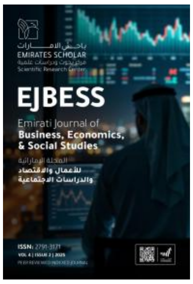

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Navigating ESG Challenges in GCC Family-Owned Businesses in the UAE and Saudi Arabia: A Qualitative study

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ABSTRACT

Sustainable business plans currently include environmental, social, and governance (ESG) factors as essential elements. However, incorporating ESG principles is still a major obstacle in the Gulf Cooperation Council (GCC), especially for family-run businesses in Saudi Arabia and the United Arab Emirates. This research explores the ESG-related difficulties that these companies face whilst pinpointing the primary obstacles to successful ESG adoption. By employing a qualitative approach encompassing in-depth interviews from 15 participants, the study identifies major themes such as lack of transparency in governance structures, lack of ESG awareness and competence, underdeveloped legislative frameworks, and deeply ingrained sociocultural norms as impediments in embracing ESG. In order to promote ethical and sustainable corporate practices throughout the GCC, the results highlight the urgent need for context-specific ESG frameworks and more regional regulatory norm alignment.

Keywords: *ESG, Family-Owned Businesses, UAE, Saudi Arabia, GCC, Corporate Governance, Sustainability, Regulation*

Introduction

Businesses' alignment of their operations with Environmental, Social, and Governance (ESG) goals has been greatly impacted by the global emphasis on sustainable development. In specific, entrepreneurship has become a key driver of economic growth, innovation, and the resolution of social and environmental challenges within this larger sustainability agenda (Dean & Mcmullen, 2007; Tracey & Phillips, 2011).Entrepreneurial businesses in the form of family business are becoming more widely recognized as important foundations of sustainable supply chains, which are now viewed as strategic imperatives for addressing global concerns (Strategic et al., 2023).Since they make up more than 80% of the private sector, family-owned enterprises are essential to economic growth in the Gulf Cooperation Council (GCC). These organisations play a key role in developing national agendas that prioritize sustainability and responsible leadership, such as the UAE's Green Agenda and Saudi Vision 2030. But despite their notoriety, a lot of these businesses find it difficult to incorporate ESG principles into their business plans because of intricate governance frameworks, sociocultural limitations, and a lack of technical know-how. That said, businesses can become more flexible, resilient, and forward-thinking when these characteristics are integrated with an emphasis on ESG.

Entrepreneurship is frequently mentioned as a way to alleviate social and environmental issues in addition to economic inequalities (Cohen & Winn, 2007). For sustainable development, it is therefore essential to comprehend how entrepreneurial traits interact with ESG goals, especially in developing nations like the GCC. In this context, the present study investigates how family-owned businesses in the UAE and Saudi Arabia navigate ESG-related challenges. By considering three critical criteria namely external environment, firm-level capabilities, and individual leadership competencies, the study addresses a significant research gap in evaluating the ESG readiness of family entrepreneurial firms in the GCC. Ultimately, this research seeks to answer two vital questions: What factors are most influential in enabling GCC family-owned businesses to adopt ESG practices effectively, and how can these firms be supported and prioritized based on these factors? The paper is significant as the findings not only provide a strategic roadmap for improving ESG adoption but also offer policy implications for regulators and stakeholders striving for a more sustainable GCC economy. Additionally, the study seeks to understand how cultural contexts shape governance practices and influence the strategic orientation toward ESG frameworks. Central to this investigation are questions that explore the effectiveness of specific governance mechanisms such as family councils and independent boards in promoting ESG integration. Additionally, the research seeks to identify the principal obstacles impeding the adoption of ESG standards and to discern how these challenges manifest differently across the UAE and Saudi Arabia. Prior literature (Arayssi & Jizi, 2024; Nimer et al., 2025; Tawfik et al., 2022) has either delved into royal family ownership and their impact on firm performance/ ESG disclosures or private family control and ESG performance with a major void evident in exploring the ESG related challenges faced by family firms. This study seeks to bridge the aforesaid gap by systematically examining how family firms in the UAE and Saudi Arabia contend with the intricacies of ESG frameworks. To this end, the study is structured around several key objectives: first, to identify the governance structures most commonly employed within family-owned businesses in both countries; second, to assess the current level of ESG adoption within these enterprises; third, to examine the specific challenges encountered in integrating ESG principles; and finally, to compare the relative effectiveness of various governance structures such as family councils and independent boards in facilitating ESG adoption across the two national contexts. Through this inquiry, the research intends to contribute to a nuanced understanding of how governance and culture intersect to influence ESG strategies within the GCC region.

This paper makes a worthwhile contribution by presenting a pioneering comparative analysis of ESG adoption in family-owned businesses in the UAE and Saudi Arabia, an area underexplored in prior literature(Nimer et al., 2025). It introduces a novel multi-layered framework integrating governance structures, cultural contexts, and leadership competencies to evaluate ESG readiness within family entrepreneurial firms, addressing calls for more nuanced, context-specific sustainability models in emerging markets. By uncovering structural and sociocultural barriers to ESG implementation, the study provides actionable insights for policymakers and regulators dedicated to advancing national sustainability agendas in the GCC. Moreover, it repositions family enterprises critical actors in driving ESG transformations, thereby enriching the discourse on sustainable entrepreneurship and responsible leadership in the region.

The remaining sections are as follows. Section 2 presents the literature review while section 3 highlights the methodology. Section 4 reports the findings and section 5 discuss the results. Section 6 concludes the paper.

2.Theoretical framework and Literature Review

A revolutionary approach to corporate practices, ESG frameworks place a strong emphasis on accountability, sustainability, and moral company practices. Businesses globally are implementing ESG frameworks to comply with stakeholder expectations, regulatory requirements, and market trends. Adoption of ESG is especially important in the GCC, as countries like Saudi Arabia and the UAE seek to diversify their economies and lessen their dependency on hydrocarbons. The private sector in the GCC is dominated by family-owned enterprises, which are essential to advancing these sustainability objectives. However, because of their generational dynamics, cultural norms, and traditional governance structures, many companies confront difficulties when implementing ESG principles. Although their community-focused beliefs and long-term outlook are in line with some ESG principles, opposition to innovation, openness, and legal compliance can impede advancement (Ramadani et al., 2023a). A basis for comprehending these processes is provided by theoretical frameworks like the resource-based view (RBV), institutional theory, and stakeholder theory.

2.1 Overview of ESG Frameworks and Principles

ESG frameworks provide a structured approach to evaluating businesses' sustainability practices, ethical responsibilities, and governance integrity. These frameworks have become benchmarks for corporate responsibility, driven by increasing regulatory mandates, investor scrutiny, and consumer awareness. ESG emphasizes three dimensions: environmental sustainability (e.g., carbon reduction and resource efficiency), social equity (e.g., diversity and community engagement), and governance accountability (e.g., transparency and ethical leadership). Businesses adopting ESG frameworks often report enhanced resilience, risk mitigation, and access to new markets. Investors prioritize companies with strong ESG performance, linking it to long-term financial stability and reputation enhancement. This has made ESG adoption a compliance necessity and a strategic imperative for global competitiveness. Moreover, frameworks like the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) have standardized ESG metrics, enabling businesses to benchmark their progress effectively. A number of theoretical frameworks can be used to examine the adoption of ESG frameworks. The Stakeholder theory, introduced by (Freeman, 1984), posits that businesses must balance the interests of various stakeholders, including employees, investors, customers, suppliers, and the broader community. This framework emphasizes the importance of aligning corporate governance practices with the expectations of both internal and external stakeholders. In the context of GCC family-owned businesses, stakeholder theory is particularly relevant due to their community-oriented values. These businesses often serve as custodians of social welfare, engaging in philanthropic activities and supporting local development. However, the challenge lies in integrating environmental and governance dimensions of ESG, which require greater transparency and inclusivity in decision-making (Aloulou et al., 2023). Generational divides within family enterprises further illustrate the applicability of stakeholder theory. Younger family members often advocate for sustainability practices that align with global stakeholder expectations, while senior family members prioritize legacy and profitability, creating a need for balanced governance structures (Ali & Ali, 2018). On the contrary, Institutional theory examines how external pressures regulatory, cultural, and normative shape organizational behavior. Dimaggio & Powell (1983) concept of isomorphism highlights three key mechanisms influencing businesses: coercive, mimetic, and normative pressures. Coercive pressures are particularly significant in the GCC due to the policy-driven nature of sustainability initiatives. National strategies like Saudi Vision 2030 and UAE Net Zero 2050 create top-down directives for ESG adoption, compelling businesses to align their practices with national priorities (SaudiVision2030, 2016). Mimetic pressures, or the tendency to imitate successful peers, are evident in sectors like retail and hospitality, where leading family businesses adopting ESG practices influence others to follow suit. Normative pressures arise from the professionalization of family businesses, driven by the increasing involvement of younger generations and external consultants advocating for sustainability. Finally, the Resource-Based View (RBV) proposed by (Barney, 1991)emphasizes the strategic importance of leveraging unique organizational resources to achieve competitive advantage. In family-owned businesses, resources such as social capital, generational continuity, and embedded community relationships are critical assets for ESG integration. Social capital enables family businesses to foster trust and engagement within their communities, aligning with the social dimension of ESG. Generational continuity, characterized by a long-term perspective and focus on legacy, provides a natural alignment with sustainability goals. However, these resources must be effectively utilized to overcome barriers such as resistance to transparency and the lack of technical expertise. For instance, leveraging social capital requires governance reforms that enhance accountability and facilitate the integration of external perspectives (Aloulou et al., 2023). That said, Bannerjee et al. (2025) claim that there is no single 'best fit' theory that can be universally applied and it is ideal that every region adopts an approach that can respond to the cultural and economic demands.

2.2 The Role of Family-Owned Businesses in GCC Economies

Family-owned businesses are the cornerstone of the GCC economies, contributing significantly to employment, GDP, and economic diversification. These enterprises dominate the private sector in the region, with estimates suggesting that they account for approximately 80% to 90% of privately held businesses in the UAE and Saudi Arabia (APCO Worldwide and GCC Board Directors Institute, 2022). Their economic and social influence makes them critical players in achieving national sustainability goals like Saudi Vision 2030 and UAE Net Zero 2050.Family enterprises are essential to the UAE's commerce, real estate, retail, and tourism industries, supporting the nation's diversification initiatives. In a similar vein, family-owned businesses in Saudi Arabia make up more than 63% of the private sector's GDP and are heavily represented in sectors like manufacturing, hospitality, and construction. These companies promote larger goals of lowering reliance on oil earnings and promoting innovative-driven economies, and they are essential to economic stability and employment development. The ability of family firms to adjust to changes in the market and remain resilient in times of crisis increases their economic relevance. Their long-term perspective, emphasis on preserving wealth over generations, and integration into local communities are the main causes of their flexibility. Their dependence on conventional industries with significant environmental effects, however, also emphasizes the necessity of implementing ESG frameworks to conform to regional and global sustainability standards. The GCC's family-owned enterprises are steeped in tribal and cultural customs, placing a strong emphasis on family unity, heritage preservation, and group decision-making. Their operational tactics and governance frameworks have historically been influenced by these values (Ramadani et al., 2023b). Conversely, modernization may encounter difficulties due to this same cultural basis. Because they concentrate decision-making authority among senior family members, hierarchical governance structures frequently oppose changes that are seen as challenges to long-standing customs. Given their dominance in the private sector, family-owned businesses are uniquely positioned to drive the GCC's sustainability agenda. Their community-oriented focus enables them to lead social and environmental initiatives that align with national policies. For instance, investments in renewable energy, sustainable infrastructure, and corporate social responsibility (CSR) programs can position these enterprises as leaders in sustainability. Several family businesses in the UAE and Saudi Arabia have already begun adopting green technologies and supporting local development projects as part of their corporate strategies (Saudi Vision 2030, 2016). The adoption of ESG-compliant practices by GCC family businesses is still restricted, despite their potential. Significant obstacles include resource limitations, generational resistance, and traditional government institutions. Furthermore, the process is made more difficult by the absence of standardized ESG reporting standards and explicit regulatory requirements. These difficulties highlight the necessity of customized approaches that take into account the distinct cultural, economic, and operational characteristics of family-owned businesses in the area.

2.3 Governance Structures in Family-Owned Businesses

The ability of family-owned enterprises to implement ESG frameworks is significantly influenced by their governance arrangements. These companies frequently depend on conventional governance structures, including family councils, in the GCC to preserve unity and guarantee continuity. Although these systems are stable and consistent with local cultural norms, they also make it difficult to adjust to the accountability and openness needed for ESG practices (Ramadani et al., 2023b). The councils are informal forums where family members can decide on plans, settle conflicts, and reach agreements. They lay great importance on upholding cultural traditions and family harmony (Al Naim & Alomair, 2024). Apart from family councils, a lot of companies use hierarchical decision-making processes, in which older family members hold most of the authority. Research(Zhu et al., 2024) shows that companies with independent boards are more likely to follow international ESG criteria and implement sustainable practices. Yet, complications relating to trust and culture limit the acceptance of independent boards in GCC family firms. Many family businesses consider that non-family individuals pose a vulnerability to their authority and inheritance. For GCC family firms, hybrid governance models extend a promising option by blending the advantages of independent boards and family councils. To resolve certain issues, like the implementation of ESG, these models use outside knowledge while maintaining family-driven leadership. For instance, advisory boards that include both family members and outside experts offer a well-rounded strategy that promotes accountability without compromising cultural values. It has been demonstrated that hybrid models improve decision-making and make it easier to implement sustainable practices(Al Naim & Alomair, 2024b)Governance in GCC family enterprises is made more difficult by generational dynamics. Younger family members support current governance procedures and ESG integration because they were frequently educated overseas and exposed to global sustainability trends. However, traditional hierarchical arrangements that prioritize the authority of elder family members frequently limit their effect. Reconciling these generational differences requires governance reforms that create space for younger voices while respecting the legacy-driven values of the family enterprise. A number of tactics are needed to modify governance frameworks to encourage the adoption of ESG. First, companies might create sustainability-focused committees or advisory boards to formalize their governance processes. These organizations can direct ESG projects, guaranteeing compliance with legal requirements and family values. Second, integrating different viewpoints into decision-making and bridging generational gaps can be achieved by cultivating an inclusive and cooperative culture within the governance structure.

2.4 ESG Adoption Challenges in Family-Owned Businesses

Implementing ESG standards can be difficult for family-owned businesses, predominantly in the GCC. Prior research (In et al., 2019; Rowe, 2020) has assigned lack of quality ESG data, culture based and regulatory restrictions as key barriers for ESG adoption. Regulatory gaps, resource constraints, and generational resistance are some of the barriers preventing GCC family businesses from using ESG frameworks, even though they promote global sustainability trends and national targets like Saudi Vision 2030 and UAE Net Zero 2050.Generational dynamics within family-owned businesses are a significant hurdle to ESG adoption. Senior family members, who often hold decision-making power, prioritize legacy preservation, financial stability, and traditional governance practices. These leaders may view ESG initiatives as disruptive or unnecessary, perceiving them as deviating from established priorities. Younger generations are more attuned to global sustainability trends and advocate modern practices that align with ESG principles. This generational divide creates internal conflicts that delay decision-making and hinder the implementation of ESG frameworks. Resource limitations also play a critical role in impeding ESG adoption. Unlike multinational corporations with access to extensive financial and technical resources, family-owned businesses in the GCC often operate with limited capital and expertise. Implementing ESG frameworks requires infrastructure, training, and technology investments, which many family businesses perceive as cost prohibitive. This challenge is particularly acute in resource-intensive industries like construction and energy, where transitioning to sustainable practices involves significant upfront costs (Ramadani et al., 2023b). Cultural norms in the GCC, while offering opportunities for ESG alignment, can also present barriers. Family-owned businesses emphasize hierarchy, consensus, and legacy preservation, which can conflict with the transparency and accountability required for ESG frameworks. For example, the reluctance to disclose financial and operational data limits the ability of these businesses to align with global ESG reporting standards(Ramadani et al., 2023b)Additionally, emphasizing family harmony often takes precedence over strategic reforms. Resistance to external influence, including the incorporation of independent directors or consultants, further inhibits the adoption of practices that could enhance sustainability and governance. National policies like Saudi Vision 2030 and UAE Net Zero 2050 create a policy-driven framework for ESG adoption, emphasizing environmental conservation, economic diversification, and social development. However, these policies lack enforcement mechanisms, making ESG adoption largely voluntary for businesses(Saudi Vision 2030, 2016.).This reduces the urgency for family-owned enterprises to align with sustainability goals, mainly when there are no direct financial penalties or incentives for non-compliance (Report, 2022).

The absence of standardized ESG reporting frameworks in the GCC further exacerbates this issue. Without clear benchmarks or metrics, businesses face difficulties measuring and demonstrating their ESG progress, which weakens accountability and transparency. Family-owned businesses often perceive ESG adoption as a trade-off between profitability and sustainability. Implementing ESG practices, such as reducing carbon emissions or improving labor standards, requires significant investments that may impact short-term profits. This tension is particularly evident in real estate and energy sectors, where environmental regulations and sustainability initiatives involve substantial operational changes. Convincing decision-makers of the long-term financial benefits of ESG adoption remains a key challenge. Despite these barriers, family-owned businesses in the GCC are uniquely positioned to leverage their strengths for ESG adoption. Their deep-rooted community ties align with the social dimension of ESG, offering opportunities for impactful corporate responsibility initiatives. Additionally, the younger generation's growing influence in governance presents an avenue for integrating modern sustainability practices.

While ESG frameworks have gained global momentum as critical drivers of sustainable and ethical business conduct, their integration within family-owned enterprises in the Gulf Cooperation Council (GCC) remains at a nascent stage. Despite the growing academic and policy-oriented discourse surrounding ESG, there exists a noticeable paucity of research focusing specifically on the unique challenges and dynamics faced by family businesses in this region, particularly in Saudi Arabia and the United Arab Emirates.

Notably, existing studies overlooked the distinct organizational structures, decision-making processes, and long-term orientations characteristic of family-owned firms. Furthermore, the intersection of deeply embedded cultural values with governance practices has received limited scholarly attention, despite its significant influence on ESG integration. In addition, there is a lack of rigorous assessment of the effectiveness and implementation of national ESG policies within the specific socio-economic frameworks of the GCC. Finally, few studies have proposed practical, context-sensitive ESG strategies tailored to the realities of family enterprises in the region.

This study seeks to address these gaps by offering an in-depth exploration of the barriers to ESG adoption among family-owned businesses in Saudi Arabia and the UAE. By doing so, it contributes to a more nuanced and actionable understanding of ESG implementation, thereby supporting the development of more effective, locally relevant policy and governance frameworks in the GCC.

A review of the existing literature on ESG integration reveals several critical research gaps, particularly concerning family-owned enterprises in the Gulf Cooperation Council (GCC) region. First, there is a limited focus on family-owned businesses, as the majority of ESG-related studies concentrate on publicly listed or multinational corporations. This is a significant oversight given the predominance of family-owned firms in the GCC private sector. The present study addresses this gap by examining ESG challenges and opportunities specific to family-owned businesses in the United Arab Emirates and Saudi Arabia. Second, the interplay between governance structures and cultural values remains underexplored. Existing research tends to examine governance and culture as isolated dimensions, thereby neglecting how deeply rooted traditional norms such as hierarchical authority and familial legacy shape ESG-related decision-making. This study contributes by analyzing how these cultural factors intersect with governance adaptations in the context of ESG implementation. Third, the effectiveness of national sustainability policies, including Saudi Vision 2030 and UAE Net Zero 2050, has not been sufficiently evaluated in terms of their impact on family-owned enterprises. By investigating how these firms perceive and operationalize national ESG mandates, this research provides insight into policy effectiveness at the grassroots level. Finally, there is a scarcity of practical, context-sensitive guidance tailored to the operational realities of GCC family businesses. This study responds by offering actionable recommendations, including phased ESG adoption models, targeted training programs, and governance reform strategies, thereby enhancing the practical applicability of ESG frameworks in the region.

3. Methodology

This study is anchored in a constructivist research paradigm, which posits that reality is not objective and fixed but rather constructed through social interactions, institutional contexts, and generational influences. Given that the adoption of ESG principles within family-owned enterprises in the GCC is deeply embedded in complex socio-cultural and institutional landscapes, a constructivist ontology offers an appropriate lens to examine how such realities are co-created and experienced by different actors. ESG implementation in these firms is not a uniform or linear process; rather, it is an evolving phenomenon shaped by the dynamic interplay between national ESG mandates, intergenerational family dynamics, and deeply rooted cultural values. This ontological positioning aligns with an interpretivist epistemology, which emphasizes the significance of understanding the subjective meanings, motivations, and lived experiences of participants in context-specific environments. Such an approach is particularly well-suited to exploring the nuanced barriers to ESG integration, such as resistance stemming from traditional governance structures, generational divides in sustainability orientation, and sociocultural norms that influence decision-making (Bryman, 2004). From an axiological standpoint, the research is underpinned by reflexivity and cultural sensitivity, recognizing the importance of ethical engagement with participants, especially when addressing sensitive themes such as succession planning, transparency, and governance reforms within closely held family firms.

Methodologically, the study adopts a qualitative, exploratory approach to facilitate an in-depth understanding of the multifaceted drivers and impediments to ESG adoption in family-owned enterprises operating in the UAE and Saudi Arabia. This approach enables the researcher to examine power relations, internal dynamics, and the perceptions of key stakeholders' factors that are often obscured in purely quantitative designs (Creswell, 2014). The selection of the UAE and Saudi Arabia as comparative cases reflects the distinct yet converging trajectories of ESG policymaking and institutional maturity within the GCC, thereby providing a richer, more differentiated understanding of ESG governance. The multiple-case design enhances analytical depth by enabling cross-case synthesis of findings related to institutional readiness, governance adaptation, and cultural responses to ESG mandates (Yin, 2018).

Primary data are collected through semi-structured interviews with a purposively selected sample of 15 participants, including senior family business owners, next-generation leaders, and external consultants or advisors involved in ESG or governance-related matters. This sampling strategy ensures that participants possess both experiential relevance and contextual insight, thereby contributing to the richness and credibility of the data. The interviews aim to capture intergenerational perspectives on sustainability, the influence of legacy and hierarchy on governance decisions, and the impact of national policies such as Saudi Vision 2030 and the UAE Net Zero 2050 strategy. To strengthen the validity of the findings and situate them within broader institutional contexts, the study triangulates interview data with secondary sources, including national sustainability frameworks, ESG-related industry reports, and publicly available disclosures from family-owned firms. This multi-source triangulation serves to both corroborate and contextualize the primary data, thereby enhancing the overall trustworthiness of the research.

Semi-structured interviews were conducted in-person and online between Q3 2024 and Q4 2024, each of them lasting approximately 45 minutes. Potential respondents were first sent mails inviting them to participate in the study. A consent form detailing the respondents' voluntary involvement, confidentiality, anonymity, and ability to withdraw at any point of time, as well as information relevant to the goals and objectives of the current research study, were distributed. Thematic analysis, a technique grounded in psychology, is employed as it acknowledged as a valuable method for "analysing and reporting patterns in data" (Braun & Clarke, 2006), where a theme captures the essential ideas generated from the information analyzed.

Data analysis is conducted using a rigorous thematic analysis process, facilitated through NVivo software for systematic coding and organization. The analytical procedure involves several stages: initial familiarization with the interview transcripts, open coding to identify recurrent patterns related to ESG governance, cultural resistance, and generational transitions, followed by the development and refinement of overarching themes. These themes are subsequently organized into broader analytical categories such as "Governance Transformation," "ESG Mindset Shift," and "Policy Influence," allowing for coherent interpretation in line with the study's research objectives and the socio-institutional fabric of the GCC. Ethical considerations are meticulously observed throughout the research process. Informed consent is obtained from all participants, confidentiality is maintained through the use of pseudonyms and secure data handling practices, and participation remains entirely voluntary, with the option to withdraw at any stage. Ethical approval is secured from the appropriate institutional review board, and all interactions with participants are guided by a culturally respectful, non-intrusive approach, particularly given the potential sensitivities surrounding governance and succession issues in family-owned businesses.

To ensure methodological rigor, reliability is established through the use of standardized interview protocols and comprehensive documentation of all procedures (Yin, 2018). Validity is addressed through multiple strategies: internal validity is enhanced via participant validation and transparent coding procedures; external validity is supported through thick descriptions that allow for analytical transferability; and triangulation across data sources further strengthens the credibility and confirmability of the study's findings. Overall, this methodological approach provides a coherent, contextually grounded, and academically rigorous framework for exploring the complexities of ESG integration in GCC family-owned enterprises.

4.Findings and Analysis

4.1. Introduction

This section shares the main findings from thematic analysis of the interview transcripts. From the analysis, five themes emerged. These are (1) leadership and governance structures of ESG adoption, (2) cultural context of ESG implementation, (3) national policy and ESG compliance, (4) balancing profitability and ESG commitment, and (5) overcoming resistance to ESG adoption. These themes collectively highlight the intricacies of ESG integration in family businesses in Saudi Arabia and the UAE across governance architecture, cultural influences, policy impacts, financial models, and organizational governance (figure 1).

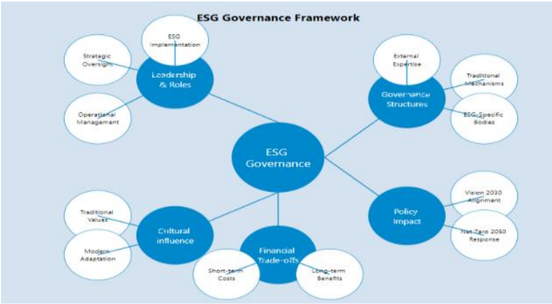

Figure 1: ESG governance framework

The coding of the transcribed interview data revealed multiple recurring terms that eased the identification of patterns and themes of the study. These terms are visualized in Fig 2 below.

Figure 2: Word cloud

4.2.1. Theme 1: Leadership and Governance Structures in ESG Adoption in Firms

The interviews revealed the role leadership plays in providing strategic oversight on the integration of ESG practices into business strategies. The divide between leaders who are strongly committed to ESG initiatives and those who view sustainability as an issue of less impact on organizational profitability was evident. Multiple founders noted that they manage governance frameworks and embed ESG into the core of their businesses, but others said they had put operational efficiency ahead of sustainability to drive the short-term profitability of their firms.

Operational leaders, including Chief Operating Officers to department heads, equally support the adoption of ESG, as per the findings. Operational managers are often focused on devising cost-efficient and scalable strategies amid rising pressures to adopt ESG policies whose enforcement calls for budgetary considerations. Other respondents pointed out that ESG policies were adopted only when federally mandated through regulations or when they directly led to cost savings. The absence of a specific ESG mandate in operational management frameworks indicates that sustainability is considered an add-on rather than a fundamental business function.

The priorities of the organizational governance system emerged as a key determinant of the adoption of ESG frameworks. Although many family businesses use a traditional approach to governance, including family councils, the legacy of the family and long-term wealth often takes priority over sustainability. It was also evident that these councils typically do not have formal ESG committees, and their governance style is informal and resistant to external engagement. On the flip side, companies that have embraced formal governance constructs, like independent boards or sustainability committees, are more likely to have higher levels of ESG integration. Some businesses opt to form ESG subcommittees that report to the family council, while others hire external support from sustainability consultants or advisory boards. These structured frameworks, as per the findings, drive better accountability and transparency in ESG decision-making.

Since strategic oversight is still primarily in the hands of founders and senior family members, there is continuous perpetuation of traditional governance models that tend to be weak on ESG-specific mechanisms. With structured governance practices and committees being largely associated with increased ESG compliance among firms, the formal crafting of governance frameworks can play a role in embedding sustainability within the long-term strategies of family businesses.

4.2.2 Theme 2: Cultural Factor in ESG Implementation

The cultural values that exist within family businesses greatly influence ESG adoption. Interviewees frequently recounted the effects of tradition, hierarchy and financial stability on ESG priorities. Many started the skepticism of older-generation business leaders on whether the ESG frameworks are even credible, seeing them as Western-initiated frameworks that do not reflect the region's economic reality. Younger family business executives and the next generation of business leaders who succeed them tended to adopt a more progressive vision and were committed to perpetuating sustainability-oriented business practices. This generational divide highlights a fundamental challenge of how to innovate governance structures without discarding the use of existing decision-making models. Several respondents also commented on the UAE's focus on innovation and technology, serving to encourage businesses to adopt green measures, while they noted that Saudi family businesses strongly upheld traditional ways of doing business, which did not value ESG.

The influence of culture on the adoption of ESG was different in both regions. Saudi organizations still abide by tribal practices and hierarchical governance. Such a traditional approach has made the transition to an ESG governance orientation within the territory difficult to materialize. Family elders apply a firm governance hand in these businesses, with decisions leaning more toward securing financial security than environmental or social effects. Family businesses in the UAE are more amenable to innovative governance structures. The respondents concurred that government-led initiatives such as the UAE's Net Zero 2050 have spurred businesses to implement sustainable practices in a more aggressive manner. In the same manner, increasingly internationalized Emirati corporations have increased external demands for greater adherence to global ESG standards by UAE companies.

National policies such as Saudi Vision 2030 and UAE Net Zero 2050 are driving faster ESG adoption by withstanding existing cultural barriers. Although many businesses understand the strategic importance of aligning with national sustainability goals, apprehensions around regulatory rigour and cost penalties persist. This points to a need for closer cooperation between policymakers and the business sector to ensure that ESG requirements support, rather than complicate, their rollout in practice.

4.2.3 Theme 3: National Policy and ESG Compliance

Government policy emerged to be an important factor driving ESG adoption, but the responses showed mixed views on its effectiveness. Saudi Vision 2030 was seen by many business leaders as a trigger to sustainability efforts, especially regarding water conservation and energy efficiency. A few respondents commented that they find it difficult to implement Vision 2030's sustainability mandates, especially in high operational cost industries. Likewise, the UAE Net Zero 2050 has pushed businesses to embrace green practices. In line with this, some companies highlighted that they had made property retrofits, invested in renewable energy, and adopted green technologies in direct reaction to national policies. Others still raised concerns about the additional cost of compliance and the capacity of their businesses to meet the set regulatory targets.

There was a notably wide variation in the degree of ESG adoption by industry, with consumer-facing industries such as tourism, real estate, and education showing higher ESG adoption due to consumer demand and regulatory incentives. ESG transitions were resource-intensive and more costly for manufacturing, logistics, and large-scale retail.

The perceived financial risks of implementing ESG offer a major obstacle to its integration into family businesses. Some leaders see ESG investments as a challenge to profitability, particularly in cost-sensitive sectors, but the successful adoptions show that long-term sustainability strategies lead to models that allow businesses to benefit from stronger reputation, regulatory compliance, and operational efficiencies. This highlights why businesses need to move from a short-term cost viewpoint to a long-term value-based ESG strategy.

4.2.4 Theme 4: Profitability and ESG Balance

The overarching challenge that interviewees noted was the financial cost of implementing ESG. Family-owned businesses often work on slim margins and find it difficult to justify spending on ESG that does not immediately pay off financially. Others mentioned that ESG compliance can erode profitability and make it challenging for leaders to establish the right balance between sustainability and business viability.

While some businesses were understandably more focused on short-term financial implications, others were increasingly aware of the long-term benefits of adopting ESG practices. Multiple respondents pointed out that an improved brand reputation results in increased customer loyalty and competitive differentiation within a global ESG-aware market. The benefits of adopting green energy solutions, however, tend to take time to be realized despite the high initial investment costs. Eco-tourism and sustainable real estate initiatives were particularly pinpointed as having attracted a more financially robust clientele, demonstrating that profitability and sustainability can go hand-in-hand.

A strong driver for ESG adoption rests in multi-generation dynamics, with young leaders championing modern sustainability practices as older family members push for financial stability and maintenance of traditional family governance models. The results point to the need to bridge this generation gap using structured dialogue, pilot ESG projects, and even external advisory support in order to make the sustainability transition for family businesses a little bit smoother.

4.2.5. Theme 5: Addressing Resistance to ESG Adoption

Intergenerational resistance came up as one of the main obstacles for family firms seeking to adopt ESG. With ESG being treated as a non-essential expenditure by older business leaders, it is largely viewed as a sustainability-driven governance model by young business leaders. Some interviewees reported that their businesses would delay ESG transitions until future generations, while others implemented a gradual approach with small-scale pilot projects.

Four strategies that were utilized to overcome their internal resistance emerged from the interviews. Raising awareness on the benefits of ESG through internal education programs was pointed out as an effective intervention. There were pilot projects initiated by businesses to show the economic viability of sustainable projects. The advisory boards and consultant partnership provided businesses with credibility, and leveraging government incentives decreased the risks associated with significant initial investments.

The results highlight that structured governance, policy alignment, financial planning and cultural adaption go hand in hand to accomplish effective ESG governance. By bringing together the different practices, family businesses in the UAE and Saudi Arabia can align profit with long-term sustainability, thus future-proofing their competitive advantage in the changing business ecosystem.

5. Discussion

The findings from this study reveal a strong alignment between participant narratives and the existing body of literature on ESG adoption in family-owned businesses in the GCC, particularly within the contexts of the UAE and Saudi Arabia.

5.1 Leadership and Governance Structures in ESG Adoption.

The governance structure of a family business plays a crucial role in determining its ESG adoption strategy. The study reveals that firms with formalized governance mechanisms such as independent boards, sustainability committees, and external advisory roles tend to integrate ESG more effectively. However, many family businesses in the GCC continue to operate within informal governance frameworks, leading to a lack of accountability and a reluctance to implement sustainability measures.

This finding aligns with Corporate Governance Theory (Shleifer & Vishny, 1997), which posits that corporate governance mechanisms, particularly independent oversight enhance accountability and long-term business sustainability. The absence of independent decision-making structures in GCC family businesses hinders strategic ESG adoption. Research by Aloulou (2023) supports the former, stating that family-owned enterprises often prioritize financial stability and traditional decision-making over structured sustainability governance.

Additionally, Institutional Theory (DiMaggio & Powell, 1983) provides insight into how external regulatory and market forces shape governance reforms. Different industries within the GCC experience varying levels of regulatory influence. For instance, the financial sector, driven by investor expectations and compliance mandates, has seen rapid ESG integration. In contrast, with its high operational costs and limited regulatory oversight, the manufacturing sector has lagged in ESG implementation. A case in point is Saudi Arabia's Public Investment Fund (PIF), which has mandated that its portfolio companies establish ESG committees, demonstrating the impact of regulatory pressures on governance structures. Meanwhile, industries such as real estate and tourism have faced increasing pressure from government sustainability initiatives, pushing them toward structured ESG compliance faster than resource-intensive industries like oil and gas. Findings suggest that firms subjected to stricter regulatory enforcement and investor pressures are more likely to integrate ESG governance mechanisms. A notable example is First Abu Dhabi Bank (FAB), which has successfully incorporated ESG reporting and risk management frameworks due to the UAE's financial regulatory mandates. As a result, FAB has enhanced investor confidence and positioned itself as a leader in sustainable finance in the region. In contrast, others see ESG as an optional strategy rather than a compliance requirement. A case in point is Saudi Arabia's Public Investment Fund (PIF), which has mandated that its portfolio companies establish ESG committees, demonstrating the impact of regulatory pressures on governance structures.

A participant reflected on this challenge:

"*Family businesses are still hesitant about independent ESG oversight because they fear losing control over decision-making.*" (Participant 2)

Another respondent reinforced the need for structured governance:

"*We have a board of directors, but ESG decisions are still informal. Unless regulators mandate ESG reporting, many businesses won't prioritize it.*" (Participant 13)

Despite these challenges, Stakeholder Theory (Freeman, 1984) suggests that businesses engaging independent directors and external advisors benefit from enhanced ESG governance, as these stakeholders ensure a balance between profitability and sustainability commitments. However, findings reveal that family-controlled governance structures often limit external influence, restricting ESG accountability and long-term sustainability planning.

Furthermore, governance structures integrating sustainability reporting and risk assessment mechanisms tend to comply more with ESG policies. For example, Majid Al Futtaim Group in the UAE has implemented a sustainability committee that reports directly to the board, ensuring continuous ESG initiatives and risk management oversight.

5.2. Cultural Influences on ESG Implementation

The study highlights that cultural factors, including hierarchical decision-making, legacy preservation, and intergenerational business leadership, significantly influence ESG adoption in family-owned businesses. In GCC firms, ESG adoption is often resisted due to deeply entrenched business traditions and leadership styles. This aligns with Hofstede (1980) Cultural Dimensions Theory, which identifies high power distance as a key factor in hierarchical societies, leading to reluctance to adopt progressive corporate governance models. The findings confirm that GCC businesses, particularly those managed by first-generation leaders, tend to resist external ESG pressures, often perceiving them as Western-driven initiatives.

A participant expressed this generational divide:

"Younger members of the family are more open to ESG, but they struggle to convince senior decision-makers who see it as a trend rather than a necessity." (Participant 5)

Another participant added:

" There is an inherent resistance to change when it comes to ESG. Our leadership sees it as a Western concept that does not fit well with our family values." (Participant 9)

Findings also align with Ali & Ali (2018), who found that traditional business values in GCC firms create inherent resistance to sustainability, particularly in first-generation leadership. In contrast, younger family members are more likely to embrace ESG due to global exposure and awareness of market-driven sustainability expectations. Moreover, families that have operated businesses for multiple generations often feel a stronger sense of financial protectionism, viewing ESG as an external pressure rather than an intrinsic responsibility. This protectionism is primarily driven by concerns over short-term profitability, long-term succession planning, and maintaining financial stability for future generations. Many first-generation leaders prioritize wealth preservation over sustainability commitments, perceiving ESG initiatives as costly and disruptive to traditional business operations. Companies like Saudi Aramco and Emirates NBD have launched cross-generational ESG leadership programs to bridge this gap and encourage sustainability-led transformation.

5.3 Regulatory Frameworks and National Policies

Government policies such as Saudi Vision 2030 and UAE Net Zero 2050 are key drivers of ESG adoption in the region. However, these policies differ in terms of implementation and enforcement. Saudi Vision 2030 strongly emphasizes state-led ESG integration, mainly through initiatives like the Public Investment Fund (PIF), which mandates ESG compliance for its portfolio companies. In contrast, the UAE's Net Zero 2050 strategy focuses more on private sector-driven sustainability efforts, with financial market regulators such as the Dubai Financial Market (DFM) and Abu Dhabi Global Market (ADGM) encouraging voluntary ESG disclosures. This variation in approach has led to differing levels of ESG adoption across industries and business types. However, while these frameworks promote sustainability, compliance remains inconsistent across industries, with enforcement mechanisms varying significantly between sectors.

Institutional Theory (DiMaggio & Powell, 1983) supports the idea that coercive pressures from regulatory authorities influence ESG adoption. The findings indicate that regulatory pressures alone are insufficient without financial incentives and strict enforcement mechanisms. Unlike the EU's Corporate Sustainability Reporting Directive (CSRD), which mandates strict ESG reporting for large corporations, GCC policies remain largely voluntary, creating gaps in enforcement.

Although ESG compliance is increasing due to Saudi Vision 2030 and UAE Net Zero 2050, regulatory gaps persist. APCO Worldwide (2022) emphasizes that GCC businesses struggle with ESG adoption due to weak enforcement and voluntary compliance frameworks.

In Saudi Arabia, the Public Investment Fund (PIF) has introduced ESG compliance mandates for companies within its portfolio, requiring businesses to establish structured sustainability reporting frameworks. Similarly, in the UAE, the Dubai Financial Market (DFM) and Abu Dhabi Global Market (ADGM) have encouraged listed companies to align with international ESG disclosure standards. Yet, non-listed entities still face minimal regulatory pressure.

A participant noted:

"Vision 2030 has been a catalyst for embracing sustainable business models. However, compliance remains an issue for smaller firms." (Participant 6)

Another participant added:

"*Many businesses comply with ESG regulations only when mandated, rather than seeing them as a value-driven strategy." (Participant 11)*

To bridge these gaps, governments could introduce stronger financial incentives, such as sustainability-linked tax breaks, green bonds, and direct subsidies for businesses investing in ESG initiatives. For example, the European Union's Green Taxonomy has incentivized companies to integrate sustainability by offering reduced corporate tax rates for ESG-compliant firms. Similarly, in Singapore, the Green Investment Program provides grants for companies adopting sustainable business models. Implementing similar policies in the GCC would encourage ESG adoption while alleviating financial concerns for family-owned businesses. Additionally, establishing sector-specific ESG frameworks tailored to industries like energy, finance, and real estate could enhance enforcement and improve regulatory clarity for businesses adopting sustainability practices.

5.4 Balancing Profitability and Sustainability

Many GCC businesses perceive ESG as a short-term financial burden rather than a long-term investment. However, global studies indicate that companies integrating ESG strategies report higher profitability. Research by Almeida & Sousa (2022) found that ESG-aligned firms experience a 14% increase in valuation over time, reinforcing the long-term financial benefits of sustainability strategies.

There was a notably wide variation in the degree of ESG adoption by industry, with consumer-facing sectors such as tourism, real estate, and education showing higher ESG adoption due to consumer demand and regulatory incentives. Meanwhile, manufacturing firms faced higher compliance costs, making it difficult to fully integrate ESG without external financial support or phased implementation strategies.

A participant illustrated the financial concerns:

"*The cost of compliance is just too high. There are no immediate financial incentives to adopt ESG unless investors demand it." (Participant 8)*

Another respondent highlighted the dilemma between profitability and ESG investment:

"Investments in sustainability are not prioritized unless there's a clear, short-term return on investment." (Participant 10)

To bridge this gap, governments could introduce green tax credits and ESG-linked grants to mitigate upfront costs for SMEs, similar to incentives provided under the EU Green Deal. Additionally, access to sustainability-linked loans and green bonds can help businesses finance ESG initiatives without compromising financial stability. Research from the UN Global Compact indicates that companies utilizing ESG-aligned financing structures see improved investor confidence and operational efficiencies over time.

5.5 Overcoming Resistance to ESG Adoption

Resistance to ESG adoption is often linked to knowledge gaps, financial concerns, and a lack of structured ESG governance frameworks. Many GCC businesses perceive ESG as a Western-driven concept that does not align with traditional business models, resulting in slow adoption rates. However, case studies show that targeted ESG education, strategic financial incentives, and generational leadership programs can significantly drive ESG adoption.

For instance, Saudi Aramco, Majid Al Futtaim Group, and Emirates NBD have successfully integrated ESG by implementing structured leadership training, sustainability-linked financing, and ESG-specific reporting systems, strengthening compliance and investor confidence. Saudi Aramco has embedded ESG awareness into its corporate training programs, ensuring senior management and next-generation leaders understand sustainability's role in long-term competitiveness. Majid Al Futtaim Group has incorporated ESG-linked executive performance incentives, aligning leadership priorities with sustainability goals. Additionally, Emirates NBD has leveraged green financing instruments and mandatory ESG training modules for key stakeholders, demonstrating how financial incentives and education can drive adoption.

A participant highlighted the importance of targeted training programs:

"*We realized that ESG skepticism comes from a lack of awareness. Once leadership teams understood the financial and reputational benefits, resistance started fading." (Participant 7)*

Another participant emphasized the role of external pressures:

"*External investors are increasingly looking at ESG compliance. Without a structured framework, businesses will struggle to attract capital." (Participant 14)*

Additionally, government-backed ESG policies have played a critical role in addressing resistance. For example, in the UAE, the Dubai Sustainable Finance

Working Group has introduced incentives for businesses that align with ESG reporting frameworks. At the same time, Saudi Arabia's Vision 2030 ESG policies provide structured sustainability mandates for key industries.

Ultimately, reducing ESG resistance requires a multi-pronged approach, combining leadership education, financial incentives, and regulatory support. Businesses that proactively address these challenges will likely gain a competitive edge in the evolving sustainability landscape.

5.6 Implications

5.6.1 Theoretical Implications

The study enhances the knowledge of governance models and ESG integration and contributes to family businesses and sustainability scholarship by demonstrating how certain governance tools such as advisory boards, family councils, and independent committees play varied roles in enabling ESG adoption among legacy companies. It extends theoretical knowledge of intergenerational dynamics, illustrating the influence of power imbalance between younger and older generations on strategic ESG decisions in culturally embedded family business settings.

5.6.2 Practical Implications

The study shows that majority of older family business leaders are not familiar with and lack a strategic perspective on ESG. Special training, mentoring, and exposure programs are needed to equip them with the necessary knowledge and expertise to lead ESG change. Moreover, granting or establishing family councils and independent boards will likely formalize ESG dialogue, embed sustainability in decision-making, and ensure long-term continuity from one generation to the next. Furthermore, encouraging dialogue and shared decision-making between generations can reduce resistance to ESG integration and make leadership and strategic transitions easier.

5.6.3 Policy Implications

The UAE's progressive regulation support (e.g., ADGM, DFM) provides a model for Saudi Arabia, where ESG regulation is in the nascent phase. The policymakers must strengthen and align the ESG guidelines, especially for SMEs and family-owned businesses. Encouraging ESG adoption Governments should consider offering financial and non-financial incentives (e.g., ESG-linked subsidies) to encourage ESG among traditional family firms and small businesses. Enhancing ESG reporting infrastructure Regulatory authorities in both countries should enhance disclosure requirements and reporting systems to foster confidence and encourage comparability between foreign stakeholders and private sector players.

6.Conclusion, limitations and future research

Family-owned businesses are gradually realizing the strategic importance of ESG practices in the GCC, especially in the UAE and Saudi Arabia. The thematic analysis employed on information collected from 15 respondents who hold ownership positions in family business reveals lack of transparency in governance structures, lack of ESG awareness and competence, underdeveloped legislative frameworks, and deeply ingrained sociocultural norms as impediments in embracing ESG. This research underscores the vital role that institutional mechanisms, generational alignment, and regulatory support play in shaping the ESG trajectory of GCC family enterprises. By bridging tradition with transformation, these businesses have a unique opportunity to not only ensure long-term resilience but also lead the region toward a more responsible, transparent, and sustainable future.

While the methodological framework is designed to be robust, certain limitations are acknowledged. Access to senior decision-makers may pose challenges due to confidentiality concerns and cultural reservations, which could constrain the depth of data obtained. Additionally, the interpretive nature of qualitative research may introduce subjective bias, although this is mitigated through reflexive journaling and member checking to ensure analytic transparency. The context-specific focus of the study may also limit the generalizability of its findings beyond the GCC family business landscape; however, the insights generated offer substantial depth and relevance to similar contexts undergoing ESG transitions. Future research could build on this study by employing mixed-methods or longitudinal designs to enhance the generalizability and robustness of findings. Expanding the scope beyond the UAE and Saudi Arabia to include other GCC or MENA countries would offer comparative insights into ESG adoption across diverse cultural and regulatory environments. Further investigation into the perspectives of non-family stakeholders such as professional managers, regulators, or customers can enrich the understanding of ESG integration in family firms. Lastly, exploring sector-specific dynamics within family-owned enterprises could yield more tailored strategies for ESG implementation.

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