INNOVATIONS IN BUSINESS AND STRATEGIC MANAGEMENT
Oct-Dec 2024, VOL. 2, ISSUE 4, pp. 19-22
https://doi.org/10.61577/ibsm.2024.1000018

RESEAPRO JOURNALS

REVIEW

OPEN ACCESS

Strategic integration of ESG into corporate governance in the Gulf region: Trends, challenges, and future outlook

Kareem Al Zahari

Department of Management, College of Business Administration, American University in Dubai (AUD), United Arab Emirates

ABSTRACT

In recent years, Environmental, Social, and Governance (ESG) principles have gained significant global traction as a critical framework for responsible and sustainable corporate behavior. As governments and institutions worldwide pivot towards inclusive and long-term value creation, ESG has evolved from a voluntary commitment into a strategic priority for corporate boards. In the context of the Gulf region, particularly the United Arab Emirates, there is a noticeable shift as regulators and industry leaders integrate ESG frameworks into corporate governance systems. Driven by national visions such as the UAE Net Zero 2050 and Dubai Economic Agenda (D33), organizations are increasingly aligning governance structures with sustainability and ethical accountability. This review aims to explore the evolving relationship between ESG and corporate governance within the Gulf region, with a focus on emerging policies, institutional efforts, and board-level adaptations. Drawing on recent developments and regional initiatives, the review highlights the progress, challenges, and opportunities associated with ESG integration. Key insights reveal that while regulatory frameworks are advancing, gaps in awareness, board expertise, and implementation capacity remain. The paper concludes by identifying strategic pathways for enhancing ESG-driven governance to support sustainable economic growth in the Gulf.

KEYWORDS

ESG (Environmental, Social, Governance); Corporate governance; Gulf region; Sustainability reporting; UAE business policy

ARTICLE HISTORY

Received 01 October 2024;
Revised 24 October 2024;
Accepted 31 October 2024

Introduction

Corporate governance has long served as the backbone of accountability, transparency, and ethical decision-making within modern organizations. Traditionally focused on financial control, risk management, and shareholder rights, governance models are now being reshaped by broader global concerns, particularly the rising emphasis on sustainability and social responsibility [1]. Among these transformative forces, the Environmental, Social, and Governance (ESG) framework has emerged as a key driver of corporate change, demanding that companies align their strategies with long-term societal and environmental objectives [2].

In the Gulf region, especially the United Arab Emirates, this shift is becoming increasingly evident. Visionary national agendas such as the **UAE Net Zero by 2050**, the **Dubai Economic Agenda (D33)**, and the **Abu Dhabi Sustainable Finance Declaration** underscore the region's commitment to integrating ESG values across public and private sectors [3]. Regulatory bodies like the Securities and Commodities Authority (SCA) and stock exchanges such as ADX and DFM have introduced ESG reporting guidelines, encouraging companies to embed sustainability into their governance frameworks. As a result, boardrooms across the region are being called upon not only to oversee financial performance but also to manage ESG-related risks, ensure transparency, and contribute meaningfully to national and global sustainability goals [4].

This review aims to explore the strategic integration of ESG into corporate governance within the Gulf region. It examines global ESG governance trends, evaluates regional adoption and challenges, and discusses the evolving responsibilities of boards and regulators in shaping sustainable corporate practices. By drawing on both policy developments and recent academic discourse, this paper seeks to provide a concise yet meaningful overview of how ESG principles are influencing governance models in a rapidly transforming economic environment [5].

As a Dubai-based author, this inquiry is particularly relevant given the UAE's role as a regional leader in both corporate innovation and sustainability policy. The findings may inform future reforms, investor expectations, and boardroom practices in the Gulf and beyond [6].

Global Overview of ESG and Corporate Governance

The integration of Environmental, Social, and Governance (ESG) practices into corporate governance has evolved significantly over the past few decades. Initially, corporate governance focused primarily on financial performance, risk management, and shareholder value. However, as global awareness of environmental degradation, social inequalities, and corporate accountability has risen, there has been a clear shift towards a more holistic approach. ESG considerations now play a crucial role in guiding corporate strategies and decision-making, aligning business objectives with long-term societal and environmental outcomes [5].

Key international frameworks have driven this transformation. The **OECD Principles of Corporate Governance**, for example, have laid the foundation for corporate accountability,

***Correspondence:** Dr. Kareem Al Zahari, Department of Management, College of Business Administration, American University in Dubai (AUD), United Arab Emirates, e-mail: kalzahari@aud.edu

emphasizing transparency, fairness, and responsibility [7]. The **United Nations Sustainable Development Goals (SDGs)** have further reinforced the importance of integrating ESG factors into business models, with the private sector playing an essential role in achieving global sustainability targets [8]. In parallel, reporting frameworks like the **Global Reporting Initiative (GRI)** and **Sustainability Accounting Standards Board (SASB)** have emerged as tools to standardize ESG reporting, ensuring consistency and comparability for investors, regulators, and stakeholders [9]. These frameworks provide businesses with the guidance to report on their ESG performance, creating a unified approach to measuring and disclosing sustainability efforts.

One of the most notable trends in global ESG governance is the increasing push for board-level accountability regarding ESG issues. Investors and regulators are now holding boards responsible not only for financial performance but also for overseeing the company's impact on the environment and society. As a result, many corporations are integrating ESG factors into their corporate governance frameworks, with board members increasingly being tasked with ensuring that sustainability goals are prioritized alongside traditional financial objectives [10].

Another emerging trend is the shift towards mandatory ESG disclosures. Governments and regulatory bodies in key markets, including the EU, the US, and other developed regions, are implementing stricter regulations on ESG reporting [11]. This is aimed at increasing transparency, reducing greenwashing, and ensuring that companies align their strategies with sustainable practices.

As ESG practices become more integrated into governance structures globally, the ongoing challenge remains the consistency and comparability of ESG data, which continues to drive innovation in reporting standards and governance practices [12].

ESG adoption in the Gulf: Regional landscape and strategic priorities

National initiatives driving ESG integration

The Gulf region, led by the United Arab Emirates (UAE), Saudi Arabia, and Qatar, is increasingly embracing ESG principles to align with global sustainability trends and attract responsible investment. The UAE's **Net Zero by 2050 Strategic Initiative, UAE Vision 2030**, and the Dubai Clean Energy Strategy 2050 are clear indicators of national-level commitment [13]. Regulatory bodies such as the Securities and Commodities Authority (SCA) and financial platforms like ADX and DFM have introduced ESG disclosure requirements to strengthen transparency and investor trust.

Regulatory push and early adopters

Major companies in sectors like energy, banking, and infrastructure have begun integrating ESG into their corporate governance models. These early adopters often rely on frameworks such as GRI and SASB, aligning their disclosures with international standards. Stock exchanges and sovereign wealth funds are encouraging this transformation by rewarding companies with strong ESG practices through access to green financing and enhanced reputational value [14].

Challenges hindering widespread implementation

Despite the momentum, widespread ESG adoption faces several barriers. Many small and medium-sized enterprises (SMEs) lack the expertise, tools, or incentives to implement robust ESG strategies. Other obstacles include inconsistent ESG data, insufficient regulatory enforcement, and a lack of awareness about the long-term benefits of sustainable governance [15]. This uneven progress poses a risk to regional ESG consistency and credibility.

Capacity-building and international collaboration

To address these gaps, Gulf governments and private-sector leaders are investing in training programs, sustainability education, and ESG capacity-building initiatives. Strategic partnerships with global organizations have also facilitated knowledge exchange, helping local firms navigate complex ESG requirements [16]. Stock exchanges and investment bodies are playing an active role by hosting workshops and publishing practical ESG handbooks tailored to regional needs.

Looking ahead: Aligning with global standards

A key regional priority is achieving alignment with internationally recognized ESG frameworks, including GRI, SASB, and the TCFD. This alignment not only supports investor confidence but also enhances the global competitiveness of Gulf corporations [16]. As regulatory mandates for ESG disclosure become more stringent, firms that are proactive in their ESG journey will be best positioned to thrive in a sustainability-focused global economy.

Challenges and Opportunities in ESG Governance for Gulf Companies

Regulatory inconsistencies and reporting gaps

One of the main challenges facing Gulf companies is the **lack of uniform ESG regulations and standards** across the region. While the UAE, Saudi Arabia, and Qatar have made significant strides, regulatory frameworks differ in scope and enforcement [17]. This inconsistency complicates compliance for businesses operating across multiple GCC countries and makes it harder for investors to compare ESG performance across markets. Moreover, the **absence of mandatory ESG reporting** for all companies, especially SMEs, results in data gaps and diluted ESG transparency [16,17].

Limited internal capacity and expertise

Another major hurdle is the shortage of in-house ESG expertise. Many companies, particularly family-owned businesses and smaller firms, lack trained personnel or dedicated ESG departments. As a result, ESG initiatives are often underdeveloped or treated as box-ticking exercises. This challenge is further compounded by the limited availability of ESG professionals in the local talent pool, which makes recruitment and training a costly and time-consuming process [17].

Greenwashing and superficial compliance

In the rush to meet ESG expectations, some companies engage in greenwashing, superficial or misleading environmental

https://doi.org/10.61577/ibsm.2024.1000018

claims that do not reflect actual practices. This erodes trust among investors and stakeholders, undermining the credibility of ESG as a governance tool. In response, regulators in the region are working to enhance oversight, introduce penalties for non-compliance, and strengthen the authenticity of ESG disclosures [18].

Digital tools and AI: Unlocking ESG efficiency

On the opportunity side, Gulf companies can leverage **digital technologies and AI-driven platforms** to streamline ESG reporting and performance tracking. Tools such as automated sustainability dashboards, ESG risk analytics, and integrated reporting software are increasingly accessible and offer cost-effective solutions to bridge compliance gaps. Dubai's tech-forward business environment provides a fertile ground for such innovations, positioning companies to lead in ESG digitalization [19].

Growing investor and consumer pressure

Institutional investors, sovereign wealth funds, and younger consumers in the Gulf are demanding more responsible business practices and ethical governance. This rising pressure serves as a catalyst for deeper ESG integration. Companies that proactively embrace ESG are more likely to attract long-term investors, access green financing, and enhance brand value in an increasingly competitive global landscape [20].

Strategic leverage through ESG leadership

For forward-looking Gulf enterprises, ESG is more than a compliance requirement—it is a strategic advantage. Firms that embed ESG into their core governance frameworks can enhance resilience, innovation, and global credibility [21]. As the region continues to align with international sustainability goals, companies that act now will help shape a new standard for corporate governance in the Gulf.

Opportunities and Future Directions in ESG Governance

Leveraging digital technologies for ESG transformation

The rapid advancement of digital technologies offers Gulf companies a unique opportunity to **modernize and scale ESG governance**. Artificial Intelligence (AI), blockchain, and data analytics are playing increasingly important roles in sustainability tracking, regulatory compliance, and risk management [22]. In the UAE, several companies and financial institutions are piloting **AI-driven ESG reporting platforms**, enabling real-time monitoring of environmental and social performance indicators. These tools not only reduce the administrative burden of compliance but also enhance transparency and accuracy [20].

Blockchain technology is also emerging as a game-changer in ESG assurance. By providing immutable records of sustainability practices, blockchain can reduce instances of greenwashing and improve stakeholder trust. Dubai's position as a digital innovation hub makes it well-placed to lead in integrating these technologies into ESG frameworks, thereby setting a regional benchmark [23].

Toward a unified ESG governance framework in the GCC

A key future direction for the Gulf region is the harmonization of ESG governance standards. Currently, each GCC country has its own reporting guidelines and frameworks, which can lead to fragmentation and confusion. Establishing a GCC-wide ESG regulatory body or standardization committee could help create unified benchmarks for disclosure, performance measurement, and oversight. This would support cross-border investment, improve corporate comparability, and attract more ESG-focused international investors [9].

The UAE, with its established regulatory infrastructure and leadership in sustainable finance, could play a central role in facilitating regional consensus. Collaborative efforts through forums like the **GCC General Secretariat** and the **Arab Monetary Fund** could further accelerate this process [24].

Capacity-building and strategic policy recommendations

To unlock the full potential of ESG governance, the region must invest in education, training, and policy support. Universities and business schools in Dubai and across the GCC should integrate ESG leadership into their curricula, preparing future decision-makers to prioritize sustainability. At the corporate level, board members and executives need specialized training in ESG risk, compliance, and stakeholder engagement [17].

Policy recommendations include offering **tax incentives for ESG-compliant companies**, mandating ESG training for board members, and supporting ESG innovation hubs to incubate sustainability-driven startups. Governments can also partner with international organizations like the UN Global Compact to provide technical guidance and funding for capacity-building [25].

By embracing these directions, the Gulf can position itself not only as a regional leader in sustainable governance but also as a global influencer shaping the future of ESG in emerging markets.

Conclusions

Environmental, Social, and Governance (ESG) principles are reshaping corporate governance across the Gulf region, especially in the UAE. As global and regional priorities shift toward sustainability and transparency, ESG has emerged as a strategic necessity rather than a compliance formality. Companies are increasingly integrating ESG into boardroom decisions, supported by national agendas and evolving regulatory frameworks.

Despite challenges such as inconsistent standards and limited expertise, Gulf companies are seizing opportunities presented by digital tools like AI and blockchain to enhance ESG reporting and risk management. A move toward unified ESG standards in the GCC, along with capacity-building and policy support, could accelerate this progress.

For businesses in Dubai and beyond, aligning governance with ESG principles is no longer optional; it is essential for long-term resilience and global competitiveness. The Gulf is well-positioned to lead this transformation and become a model for sustainable corporate governance in emerging markets.

Disclosure statement

The authors declare that they have no competing interests.

https://doi.org/10.61577/ibsm.2024.1000018

References

1. Hossain MZ, Hasan L, Hasan MH. Corporate Governance as a Global Phenomenon: Evolution, Theoretical Foundations, and Practical Implications. J Risk Financ Manag. 2024;13(2):342-375. https://doi.org/10.4236/jfrm.2024.132017
2. Zheng W, Liu G, Wang Z, Han T, Pan Z, Li J, et al. ESG in Modern Corporate Strategy: An Analysis and Discussion on Impacts towards Sustainable Development. The Frontiers of Society, Science and Technology. 2024;6(5). https://dx.doi.org/10.25236/FSST.2024.060510
3. Krzymowski A. Sustainable development goals in Arab region–United Arab Emirates' case study. Probl Ekorozw. 2020; 15(1):211-220. https://doi.org/10.35784/pe.2020.1.22
4. Bamahros HM, Alquhaif A, Qasem A, Wan-Hussin WN, Thomran M, Al-Duais SD, et al. Corporate governance mechanisms and ESG reporting: Evidence from the Saudi Stock Market. Sustainability. 2022;14(10):6202. https://doi.org/10.3390/su14106202
5. Ab Aziz NH, Latif AR, Osman MN, Alshdaifat S. ESG and corporate governance: a systematic review. Advanced International Journal of Business, Entrepreneurship and SMEs. 2023;5(18): 185-204. http://dx.doi.org/10.35631/AIJBES.518018
6. Modugu KP. Do corporate characteristics improve sustainability disclosure? Evidence from the UAE. Int. J Bus Perform Manag. 2020;21(1-2):39-54. https://doi.org/10.1504/IJBPM.2020.106106
7. Lie L. OECD principles of corporate governance. InEncyclopedia of Sustainable Management. Cham: Springer International Publishing. 2023:pp. 2497-2500. https://link.springer.com/referenceworkentry/10.1007/978-3-031-25984-5_1181
8. Delgado-Ceballos J, Ortiz-De-Mandojana N, Antolín-López R, Montiel I. Connecting the Sustainable Development Goals to firm-level sustainability and ESG factors: The need for double materiality. BRQ Bus Res Q. 2023;26(1):2-10. https://doi.org/10.1177/23409444221140919
9. Cort T, Esty D. ESG standards: Looming challenges and pathways forward. Organ Environ. 2020;33(4):491-510. https://doi.org/10.1177/1086026620945342
10. Jovanovič D, Jovanović N. Corporate governance challenges in relation to the ESG reporting. InterEULawEast: Journal for the International and European law, economics and market integrations. 2022;9(2):269-287. https://doi.org/10.22598/iele.2022.9.2.9
11. Rezaee Z, Homayoun S, Poursoleyman E, Rezaee NJ. Comparative analysis of environmental, social, and governance disclosures. Glob Fin J. 2023;55:100804. https://doi.org/10.1016/j.gfj.2022.100804
12. Pinney C, Lawrence S, Lau S. Sustainability and capital markets—Are we there yet? J Appl Corp Finance. 2019;31(2):86-91. https://doi.org/10.1111/jacf.12350
13. Hummieda A, Bouabid A, Moawad K, Mayyas A. The UAE's energy system and GHG emissions: pathways to achieving national goals by 2050. Clean Energy. 2023;7(5):962-980. https://doi.org/10.1093/ce/zkad040
14. Pizzi S, Principale S, De Nuccio E. Material sustainability information and reporting standards. Exploring the differences between GRI and SASB. Meditari Account Res. 2023;31(6):1654-1674. https://doi.org/10.1108/MEDAR-11-2021-1486
15. Shalhoob H, Hussainey K. Environmental, social and governance (ESG) disclosure and the small and medium enterprises (SMEs) sustainability performance. Sustainability. 2022;15(1):200. https://doi.org/10.3390/su15010200
16. Arayssi M, Jizi M, Tabaja HH. The impact of board composition on the level of ESG disclosures in GCC countries. Sustain Account Manag Policy J. 2019;11(1):137-161. https://doi.org/10.1108/SAMPJ-05-2018-0136
17. Michael J, Awad AB, Khalaf BA. Exploring environmental, social, and governance and bank performance in the Gulf Cooperation Council region. 2023. https://dx.doi.org/10.22495/clgrv5i2sip6
18. Singhania M, Saini N. Institutional framework of ESG disclosures: comparative analysis of developed and developing countries. J Sustain Financ Inv. 2023;13(1):516-559. https://doi.org/10.1080/20430795.2021.1964810
19. El Khatib M, Al-Sadi A. Digital transformation and sustainability factor cases from UAE. American J Ind Bus Manag. 2023;13(1):1-2. https://doi.org/10.4236/ajibm.2023.131001
20. Matos P. ESG and responsible institutional investing around the world: A critical review. 2020.
21. Olanrewaju OI, Daramola GO, Babayeju OA. Transforming business models with ESG integration: A strategic framework for financial professionals. Na J Adv Res Rev. 2024;22(3):554-563. https://doi.org/10.30574/wjarr.2024.22.3.1757
22. Saxena A, Singh R, Gehlot A, Akram SV, Twala B, Singh A, et al. Technologies empowered environmental, social, and governance (ESG): An industry 4.0 landscape. Sustainability. 2022;15(1):309. https://doi.org/10.3390/su15010309
23. Petratos PN, Ljepava N, Salman A. Blockchain technology, sustainability and business: A literature review and the case of Dubai and UAE. InSustainable Development and Social Responsibility—Volume 1: Proceedings of the 2nd American University in the Emirates International Research Conference, AUEIRC'18–Dubai, UAE 2018. 2020:87-93. https://doi.org/10.1007/978-3-030-32922-8_7
24. Petratos P. Sustainability and financing project: the UAE paradigm. InSustainable Development and Social Responsibility—Volume 1: Proceedings of the 2nd American University in the Emirates International Research Conference, AUEIRC'18–Dubai, UAE 2018. Cham: Springer International Publishing. 2020:163-170. https://doi.org/10.1007/978-3-030-32922-8_16
25. Huang C, Zhou H, Norhayati WA, Saad RA, Zhang X. Tax incentives, common institutional ownership, and corporate ESG performance. Manage Decis Econ. 2024;45(4):2516-2528. https://doi.org/10.1002/mde.4157

https://doi.org/10.61577/ibsm.2024.1000018