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Environmental, Social, and Governance and Systematic Risk Across Institutional Contexts: Evidence from Europe and MENA

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This study examines the relationship between environmental, social, and governance performance and systematic risk, measured by equity beta, across firms operating in different institutional environments. Using a cross-sectional dataset of 2,683 publicly listed firms from Europe and the Middle East and North Africa, the analysis investigates both the aggregate effect of environmental, social, and governance performance and the specific role of governance in shaping market risk. The empirical results reveal that environmental, social, and governance performance is positively and significantly associated with systematic risk in the baseline model, suggesting that higher environmental, social, and governance scores do not necessarily correspond to lower market risk. When accounting for regional differences, the interaction between environmental, social, and governance and region is not statistically significant, indicating that the environmental, social, and governance–risk relationship does not vary meaningfully between Europe and Middle East and North Africa at the aggregate level. However, further analysis shows that governance exhibits a significant and region-dependent effect. In particular, the interaction between governance and Europe is positive and statistically significant, implying that governance is more strongly associated with systematic risk in European markets compared to Middle East and North Africa. These findings suggest that environmental, social, and governance performance does not operate as a uniform risk-mitigating mechanism across firms. Instead, its relationship with systematic risk appears to be context-dependent and driven primarily by governance-related dynamics. The study contributes to the environmental, social, and governance literature by highlighting the importance of institutional environments and by distinguishing between aggregate environmental, social, and governance effects and governance-specific influences on market risk.

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Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this paper.

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