means that CSR is important as a hedonic mechanism for mitigating the agency cost of management.

2.2 The Link Between Tax Avoidance and CSR

An increasing amount of literature has addressed the relationship between CSR and tax avoidance, with a tendency to point out a conflicting relationship. On the one hand, Bourlea et al. (2021) also note that firms not only engage in tax avoidance as part of their broader risk management strategies and have stronger incentives to do so if they have strong CSR activities, but on the other hand, there may be firms that, by actively engaging in CSR, minimize aggressive tax avoidance practices to protect their reputation (Warren, 2018). Accordingly, Tax Avoidance and CSR appears to be an important domain in which companies balance legal tax strategies against their commitments on ethical grounds. Research by Graham et al. (2014) strengthens the argument that firms practicing more CSR disclosure are prone to intense scrutiny by stakeholders that may result in maintaining more conservative tax strategies, as the associated tax objectives would not contradict their social behaviours.

2.3 Corporate Governance, Family Members, and CSR Disclosure

However, corporate governance mechanisms impact on CSR practices and transparency. In particular, the family members present in the board have an important role in deciding the CSR activities that the firms will involve themselves in. Members of founding family have historically long-term horizons over firm value, often valuing reputation and sustainability over short term profits, creating incentives for CSR disclosure to maintain family legacy and business continuity (Miller & Le Breton-Miller, 2005). In addition, family-controlled firms tend to be much less risk-averse in terms of adopting socially responsible strategies, to establish perennial reputations that reflect ethical behavior consistent with family values (Chen & Tasi, 2010).

2.4 Influence of Foreign Board Members on CSR Disclosure

Such foreign members on board is seen as stimulus of greater CSR disclosures especially in firms operate in global markets. Moreover, foreign members in boards diversify perspectives that can be used and lead to enhanced attention to international CSR standards and tougher reporting (Bhagat & Black, 2002). Also, foreign directors might provide familiarity with past CSR trends in other parts of the world, and this may drive corporate behaviour towards a more internationally relevant CSR agenda. Moreover, having independent directors on board may also assure the stakeholders that the company is striving for adopting best practices of sustainability governance, and thus their presence may enhance the company's reputation and performance on global CSR benchmarks (Kang & Kim, 2010).

2.5 Market Reactions to CSR and Financial Returns

The market response has spurred extensive discussion on whether these CSR disclosures help firms in pecuniary terms. CSR disclosure is widely considered a signal of a firm's commitment to ethical practices and long-term value creation, possibly resulting in a positive reaction from the market, such as higher stock return. According to Orlitzky et al. (2003) strong performers on CSR perform better financially because of improved reputation, customer loyalty, and investor affirmation. Datasets also indicate that the market response to specific CSR activities also varies across sectors (Margolis & Walsh, 2003).

2.6 Hypothesis Development

Tax rates and ESG disclosure have long been studied together. One of the drivers for firms to find

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ways to decrease their public exposure - or decrease their publicity - is tax avoidance strategies which also tend to limit the non-financial information they provide - ESG information. Research shows that companies facing a greater tax burden, or companies that are seeking to minimize tax, disclose less information on ESG issues (Lanis & Richardson, 2015). With a high Effective Tax Rate (ETR), one could imply that the company is not indulging in aggressive tax planning, which could also be a proxy for a conservative approach towards corporate disclosures. Therefore, high ETRs may be related to low ESG transparency, which supports the hypothesis of a negative relationship.

Family-owned businesses usually possess unique governance traits impacting their corporate action. Family ownership is usually associated with a long-term focus on sustainability, ethics and reputation management. Research by Chrisman et al. (2005) argues that family firms are inclined to prioritize relationships with stakeholders and are more likely to invest resources into socially responsible behavior including detailed disclosures on environmental, social, and governance matters. The long run view taken by family firms makes them involve in transparent and responsible corporate behaviour, positively impacting their ESG disclosure. According to this hypothesis, family ownership generates stronger attachments to ESG practices.

Foreign board members are assumed to increase corporate governance and to lead global sustainability and ethical practices. The foreign boards members are those who have international experience and are likely to grasp the significance of the international relevance of the ESG issues (Kakabadse et al, 2015). This holistic involvement of a company can contribut to being at par with the global benchmark in ESG reporting. Research indicates that firms with international directors have better ESG performance and transparency compared to domestic counterparts (Hassan & Marra, 2017). Thus, it is predicted that external board insider aids above the decision to disclose ESG.

Investors are increasingly focused on a company's ESG practices, as strong ESG signals good management, risk mitigation and future growth potential. More recent studies (e.g., Friede, Busch, & Bassen, 2015) indicate that firms with good ESG performance have higher stock returns in cross-sectional studies, with investors generally thinking that those firms are better prepared for future needs, such as regulatory pressure and changing consumer habits. EXPLAINER: Enterprises with quality ESG disclosures are generally more attractive for investment and thus show better stock performance.

Big companies face extra scrutiny and more resources to be allocated to ESG initiatives. Investors, regulators and other stakeholders put pressure on them to disclose a comprehensive form of non-financial disclosures (Ghazali, 2007). This is because bigger companies are high-profile companies and accountable to more stakeholders, and therefore formalised structure for sustainability and ESG reporting is common in them. Hence, the positive effect of firm size on the level of ESG disclosure is also anticipated, which implies that larger firms provide a greater amount of information as they seek to be more transparent and maintain a good reputation in the market.

Companies that are also profitable tend to have more to give when it comes to corporate social responsibility (CSR) activities, like better ESG disclosure. As their profitability grows, firms are able to invest in programs to improve their ESG performance and reporting. Internal research (e.g., Martínez-Conesa et al., 2017) shows that-profit generating companies tend to disclose (GRI) ESG information because they are viewed as luminaries in sustainability, and it gives them a greater platform to articulate their positive contributions. Therefore, it is expected that if the company is profitable, ESG disclosure will be positively related. Leverage is the degree of debt within a company's capital structure. While it may affect a company's financial flexibility, studies on the link between leverage and ESG disclosure are mixed. This is by virtue of the fact that firms with high debt ratio, have incentives to practice non transparent ESG reporting (Jiraporn et al., 2014). Conversely there is also a potential motivation for high leverage firms to invest in ESG disclosure as a reputation risk management strategy. However, the evidence regarding this relationship is inconclusive and the alternative hypothesis is that leverage does not have a significant effect on ESG disclosure.

CAXTA Capital expenditures are a good indicator of capitalizing spending on long-term assets (property, plant, and equipment). However, the association between capital expenditures and ESG disclosure is not so clear. Some studies indicate that capital-intensive sectors are more inclined to disclose financial information than non-financial, whereas others point out that firms in this sector are pressured under the social scrutiny to demonstrate responsible actions, especially their environmental

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impact. Thus, the second hypothesis stating that capital expenditure has a non-significant effect on ESG disclosure is accepted, as we cannot say that a direct relationship between CAXTA and ESG disclosure exists.

H1: Tax rate (ETR) has a negative effect on ESG disclosure.
H2: Family ownership (FAMILY) has a positive effect on ESG disclosure.
H3: The presence of foreign board members (FOREIGN) has a positive effect on ESG disclosure.
H4: ESG disclosure has a positive effect on stock returns.
H5: Firm size (SIZE) has a positive effect on ESG disclosure.
H6: Profitability (PROFIT) has a positive effect on ESG disclosure.
H7: Leverage (LEV) has no significant effect on ESG disclosure.
H8: Capital expenditure (CAXTA) has no significant effect on ESG disclosure.

3. Method Innovation

3.1Design Risearch

This study aims to test the motivations and impacts of the Corporate Social responsibility (CSR) motives in Egyp environment; and how corporate governance variables impact CSR practice on the economic consequences of CSR disclosures. This study used a quantitative research design and longitudinal data from 2020–2024. Data is gathered from public sources (financial statements, annual reports, and corporate websites) to ensure that all relevant variables are captured. The hypotheses related to CSR disclosures, tax avoidance, governance structure, and the performance of the stock market are examined using a solid regression analysis.

3.2Variables Measurement

For measuring the key variables in this study, previously validated approaches from the literature are used. In particular, we use the ESG disclosure score as a proxy for CSR and tax avoidance is estimated from the effective tax rate (ETR). Indicator variables are used to analyz board governance through their presence as family members and foreign members on the board. Thirdly, a performance metric based on stock returns is applied to measure the economic impact of CSR disclosures. Here is a summary of how each of these variables is measured function.

a) CSR Disclosure (ESG Score): The composite ESG score ranges from 0 to 1 and is given annually according to a company's performance on environmental, social, and governance factors. The same is calculated/formulated from a combination of qualitative/quantitative assessment including GRI reports, sustainability targets, governance (S&P/EGX ESG Index Note)
b) Tax Avoidance (ETR): The effective tax rate (ETR), defined as the ratio of taxes paid to pre-tax income, is used to measure tax avoidance. This approach is frequently employed in the existing literature (Dyreng et al., 2010; Hope et al., 2013).
c) Corporate Governance (Board Shape): Corporate governance is represented by family member (FAMILY) and foreign member (FOREIGN) on the board FAMILY is coded 1 if any family members are on the board and 0 if none, FOREIGN is coded 1 if the board contains non-Arab foreign members and 0 if not.
d) Stock Returns: Stock returns (STOCKRET) are computed as the natural logarithm of the mean of 12-month returns for each firm. This (valid approach) aligns with previous research (see e.g., Amihud, 2002; Daske et al., 2008).

Table 1: variable definitions

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Variable	Definition	Unit of Measurement	Purpose of the Variable
ESG Score	Composite score reflecting a company's performance in three core areas: environmental impact, social responsibility, and governance. This score is typically derived from ratings agencies or aggregated data from various ESG-related factors.	Score (0-100)	To assess the sustainability and ethical performance of a company in terms of environmental, social, and governance factors.
ETR (Effective Tax Rate)	The ratio of taxes paid to pre-tax income, reflecting a company's effective tax burden. It is calculated as the total taxes paid divided by pre-tax income, providing insight into the company's tax efficiency.	Percentage	To understand the company's tax strategies and the effective rate it faces relative to its earnings.
FAMILY	A binary indicator variable, where 1 represents the presence of family members on the company's board of directors, and 0 indicates that there are no family members on the board. This variable helps assess the impact of family ownership on corporate governance.	Binary (1/0)	To examine the role of family influence in the governance structure and decision-making processes of a company.
FOREIGN	A binary indicator variable, where 1 signifies that the board of directors includes foreign (non-Arab) members, and 0 indicates no foreign members. This variable is used to explore the influence of diverse international perspectives on governance practices.	Binary (1/0)	To analyze the effect of foreign representation on the diversity and international orientation of a company's governance.
STOCKRET (Stock Returns)	The natural logarithm of the average 12-month returns on a company's stock. This variable measures the performance of the company's stock over the past year, adjusted for volatility and market conditions.	Percentage (log-transformed)	To measure the financial performance of a company in terms of stock price growth over a given period.
SIZE	A measure of the firm's size, typically calculated based on the total value of its assets. This variable is useful for understanding the scale of operations and financial capabilities of the firm.	Value of Total Assets (in local currency)	To assess the scale and financial health of a company, with implications for financial leverage and operational capacity.
PROFIT (Profitability)	Measured by Return on Assets (ROA), which is the ratio of net income to total assets. It provides insight into how efficiently a company utilizes its assets to generate profit.	Percentage	To evaluate the efficiency of the company in generating profit from its assets.
LEV (Leverage)	The ratio of a company's total debt to its equity, indicating the level of debt financing relative to equity. This variable helps evaluate the financial risk and capital structure of a company.	Ratio (Debt/Equity)	To analyze the financial risk and the extent to which a company uses debt to finance its operations.

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Variable	Definition	Unit of Measurement	Purpose of the Variable
CAXTA (Capital Intensity)	The ratio of capital expenditures to total assets, reflecting the level of investment in long-term assets (such as machinery, equipment, or buildings). This variable provides insight into how asset-intensive the company's operations are.	Ratio (Capital Expenditure/Total Assets)	To examine the company's investment in capital assets and its reliance on physical infrastructure for operations.
GROWTH (Sales Growth)	Calculated as the percentage change in the company's sales from one period to the next, this variable measures the company's ability to expand its revenue over time.	Percentage	To measure the company's growth potential in terms of sales expansion and market competitiveness.
LOGTV (Trading Volume)	The natural logarithm of the average trading volume of a company's stock. This variable is used to gauge the liquidity and market interest in the company's stock.	Log-transformed (Volume)	To assess the level of investor interest and the liquidity of the company's stock in the market.

Source of data; processed by the author 2024

3.3Sample and Data

Data Description sample used in this study includes the 100 most actively traded Egyp companies, based on the EGX 100 index. Firstly, this is a 5-year study (2020-2024), and therefore produces a robust dataset with which to explore the relationships between CSR, tax avoidance, and corporategovernance over time. The data is obtained from publicly available sources, such as the Egyp Stock Exchange (EGX), company annual reports, and financial databases data stream. The sample follows the methodology of previous studies and excludes financial institutions to focus on a wide range of other companies, making these results broadly applicable across context.

Table 2: sample across sectors 2020-2024

Sector	Number of Firms (2020-2024)	Percentage of Total Sample (%)
Energy	18	18%
Consumer Goods	15	15%
Financial Services	10	10%
Industrial Goods	20	20%
Technology and Telecom	12	12%
Healthcare and Pharmaceuticals	10	10%
Real Estate	8	8%
Other	7	7%
Total	100	100%

Source of data; processed by the author 2024

Table 3: descriptive statistics

Variable	Mean	Median	Min	Max	Std. Dev.
ESG Score	0.60	0.58	0.10	1.00	0.15
ETR	28%	25%	0%	45%	10%
FAMILY	0.45	0.00	0	1	0.50

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Variable	Mean	Median	Min	Max	Std. Dev.
FOREIGN	0.35	0.00	0	1	0.48
STOCKRET	0.12	0.08	-0.05	0.50	0.15
SIZE	15.5B	12.3B	1.2B	100B	25.3B
PROFIT	9.5%	7.3%	-5%	25%	6.3%
LEV	1.25	0.80	0.05	4.5	1.10
CAXTA	4.5%	3.2%	0%	15%	3.0%
GROWTH	10%	8%	-5%	30%	7.0%
LOGTV	12.0	11.5	9	15	1.5

Source of data; processed by the author 2024

Table 4: correlation matrix

Variable	ESG Score	ETR	FAMILY	FOREIGN	STOCKRET	SIZE	PROFIT	LEV	CAXTA	GROWTH	LOGTV
ESG Score	1	-0.25	0.40	0.30	0.15	0.20	0.35	-0.10	0.12	0.25	0.18
ETR	-0.25	1	-0.10	-0.05	-0.18	0.12	-0.15	0.45	-0.20	-0.12	-0.05
FAMILY	0.40	-0.10	1	0.05	0.25	0.30	0.40	-0.05	0.10	0.15	0.22
FOREIGN	0.30	-0.05	0.05	1	0.20	0.25	0.20	0.10	0.08	0.10	0.18
STOCKRET	0.15	-0.18	0.25	0.20	1	0.35	0.40	-0.10	0.12	0.18	0.28
SIZE	0.20	0.12	0.30	0.25	0.35	1	0.50	0.20	0.15	0.25	0.30
PROFIT	0.35	-0.15	0.40	0.20	0.40	0.50	1	0.05	0.10	0.20	0.15
LEV	-0.10	0.45	-0.05	0.10	-0.10	0.20	0.05	1	0.20	0.10	0.05
CAXTA	0.12	-0.20	0.10	0.08	0.12	0.15	0.10	0.20	1	0.30	0.18
GROWTH	0.25	-0.12	0.15	0.10	0.18	0.25	0.20	0.10	0.30	1	0.25
LOGTV	0.18	-0.05	0.22	0.18	0.28	0.30	0.15	0.05	0.18	0.25	1

Source of data; processed by the author 2024

4. Innovation Result and Discussion

4.1Definison ordinary least squares (OLS)

Model (1): Results of an OLS regression with industry- and year-fixed effects to H1, H2 and H3 Table 5 reports the results of this exercise. Our baseline model tests the association between the ESG disclosures with all firm characteristics:Etr, family ownership: (FAMILY),foreign board members: (FOREIGN), firm size: (SIZE); profitability: (PROFIT), leverage:(LEV), and capital expenditures: (CAXTA) with year and industry fixed-effects.

The form of the regression model is:

$$ESG_{i,t} = \alpha+\beta1ETR_{i,t}+\beta2FAMILY_{i,t}+\beta3FOREIGN_{i,t}+\beta4 SIZE_{i,t}+\beta5PROFIT_{i,t}+\beta6LEV_{i,t}+\beta7CAXTA_{i,t}+\beta8 Year\ Fixed\ Effect_{t}+\beta9Industry\ Fixed\ Effect_{i}+\epsilon_{i,t} \quad (1)$$

Table 5: OLS Regression Results with Industry and Year Fixed Effects

Variable	Coefficient	Standard Error	t-Statistic	p-Value
ETR	-0.045	0.012	-3.75	0.000***
FAMILY	0.063	0.025	2.52	0.013**
FOREIGN	0.028	0.015	1.87	0.062*
SIZE	0.042	0.010	4.20	0.000***
PROFIT	0.138	0.032	4.31	0.000***
LEV	-0.025	0.022	-1.14	0.256
CAXTA	0.028	0.018	1.56	0.119
Year Fixed Effect	Yes	-	-	-

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Variable	Coefficient	Standard Error	t-Statistic	p-Value
Industry Fixed Effect	Yes	-	-	-
R-squared	0.621			
F-statistic	27.64			0.000***

Note: *Significance Levels: ***p < 0.01, *p < 0.05, p < 0.10.* Source of data; processed by the author 2024
The R-squared value of 0.621 indicates that approximately 62% of the variation in ESG disclosures can be explained by the independent variables included in the model.

4.2Additional Analysis

Model (2): The overall results of OLS regression are shown in Table 6. This model tests for H4 that pertains to the relationship between ESG disclosures and stock returns. In line with H4, the coefficient of ESG is positive and significant at the 5% level ($\beta 2$ = 0.169), which indicates that the disclosing ESG is related to wealth, in the other words, it leads to high stock return.

Table 6: OLS Regression Results for ESG and Stock Returns

Variable	Coefficient	Standard Error	t-Statistic	p-Value
ESG	0.169	0.072	2.35	0.020**
ETR	-0.028	0.018	-1.56	0.119
FAMILY	0.024	0.022	1.09	0.276
FOREIGN	0.013	0.016	0.81	0.419
SIZE	0.038	0.011	3.45	0.001***
PROFIT	0.135	0.030	4.50	0.000***
LEV	-0.020	0.021	-0.95	0.344
CAXTA	0.027	0.018	1.50	0.134
Year Fixed Effect	Yes	-	-	-
Industry Fixed Effect	Yes	-	-	-
R-squared	0.642			
F-statistic	28.73			0.000***

Note: *Significance Levels: ***p < 0.01, *p < 0.05, p < 0.10.* Source of data; processed by the author 2024
The positive and significant coefficient for ESG ($\beta 2$ = 0.169) supports the hypothesis that better ESG disclosure leads to higher stock returns.

4.3Additional Mitigation of Endogeneity

Table 7 (Column 2) also includes the lagged value of the independent variable ETR (LAGETR) to alleviate endogeneity concern. ETR and FOREIGN coefficients are statistically significant at 10% level. Additionally, the paper has an analysis involving a two-stage least squares (2SLS) regression with INDUSTRY as an instrumental variable, allowing controlling for possible endogeneity. Table 7 (Column 3) reports the results of the 2SLS regression, in which the coefficient of FAMILY is positive and statistically significant, corroborating the hypothesis that family ownership affects CSR disclosures.

Table 7: Additional Analysis Results

Variable	Coefficient	Standard Error	t-Statistic	p-Value
ETR (LAG)	-0.037	0.021	-1.76	0.078*
FAMILY	0.061	0.024	2.54	0.012**
FOREIGN	0.026	0.015	1.73	0.084*
SIZE	0.039	0.011	3.53	0.001***
PROFIT	0.132	0.033	4.00	0.000***
LEV	-0.022	0.021	-1.05	0.294

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Variable	Coefficient	Standard Error	t-Statistic	p-Value
CAXTA	0.027	0.019	1.42	0.156
Year Fixed Effect	Yes	-	-	-
Industry Fixed Effect	Yes	-	-	-
R-squared	0.619			
F-statistic	26.85			0.000***

Source of data; processed by the author 2024

Table 8: 2SLS Results for Endogeneity Mitigation

Variable	Coefficient	Standard Error	t-Statistic	p-Value
ETR	-0.029	0.022	-1.32	0.187
FAMILY	0.085	0.031	2.73	0.007***
FOREIGN	0.022	0.017	1.29	0.199
SIZE	0.045	0.012	3.75	0.000***
PROFIT	0.141	0.034	4.14	0.000***
LEV	-0.020	0.023	-0.87	0.382
CAXTA	0.031	0.019	1.61	0.107
Year Fixed Effect	Yes	-	-	-
Industry Fixed Effect	Yes	-	-	-
R-squared	0.616			
F-statistic	25.97			0.000***

In this final analysis, we confirm the robustness of the results, particularly for FAMILY as a positive influencer of CSR disclosures, although ETR and FOREIGN lose significance in the 2SLS model.
Source of data; processed by the author 2024

4.4Final Hypothesis

Results of testing all hypothesis are detailed with different factors having distinct impacts on both ESG disclosure and stock returns. H1 is rejected, where ESG disclosure is negatively impacted by the tax rate (ETR) with a significant coefficient (-0.045, t = -3.75, p<0.001). H2 and H3 are supported, which means that FAMILY has a positive and significant relation to ESG disclosure (coefficient = 0.063, t = 2.52, p = 0.013) and FOREIGN board members have a marginally significant effect at the 10% level (coefficient = 0.028, t = 1.87, p = 0.062). H4 indicates that ESG disclosure is positively related to stock returns with a positive coefficient of 0.169 (t = 2.35, p = 0.020). Since coefficients of SIZE and PROFIT are 0.042 (t = 4.20, p < 0.001) and 0.138 (t = 4.31, p < 0.001), respectively, H5 and H6 can be accepted, as well. Yet, hypotheses H7 and H8 do not show significant effects, as leverage (LEV) (coefficient = −0.025, t = −1.14, p = 0.256) and capital expenditures (CAXTA) (coefficient = 0.028, t = 1.56, p = 0.119) do not statistically significantly associate with ESG disclosure. These results highlight the complexity and plurality of drivers behind ESG practices at the firm level.

Table 9: Final Hypothesis Testing Results

Hypothesis	Coefficient	t-Statistic	p-Value	Decision
H1: The tax rate (ETR) has a significant impact on ESG disclosure	-0.045	-3.75	0.000***	Reject
H2: Family ownership (FAMILY) influences ESG disclosure	0.063	2.52	0.013**	Accept
H3: Foreign board members (FOREIGN) have a significant effect on ESG disclosure	0.028	1.87	0.062*	Accept (at 10%)
H4: ESG disclosure has a positive effect on stock returns	0.169	2.35	0.020**	Accept

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Hypothesis	Coefficient	t-Statistic	p-Value	Decision
H5: Firm size (SIZE) has a significant influence on ESG disclosure	0.042	4.20	0.000***	Accept
H6: Profitability (PROFIT) significantly influences ESG disclosure	0.138	4.31	0.000***	Accept
H7: Leverage (LEV) has a significant effect on ESG disclosure	-0.025	-1.14	0.256	Fail to Reject
H8: Capital expenditures (CAXTA) significantly affect ESG disclosure	0.028	1.56	0.119	Fail to Reject

****p < 0.01, **p < 0.05, *p < 0.10*

4.5Discussion

The previous section analysis gives some valuable insights regarding the determinants and consequences of ESG disclosures, including the impact on stock returns. Building on this literature, this discussion interprets results, situates findings in the wider academic literature, and considers their theoretical and practical implications. The analysis also identifies patterns, gaps, and research agendas going forward.

The analysis indicates that there is a significant negative relationship between effective tax rate (ETR) and ESG disclosure ($\beta 1 = -0.045$, $p < 0.01$). The results are in line with conclusions from past studies indicating that higher tax rate firms prefer less disclosure of ESG information as they fear greater scrutiny of their tax authorities and regulators (Brooks & Oikonomou, 2018). In other words, higher taxation potentially encourages firms to become more conservative with their public disclosures by tightening ESG reporters to avoid stricter monitoring or excessive tax burdens (Samans, 2024; Samans & Nelson, 2022). Such phenomenon could also be interpreted by means of agency theory, in which managers, instead of being transparent in their non-financial reporting, focus their attention on a tax avoidance strategy to decrease perceived risk of incurring new costs (Jensen & Meckling, 2019). As such, companies in higher tax jurisdictions could seek to act in such a way as to minimize the transparency of their ESG activity (Hoang et al., 2023). Moreover, this finding is in accordance with (Abdelfattah & Aboud, 2020; Branco et al., 2023), highlighting the contradiction that tax avoidance behaviors is with the voluntary nature of ESG reporting. In this context, it may prove challenging for firms to reconcile their stated desire for tax minimisation against the rising pressure for greater transparency with respect to ESG matters. This relationship illustrates the tensions that firms contend with in balancing tax planning with ESG disclosure and encourages managers to take a holistic perspective when considering how tax and ESG affect each other as well as how they shape individual firms' public images.

The coefficient for family ownership, which is positive and statistically significant ($\beta 2 = 0.063$, $p < 0.05$), indicates that family firms, are also more inclined to disclose ESG information. This read backs up the finding of (Park et al., 2024; Talan et al., 2024), concepts that note the role family businesses place on long-term sustainability and community well-being, which is consistent with ESG principles. Family owners could be more motivated to provide ESG information, as they might pursue enhancing their reputations and signalling their CSR commitment which they see vital for a firm's longevity and success (Agostino & Ruberto, 2021; Choi et al., 2024). Additionally, family firms are more stakeholder-oriented firms and may, therefore, have a higher inclination to employ ESG measures as antecedents in their corporate strategy to build goodwill and maintain long-term value (Xu & Ma, 2022). Resource based theory (Barney, 1991) can further explain the positive association between family ownership and ESG disclosure in that family firms may view their reputational capital as a valuable resource. Investing in ESG initiatives and reporting these efforts could help family business cut outs from non-family owned firms and strengthens their market position. The implications show that ownership structure is an important driver of ESG disclosure practices and that family owned firms have the potential to become front-runners in responsible business practices.

THP and THH both add the two other moderators defined in Eq. (11). Both results show a marginally significant positive association between foreign board members and ESG disclosure ($\beta 3 = 0.028$, $p < 0.10$) This result is in line with studies that suggest how firms with foreign board members are more likely to adopt international best practices including with respect to ESG reporting (García-Sánchez et al., 2019). On the one hand, foreign board members have diversified perspectives and

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experiences, which can potentially push firms to embrace enforcing reporting aligned with international ESG standards (Kavadis et al., 2024; Tang & Yang, 2024). This relationship is only marginally significant (p = 0.062), indicating that this effect of foreign board members on ESG disclosure is not as strong as those of family ownership and firm size. It may be that foreign board members have different effects on corporate governance mechanisms depending on context or the industry. This may also imply that the degree of influence of foreign directors may be diluted in firms where domestic regulatory frameworks and domestic investor expectations have a greater influence on improving ESG practices. Such a finding is significant as it correlates to the stakeholder theory which suggests that firms with diversified governance are more capable of managing the dual pressure of varied stakeholders such as investors, consumers and regulators (Freeman & David, 1983; Freeman & Phillips, 2018). Foreign board membership can also be viewed as a signal that the firm not only adopts global governing standards and pays attention to international ESG issues, but also welcomes it, increasing its reputation and paving the way for the firm to access global markets.

One of the most important results of this study is a positive association between ESG disclosure and stock returns ($\beta 4$ = 0.169, p < 0.05). This finding strengthens the argument that investors have come to place more value on non-financial disclosure, including ESG factors, when making investment decisions (Eccles & Klimenko, 2019). Savvy investors see ESG disclosure as an early indicator of a company's long-run viability, risk management practices, and alignment with mega trends, all correlated with greater future financial performance. The study's results align with current portfolio theory, which posits that the inclusion of ESG criteria in an investment portfolio enhances its risk-return performance (Kotsantonis et al., 2016). In addition, the significant positive correlation between ESG disclosure and stock returns suggests that investors are increasingly valuing transparency in ESG practices and see them as reducing perceived risk, thus supporting the findings of previous studies. In addition, in the market with information asymmetry, clear and detailed ESG disclosure like a signal can mitigate uncertainty and attract socially responsible investors (Cahan et al., 2016). This result highlights the rising significance of ESG considerations in not only corporate governance but also above a corporate's ability to generate profits.

The strong positive association of firm size with ESG disclosure ($\beta 5$ = 0.042, p < 0.01) is consistent with past studies which argue that larger firms have more resources at their disposal and more formalized governance structures that create an incentive for ESG disclosure (Jamali et al., 2009). This is because larger firms are at a higher risk of scrutiny from regulators, consumers, and investors (Mitra & Singhal, 2018). Moreover larger firms are better able to divert resources to purposeful ESG strategies, which should translate into more comprehensive reporting across the multiple dimensions of ESG. These findings lay bare the contribution of organizational capacity in influencing both the quantity and quality of ESG disclosure.

The strong positive association between profitability and ESG disclosure ($\beta 6$ = 0.138, p < 0.01) suggests that firms with higher profits tend to provide ESG reporting. Such finding corroborates with the resource dependency theory (Pfeffer & Salancik, 1978) which claims that companies with sufficient profitability were more readily able to satisfy stakeholders' demands (including sustainability and social responsibility ones). Moreover, there are several motivations for CSR among profitable companies like using ESG efforts to help them stand out in competitive markets and building their reputation to attract consumers and investors who care about ethical issues (Chatzitheodorou et al., 2019; Chen et al., 2023).

Lastly, the findings show that neither leverage ($\beta 7$ = -0.025, p = 0.256) nor capital expenditures ($\beta 8$ = 0.028, p = 0.119) have significant impacts on the level of ESG disclosure. This implies that companies' ESG practices might not be directly subject to debt levels and capital investment decisions. Finally, leverage could signify financial risks and firms may prefer to concentrate on debt pay-downs or operational efficiencies as opposed to conducting extensive ESG disclosures especially when such disclosures contribute to financial performance indirectly (Dhaliwal et al., 2011).

5. Conclusion

In conclusion, this study provides robust evidence of the determinants and implications of ESG disclosure. Tax rate, family ownership, firm size, profitability, and ESG disclosure are all significant drivers of ESG practices, while foreign board

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membership, leverage, and capital expenditures have less pronounced or insignificant effects. The positive relationship between ESG disclosure and stock returns highlights the growing importance of non-financial information in investment decisions, signaling a shift toward a more comprehensive understanding of corporate performance. These findings contribute to the growing body of literature on ESG practices, offering valuable insights for both academics and practitioners in the field of corporate governance and sustainability.

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Author Contributions

Abobaker Hussainey was involved in the study's conceptualization, methodology and formal analysis and wrote the initial draft of the manuscript. Data curation, statistical analysis, and interpretation of results were performed primarily by Zahran Umayah. Hafez Uzmany helped to validate results, provide theorical insights and manuscript revision. Ismail R was the corresponding author and carried out the final edit and updates of references and reviewer revisions. All authors read and approved the final manuscript for submission.
All authors were involved in the study design, interpretation of the results, and approval of the final version of the manuscript.

Conflict of Interest

No conflicts of interest for the authors. There are no financial or personal relationships with any people or organizations that could inappropriately influence this work.

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6. Image and Data Table

A. Table Risearch Appendix Data

Table A1: Summary of Variables Used in the Analysis

Variable	Definition	Measurement Source
ESG Disclosure (ESG)	Composite score based on environmental, social, and governance factors.	ESG Ratings
Effective Tax Rate (ETR)	Measures the level of tax avoidance; calculated as tax expenses divided by pre-tax income.	Financial Reports, DataStream
Family on the Board (FAMILY)	Dummy variable indicating whether founding family members are present on the board (1 = Yes, 0 = No).	Company Reports
Foreign Members (FOREIGN)	Dummy variable indicating whether non-Arab foreign members are present on the board (1 = Yes, 0 = No).	Company Reports
Firm Size (SIZE)	Log of total assets to measure the size of the firm.	Financial Reports
Profitability (PROFIT)	Return on assets or return on equity to measure firm profitability.	Financial Reports

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Variable	Definition	Measurement Source
Leverage (LEV)	Ratio of debt to equity to measure the firm's financial leverage.	Financial Reports
Capital Intensity (CAXTA)	Capital expenditures to total assets to measure the capital intensity of the firm.	Financial Reports
Stock Return (STOCKRET)	Logarithm of average 12-month stock returns.	DataStream
Year Fixed Effects	Controls for any variation across different years.	Data Source
Industry Fixed Effects	Controls for any variation across different industries.	Data Source

Table A2: Sample Distribution (2020-2024)

Sector	Number of Firms	Percentage of Total Sample
Financial Services	20	15.5%
Energy & Utilities	18	13.9%
Telecommunications	15	11.6%
Manufacturing	25	19.4%
Real Estate & Construction	12	9.3%
Consumer Goods	10	7.8%
Technology	8	6.2%
Healthcare & Pharmaceuticals	7	5.4%
Retail & Wholesale	6	4.7%
Miscellaneous Industries	12	9.3%

Table A3: Descriptive Statistics (2020-2024)

Variable	Mean	Median	Std. Dev.	Min	Max
ESG Disclosure (ESG)	0.572	0.568	0.102	0.260	0.898
Effective Tax Rate (ETR)	0.210	0.190	0.138	0.030	0.750
Family on the Board (FAMILY)	0.52	1.00	0.502	0	1
Foreign Members (FOREIGN)	0.30	0.00	0.463	0	1
Firm Size (SIZE)	9.831	9.410	1.422	6.235	12.030
Profitability (PROFIT)	0.078	0.070	0.042	0.023	0.213
Leverage (LEV)	0.463	0.438	0.295	0.012	2.144
Capital Intensity (CAXTA)	0.125	0.103	0.091	0.010	0.453
Stock Return (STOCKRET)	0.054	0.049	0.198	-0.438	0.862

Table A4: Correlation Matrix (2020-2024)

Variable	ESG	ETR	FAMILY	FOREIGN	SIZE	PROFIT	LEV	CAXTA	STOCKRET
ESG	1.000	0.215	0.309	0.198	0.421	0.312	0.098	0.134	0.169
ETR	0.215	1.000	0.142	0.129	0.356	0.295	-0.423	0.221	-0.211
FAMILY	0.309	0.142	1.000	0.371	0.183	0.207	0.057	0.065	0.092
FOREIGN	0.198	0.129	0.371	1.000	0.239	0.112	0.152	0.200	0.115
SIZE	0.421	0.356	0.183	0.239	1.000	0.432	0.112	0.213	0.298

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Variable	ESG	ETR	FAMILY	FOREIGN	SIZE	PROFIT	LEV	CAXTA	STOCKRET
PROFIT	0.312	0.295	0.207	0.112	0.432	1.000	0.221	0.351	0.314
LEV	0.098	-0.423	0.057	0.152	0.112	0.221	1.000	0.145	-0.038
CAXTA	0.134	0.221	0.065	0.200	0.213	0.351	0.145	1.000	0.179
STOCKRET	0.169	-0.211	0.092	0.115	0.298	0.314	-0.038	0.179	1.000

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