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ESG Regulation and Directors' Duties: A Comparative Assessment of Governance Frameworks in the EU, UK, and UAE

Jitheesh Thilak[1*], Dr. Devika Ramachandran[2], Dr. Sagee Geetha Sethu[3], Dr. Rashmi Singh Rana[4]
[1]*Department of Law Banasthali Vidyapith Rajasthan, India.
Email ID : jthilak@gmail.com
[2]Department of Law Banasthali Vidyapith Rajasthan, India.
Email ID :devika.news@gmail.com
[3]Amity Law School Amity University Uttar Pradesh, India
Email ID : sageesg@yahoo.com
[4]Department of Legal Studies Banasthali Vidyapith Rajasthan, India
Email ID : rashmisinghrana@banasthali.in

ABSTRACT
Environmental, Social, and Governance (ESG) considerations are now firmly embedded in corporate governance discourse, yet their legal integration into directors' fiduciary duties remains uneven and contested across jurisdictions. This article undertakes a comparative doctrinal analysis of how ESG regulation intersects with directors' duties in the European Union, the United Kingdom, and the United Arab Emirates. Drawing on legislation, regulatory instruments, case law, and policy developments, the study examines the extent to which ESG obligations are translated into enforceable fiduciary responsibilities and the mechanisms through which boards are expected to address sustainability risks and impacts. The analysis reveals a fragmented regulatory landscape. The European Union has adopted a prescriptive, disclosure- and due-diligence-driven framework through instruments such as the Corporate Sustainability Reporting Directive and the proposed Corporate Sustainability Due Diligence Directive, while stopping short of imposing uniform director-level sustainability duties. The United Kingdom continues to rely on a principles-based model anchored in section 172 of the Companies Act 2006, leaving considerable discretion to directors despite growing pressure for statutory reform. The United Arab Emirates has pursued a rapidly evolving, market-led approach focused on mandatory sustainability reporting and financial governance reforms rather than explicit fiduciary obligations. The article argues that this divergence creates legal uncertainty for boards operating across borders and limits the effectiveness of ESG integration into corporate decision-making. It concludes that clearer legislative guidance, whether through refined statutory duties or strengthened soft-law instruments, is necessary to align directors' responsibilities with contemporary sustainability expectations while preserving appropriate managerial discretion..

Keywords: *ESG regulation, directors' duties, corporate governance, fiduciary responsibility, sustainability law..*
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1. INTRODUCTION:

Environmental, Social, and Governance (ESG) considerations have increasingly become central to contemporary corporate governance frameworks, driven by heightened regulatory attention, investor scrutiny, and evolving stakeholder expectations (Brogi et al., 2022; Irawan & Okimoto, 2021). Corporations are no longer assessed solely on financial performance. Instead, transparency regarding environmental impact, social responsibility, and governance practices has emerged as a key indicator of long-term value creation and corporate legitimacy (Cerciello et al., 2023; Wang et al., 2022; Ye et al., 2022).

This shift has positioned ESG disclosure as a core governance mechanism through which corporations communicate their sustainability commitments and risk management strategies. Corporate governance structures play a decisive role in shaping these disclosures, as boards are responsible for setting strategic direction, overseeing risk, and ensuring regulatory compliance (Ahmad et al., 2023; Chebbi & Ammer, 2022; Khan, 2019). As ESG considerations become more closely linked to firm performance and investor decision-making, the responsibilities of directors have expanded in practice, even where formal legal duties remain unchanged.

At the same time, the integration of ESG considerations into corporate decision-making raises complex legal questions. Traditional fiduciary duties emphasise loyalty, care, and the promotion of the company's interests, concepts that have historically been interpreted through a shareholder-centric lens. The growing emphasis on ESG challenges this model by requiring directors to account for longer-term environmental and social risks, broader stakeholder interests, and non-financial impacts that may not yield immediate economic returns (Lan & Wan, 2024). Courts and regulators have generally approached these issues with caution, focusing on decision-making processes rather than prescribing substantive ESG outcomes, thereby preserving managerial discretion.

These tensions are further compounded in a cross-border context. Multinational enterprises frequently operate across jurisdictions with divergent legal traditions, regulatory maturity, and enforcement mechanisms. While ESG-related regulation has expanded globally, it has done so unevenly, producing varying expectations regarding board accountability, disclosure obligations, and risk oversight (Ho & Tang, 2023; Ii, 2022). This divergence creates uncertainty for directors who must navigate multiple governance regimes while responding to increasingly convergent global sustainability pressures.

Against this background, this article argues that while ESG considerations have become central to corporate governance rhetoric across the EU, UK, and UAE, they have not yet been coherently or uniformly embedded into directors' fiduciary duties as a matter of law. Instead, each jurisdiction has adopted a distinct regulatory strategy shaped by its legal tradition, market structure, and enforcement capacity: a prescriptive, system-wide regulatory model in the EU, a principles-based and litigation-averse approach in the UK, and a disclosure-driven, market-oriented framework in the UAE. This divergence has resulted in significant legal ambiguity regarding the extent to which directors are required to prioritise or balance ESG considerations in corporate decision-making. Through a comparative doctrinal analysis, the article demonstrates how this fragmentation affects board accountability, risk oversight, and cross-border corporate operations, and questions whether current regulatory trajectories are sufficient to deliver meaningful ESG integration within fiduciary governance without clearer normative guidance.

Components of ESG

1.1.1 Environmental Component:

The environmental aspect of ESG evaluates the organization's interaction with the natural environment and the measures it implements to reduce harm to it (Garg, 2025). This transcends just legal compliance; it demonstrates a company's broader commitment to sustainability and climate action. Organizations must monitor their carbon emissions and strive to reduce them, often in accordance with the guidelines established by the Paris Accord. Businesses might adopt renewable energy sources like solar and wind, follow sustainable building standards, and reduce reliance on fossil fuels. Resource management constitutes another significant domain. When firms unsustainably consume raw materials, water, and energy, it creates a detrimental loop that results in scarcity, reputational harm, and even regulatory penalties. This has prompted numerous enterprises to adopt circular economy models that emphasize recycling, reuse, and waste minimization. Businesses have the critical responsibility of managing pollution, encompassing emission reduction, wastewater treatment, and the minimization of plastic waste. Many customers are increasingly concerned about eco-friendly and minimal-use plastic packaging, compelling businesses to reevaluate their expenditures. Organizations must demonstrate their efforts in maintaining biodiversity and utilizing land sustainably, especially in areas such as agriculture, mining, and construction. Numerous countries now mandate that firms report environmental information, hence intensifying the drive for transparency.

1.1.2 Social Component:

The social pillar pertains to a business's management of relationships with its stakeholders, including employees, customers, suppliers, and the broader community. It pertains to the human dimension of the enterprise. As a social pillar, it includes critical aspects of employee welfare, such as fair compensation, safety regulations, adequate healthcare access, and overall wellbeing. Organizations that priorities effective employee training, education, and career advancement opportunities typically cultivate a more committed and loyal staff. Protecting labor rights and averting exploitative practices, including ensuring safe and healthy working conditions, is vital. Diversity, equality, and inclusion (DEI) are equally significant. Organizations are now required to adopt inclusion and fair access for all employee tiers, regardless of gender, ethnicity, or other social origins. Organizations with diverse teams generally perform better due to the incorporation of varied perspectives and enhanced innovation.

The social pillar extends beyond employees to encompass supplier chains. Responsible supply chain management involves the ethical procurement of raw materials, free from child labor, forced labour, or other exploitative methods. Fashion and technology industries face increased scrutiny about the sourcing of their raw materials. A crucial element is client interactions, which encompasses the protection of privacy and sensitive consumer information. Moreover, maintaining product standards and safety, averting deceptive advertising, and cultivating robust customer relations establishes enduring trust.

1.1.3 Governance Component:

The governance pillar examines the structures and processes that guide and regulate a business. It evaluates whether leadership is undertaking suitable actions for stakeholders, ensuring accountability, and upholding ethical and moral standards. Effective governance originates from the board of directors, which provides the framework for the business's governance. An effective board must be independent, diversified, and well-structured to facilitate decision-making with appropriate checks and balances. The directors' independence safeguards against the management's potential adversities and facilitates responsibility. Another significant aspect of this pillar is CEO compensation. In an optimal scenario, compensation should not just incentivize profitability but also be aligned with long-term value development and ESG objectives. Compensation arrangements that are transparent and straightforward, eschewing bonuses associated with high-risk behavior, are intended to enhance Peter's remuneration. Another aspect of governance pertains to the rights of shareholders. Companies are obligated to ensure equitable voting practices and safeguard minority shareholders from repressive actions, facilitating fair participation.

Governance encompasses the risk management strategies employed by a corporation. Governance guarantees the implementation of effective rules for managing business risks, audits, and addressing ESG, climate risks, reputational risks, and regulatory concerns. An additional crucial issue is anti-corruption and commercial conduct. Corporate policy must exhibit zero tolerance towards bribery, fraud, and corruption. Similarly, organizations should safeguard whistleblowers against unethical conduct.

Importance of ESG Disclosure

ESG disclosure has become prominent in the business sphere, as companies face pressure to share information on their sustainability performance and its impact on stakeholders. Based on a survey by KPMG (2020), 80% of the largest global corporations released sustainability reports in 2019, up from 75% in 2017. Moreover, global ESG assets under management reached USD 35.3 trillion in 2020, constituting over a third of the projected worldwide total of USD 140.5 trillion by 2025 (Intelligence, 2021) (Global Sustainable Investment Alliance 2021).

These trends indicate that ESG disclosure is not only a matter of compliance or reputation, but that it is emerging as a strategic determinant that impacts the financial performance and value of companies. Firms and stakeholders, including investors and regulators, etc., face costs and benefits when ESG disclosure is required by rules or requested through optional rules. The costs consist of legal, reporting, and proprietary expenses, while the benefits entail an opportunity to enhance the image of the firm, build trust, create a better work culture, and provide useful information (Ng & Rezaee, 2015). ESG disclosure conveys pertinent and dependable information for various stakeholders, depending on the regulations and needs of different areas (Moussa & Elmarzouky, 2024).

2. LITERATURE REVIEW

The correlation between corporate governance (CG) and environmental, social, and governance (ESG) factors has received significant focus in recent academic studies. Researchers Chebbi & Ammer (2022) and Ahmad et al. (2023) have emphasized the possible correlation between improved corporate governance practices and ESG disclosures, highlighting the strategic impact of corporate governance, ESG practices, and business attributes on financial performance. Discussions by (Uzliawati et al., 2023) (Bamahros et al., 2022) (Adeneye et al., 2024) have underscored the influence of particular corporate governance components, including board size, independence, audit committees, and gender diversity, on ESG performance and business value. Furthermore, the formation of ESG committees has markedly enhanced ESG transparency in corporations (Nicolo et al., 2023). Nonetheless, although there is agreement on the essential function of particular governance frameworks in promoting ESG disclosures and augmenting business value, differing viewpoints remain across various geographic areas. Certain research, including those by (Kuzey et al., 2023) and (Rooh et al., 2021), offer divergent perspectives, indicating that corporate governance may diminish the correlation between board attributes and substantial ESG involvement.

Evidence indicates that corporate governance aspects adversely affect ESG performance, especially in the banking sector. (Mohammad et al., 2023) revealed a negative association between CG and ESG ratings in emerging countries, underscoring the influence of institutional and regulatory frameworks on these complex interactions. (Ho & Tang, 2023) discussed the global rise of ESG-related regulatory frameworks aimed at guiding financial investments based on companies' ESG performance and ensuring transparency to prevent manipulation of sustainability information. It reviewed different regulations focusing on environmental factors such as climate change adaptation, social issues including community development and human rights, and governance matters like anti-corruption and board diversity. (Alkaraan et al., 2023) employed computer-aided textual analysis to investigate SSIDMP trends in UK companies, using data from FTSE ALL Share (2012−2021) to develop proxies for I4.0 and CE techniques. The findings highlight the critical role of organizational ambidexterity in leveraging this synergy to enhance financial performance. The research also examined how governance mechanisms, such as ESG, board composition, risk management, and internal audits, influence the relationship between SSIDMP, I4.0, CE techniques, and financial outcomes, revealing that this synergy is pivotal for sustainable value creation and organizational performance, with variations across industry sectors. (Lan & Wan, 2024) explained that advancing the ESG agenda through company law poses challenges, particularly in common law systems. Directors' duties emphasize prioritizing the 'interests of the company,' aligned with shareholders' interests, as established in traditional common law and the UK's Companies Act 2006. Courts typically focus on the decision-making process rather than the merits of business decisions. While directors may consider ESG factors, their obligation to act in the company's best interests does not require them to pursue aggressive ESG strategies.

Considering the relationship between ESG initiatives and corporate law, this article analyzes how corporate decision-making impacts these initiatives and the tensions with directors' fiduciary duties. (Turner*, n.d.) examined the limitations of ESG regulatory efficiency and argues for a broader approach to integrate directors' duties within the larger legal framework of the company. This suggested the need for more effective development of laws and regulations addressing ESG concerns. While the Directive represents significant regulatory progress in corporate sustainability, challenges such as legal ambiguities, extraterritorial compliance, and the burden on small and medium-sized enterprises (SMEs) complicate its implementation. (Serra, 2025) analyzed the CSDDD's legal and practical implications, offering insights into corporate responsibility, ethical practices, and accountability. (Lidman, 2024) This chapter outlines the European Green Deal, detailing essential EU Directives and Regulations enacted or proposed up to

August 31, 2022. It discusses the integration of ESG principles into EU law pre-Green Deal and reviews policies enacted post-Green Deal, including the EU Taxonomy, Sustainable Finance Disclosures Regulation, Corporate Sustainability Reporting, European Green Bond Standard, and the initiative for Corporate Sustainability Due Diligence. While many initiatives received approval, some faced significant criticism. (Râmniceanu, 2022) Companies struggle to address environmental and social risks, neglect investment opportunities for sustainability, and are hindered by weak corporate laws prioritizing shareholder interests. The study analyzed the evolution of the European regulatory framework on sustainability and corporate social responsibility, focusing on implementing ESG standards in Romania and translating soft law into measurable obligations. (Jung, 2022) Environmental sustainability poses a significant challenge, reliant on not only adherence to environmental laws but also on its consideration in directors' decision-making. The paper argues for a revised legal framework and a new principle in the UK Corporate Governance Code 2018 to enhance environmental considerations in decision-making, thereby boosting shareholder value amidst growing societal focus on climate change. (binti Adnan et al., 2023) analyzed the ESG policies of Malaysia, the United Arab Emirates, and the United Kingdom, finding Malaysia and the UK have more comprehensive policies than the UAE.

3. RESEARCH GAP

Existing scholarship on environmental, social, and governance (ESG) has primarily examined the relationship between corporate governance mechanisms and firm-level ESG performance, with particular emphasis on board characteristics, disclosure practices, and financial outcomes (Chebbi & Ammer, 2022; Ahmad et al., 2023; Nicolo et al., 2023). While this body of literature has contributed valuable empirical insights, it has largely treated ESG as a matter of managerial practice or reporting quality, rather than as a question of legal obligation rooted in directors' fiduciary duties.

Studies addressing the legal dimensions of ESG regulation tend to focus on individual jurisdictions or specific regulatory instruments, such as sustainability reporting regimes, due diligence obligations, or soft-law governance codes (Ho & Tang, 2023; Lidman, 2024). These analyses often examine compliance costs, enforcement challenges, or regulatory design but stop short of assessing how such frameworks interact with the core fiduciary principles governing directors' decision-making. As a result, the implications of ESG regulation for directors' duties remain conceptually underdeveloped.

Comparative analyses across legal systems are particularly limited. Existing work rarely undertakes a structured comparison between supranational regulatory regimes, common law systems, and emerging market frameworks to evaluate how differences in legal tradition, regulatory ambition, and enforcement capacity shape directors' ESG responsibilities (Lan & Wan, 2024; binti Adnan et al., 2023). Where comparative perspectives do exist, they tend to be descriptive or policy-oriented, without engaging in sustained doctrinal analysis of fiduciary duties.

This article addresses these gaps by providing a comparative doctrinal examination of ESG regulation and directors' duties in the European Union, the United Kingdom, and the United Arab Emirates. It shifts the focus from firm-level ESG outcomes to the legal architecture that structures board accountability and discretion, and evaluates whether current regulatory approaches provide sufficient clarity on the role of ESG considerations within fiduciary governance. In doing so, the study contributes to the emerging legal scholarship on sustainable corporate governance by clarifying how ESG regulation is reshaping, and in some cases failing to reshape, directors' duties across distinct governance systems.

4. METHODOLOGY

This research adopts a qualitative doctrinal research approach, to examine how ESG regulation and directors' duties are structured within the governance frameworks of the EU, UK, and UAE are legally constructed. Data collected exclusively from secondary legal sources of data, such as legislation, regulatory guidelines, case law, academic literature, policy papers, and official reports published by bodies including the European Commission, the UK Financial Reporting Council, and the UAE Securities and Commodities Authority. A functional comparative approach utilized to test how such jurisdictions address similar legal problems related to directors' responsibilities, ESG disclosure requirements, governance obligations, and compliance expectations. The analysis focuses on determining similarities and differences in how ESG-related risks and opportunities are regulated through their design in jurisdictions, their enforcement mechanisms, and legal positioning within corporate governance. The study limits its scope to assessing the relevant legal obligations and regulatory frameworks for corporate ESG risks and opportunities but does not extend to an assessment of the firm-level performance of ESG or empirical testing. As the study relies only on public documents, ethical concerns are at a minimum and are sufficiently catered for by way of citation and accurate representation of legal sources.

5. AIM AND OBJECTIVES

Aim:

The aim of this study is to examine and compare how ESG regulation is incorporated into director's duties within the corporate governance frameworks of the EU, UK, and UAE.

Objectives:

Objective 1: To identify gaps, inconsistencies, and fragmentation within the legal and regulatory frameworks governing directors' ESG responsibilities in the EU, UK, and UAE, including disclosure obligations, stewardship expectations, and risk-oversight duties.

Objective 2: To conduct a comparative analysis of the EU, UK, and UAE governance systems, evaluating how differences in legal tradition, regulatory maturity, and enforcement mechanisms shape the integration of ESG into fiduciary duties.

6. RESULTS

Environmental, Social and Governance (ESG) criteria have become central to modern corporate governance debates, especially regarding the scope of directors' duties and the extent to which sustainability considerations should influence board decision-making. Across jurisdictions, uncertainty persists about whether ESG obligations are inherent to fiduciary duties or require explicit statutory intervention.

ESG Responsibilities and Directors' Duties: Emerging Legal Developments

Recent legal developments demonstrate how ESG considerations increasingly intersect with directors' fiduciary duties (LLP, 2023). In the United Kingdom, the landmark case *ClientEarth v Shell* [2023] EWHC 1137 exemplifies the judiciary's cautious approach to expanding board-level ESG obligations. In *ClientEarth v Shell* [2023] EWHC 1137, ClientEarth sought permission to continue a derivative claim against Shell's directors, alleging that the directors had failed to comply with section 172 of the Companies Act 2006. Section 172 requires directors to promote the success of the company for the benefit of its members while having regard, among other factors, to "the impact of the company's operations on the community and the environment." The court refused permission, holding that the claim did not establish duties beyond those expressly prescribed by statute and that the "best interests" analysis under section 172 necessarily requires balancing competing considerations. Had the derivative claim proceeded, it might have paved the way for broader investor litigation challenging boards' management of climate-related risks. Regardless of the outcome, the case has intensified calls for legislative reform to clarify directors' ESG obligations.

One prominent reform proposal in the UK advanced by the Better Business Act campaign would amend section 172 to require directors to act in a manner most likely to advance the company's defined "purpose," which would explicitly balance member interests with benefits to society and the environment proportionate to the company's scale and activities. This proposal echoes principles already present in the UK Corporate Governance Code but would transform soft-law expectations into statutory duties, thereby reducing ambiguity about the legal weight of ESG considerations.

By contrast, the statutory landscape in Ireland remains more limited. Irish directors' duties are codified in section 228 of the Companies Act 2014 and focus on duties of good faith, honesty, compliance with the constitution, avoidance of conflicts, and the exercise of care, skill and diligence. There is no explicit statutory requirement in Ireland for directors to consider ESG factors when exercising their duties. However, EU-level initiatives may prompt change: the Corporate Sustainability Reporting Directive (CSRD), which requires in-scope companies to disclose sustainability information in their management reports according to European Sustainability Reporting Standards, will be transposed into Irish law and is likely to increase board responsibility for ESG reporting. The currently negotiated Corporate Sustainability Due Diligence Directive (CSDDD) though its final form remains uncertain has also raised debate about whether EU law should impose explicit director-level obligations to consider human-rights and climate impacts.

Taken together, these developments illustrate a dynamic and potentially fragmented regulatory landscape. The UK debate over statutory reform, Ireland's reliance on existing codified duties, and the EU's evolving supranational instruments (CSRD and potential CSDDD measures) create divergence in how directors' ESG responsibilities are conceptualized and enforced. For comparative research, this constellation of case law, national statutes and EU directives provides fertile material to

perform doctrinal analysis of directors' duties across legal texts and judicial decisions, and

assess how differences in statutory language, soft-law instruments, and supranational regulation shape the integration of ESG into corporate governance.

Comparative Overview of ESG Regulatory and Disclosure Frameworks in the EU, UK, and UAE

The UAE, the United Kingdom, and the European Union have each developed ESG-related governance and disclosure frameworks, though with varying degrees of regulatory maturity and enforcement (Ii, 2022).

UAE

In the United Arab Emirates, early developments were largely voluntary and market-driven. In 2019 the Abu Dhabi Global Market (ADGM) issued the Abu Dhabi Sustainable Finance Declaration, signaling a commitment to sustainable finance but without imposing mandatory disclosure requirements. More substantial regulatory action followed in 2020, when the UAE Securities and Commodities Authority (SCA) adopted the Corporate Governance Guide requiring all public joint stock companies listed on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) to publish annual sustainability reports addressing environmental, social, economic, and governance matters. Stock exchanges in the UAE have also supported ESG-related practices: the DFM joined the UN Sustainable Stock Exchanges Initiative in 2016, followed by the ADX in 2019, offering voluntary sustainability reporting guidance for listed companies.

United Kingdom

In the United Kingdom, ESG-related governance and disclosure obligations have expanded steadily across more than two decades. The UK Government and financial regulators have advanced climate-related disclosure requirements in line with the Task Force on Climate-related Financial Disclosures (TCFD), extending these obligations in 2021 to Britain's largest companies and issuers of standard-listed shares and Global Depositary Receipts. Additional regulatory initiatives during 2021 included FCA consultations on sustainable investment labeling and Sustainability Disclosure Requirements, as well as Competition and Markets Authority guidance aimed at preventing misleading environmental claims. Earlier initiatives also significantly shaped the UK's ESG landscape, including: the 2017 gender pay gap reporting duty for employers with 250 or more employees; the 2015 Modern Slavery Act requiring transparency statements from companies above a £36 million turnover threshold; updates to the UK Corporate Governance Code in 2016 and 2018; and the Financial Reporting Council's revisions to strategic reporting guidance in 2013 addressing environmental, social, and diversity matters. Stock-exchange-level initiatives complement these efforts, with the London Stock Exchange issuing ESG reporting guidance in 2018 and the UK's Social Stock Exchange established in 2013 to support mission-driven enterprises.

European Union

The European Union has taken the most extensive and systematic approach to ESG-related regulation. Since 2014 the EU has progressively expanded mandatory non-financial disclosure requirements, beginning with the Directive on disclosure of non-financial and diversity information applying to large public-interest entities with 500 or more employees. Subsequent developments include the 2019 political agreement on the Sustainable Finance Disclosure Regulation (SFDR), the advancement of the EU Taxonomy on sustainable activities, and the 2021 adoption of a Corporate Sustainability Reporting Directive proposal designed to broaden the reporting scope, introduce assurance requirements, and mandate EU sustainability reporting standards. The EU has also enacted sector-specific ESG measures, including the 2021 Conflict Minerals Regulation requiring due diligence on tin, tantalum, tungsten, and gold imports, and 2021 EU guidance on forced-labor risks in supply chains. Earlier reforms such as the 2005 Modernization Directive update, the establishment of the EU Pollutant Release and Transfer Register (2006), and the 2013 extractives-sector payment disclosure rule demonstrate the long trajectory of EU ESG legislation.

Economic and Governance Context Influencing ESG Frameworks

Growing trade and investment flows between the UK and the UAE provide an important economic context that helps explain the divergent trajectories of ESG governance frameworks across jurisdictions. The UK–UAE Trade and Investment Factsheet shows that bilateral trade reached £24.8 billion in the four quarters to Q2 2025, with the UK maintaining a substantial £6.8 billion trade surplus, and UK outward FDI into the UAE rising to £4.6 billion (Emirates, 2025).

These figures reflect a high level of economic interdependence and a strong commercial presence of UK firms operating in the UAE firms that are often subject simultaneously to UK corporate governance expectations, TCFD-aligned disclosure rules, and emerging sustainability requirements in the Gulf region. This cross-border investment landscape helps explain why ESG regulation in the UAE has developed primarily through market-driven and disclosure-based mechanisms, such as the SCA's mandatory sustainability reporting, rather than through direct statutory duties for directors. In contrast, the EU's highly integrated market and large domestic regulatory ecosystem have enabled a more prescriptive ESG regime, including the CSRD and anticipated CSDDD obligations. Meanwhile, the UK deeply embedded in global capital markets adopts a hybrid model combining mandatory climate disclosures with ongoing debates over reforming directors' duties. Thus, trade and FDI patterns are not merely economic statistics but key structural forces shaping the maturity, direction, and legal ambition of ESG governance frameworks in each region (Goods:, 2025).

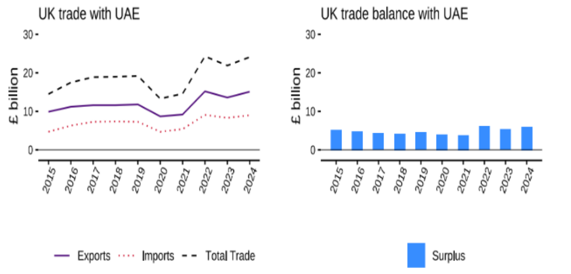
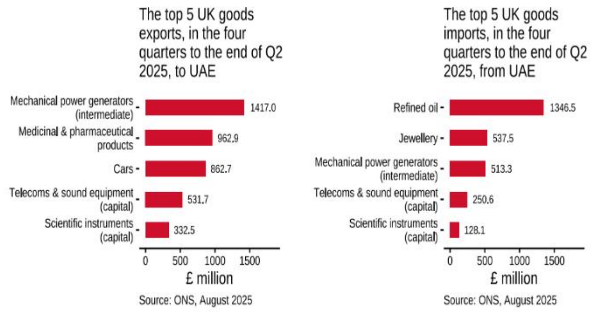


Table 1 UK–UAE Trade Data

Year	Total Trade	Exports	Imports	Trade Balance
2015	14.5	9.9	4.7	5.2
2016	17.5	11.2	6.3	4.8
2017	18.9	11.6	7.3	4.3
2018	19	11.6	7.4	4.2
2019	19.2	11.8	7.3	4.5
2020	13.3	8.7	4.7	4
2021	14.6	9.2	5.4	3.8
2022	24.3	15.2	9.1	6.1
2023	21.9	13.6	8.3	5.3
2024	24.1	15.1	9	6



The EU's July 2025 decision to remove the UAE from its list of high-risk third countries for AML/CTF signals growing international confidence in the UAE's financial governance. This change, which followed the UAE's exit from the FATF grey list in 2024, lifts the enhanced due-diligence requirements previously applied to UAE clients and makes cross-border business with EU firms easier. Although some EU lawmakers argued the move was premature, the approval reflects recognition of the UAE's recent reforms, including a 2024–2027 national AML/CTF strategy, stronger enforcement by the Central Bank, and increased oversight within free-zone regulators. These developments show that the UAE's governance framework is becoming more robust and aligned with global standards, strengthening the "G" element of ESG. For directors, especially those dealing with UAE operations or partners, the decision highlights the importance of financial-crime compliance as part of their risk-oversight duties and illustrates how regulatory expectations are rising ahead of the UAE's next FATF evaluation in 2026 (Kramer, 2025).

EU Directors' Duties and Sustainability: Analysis of Regulatory Developments

The European Union has increasingly turned its focus on addressing whether a directors' duty should formally include a consideration for sustainability as part of encouraging the company's best interests. The influence of the European Commission on addressing the challenge of short-termism within corporate governance heightens these discussions. The Corporate Sustainability Due Diligence Directive Proposal, short for the CSDDD, represents these developments as it requires companies to mitigate and address harm within operations and supply chains associated with human rights and the environment (Ferrarini et al., 2024). Although Article 25 recommended that directors consider sustainability issues as they act within a corporation's best interests, its inclusion within the first draft created considerable debate among academicians and institutions as to its relevance and feasibility (Commission, 2021).

Evidence submitted to the Commission indicates that investors increasingly expect boards to integrate environmental, social, and governance (ESG) risks into strategic decision-making. At the same time, EU Member States already recognize broad directors' duties that allow consideration of stakeholder interests where relevant to long-term corporate success. Jurisdictions such as Germany take a more stakeholder-inclusive approach, whereas others operating under a shareholder-primacy model nonetheless permit boards to account for non-financial factors as part of pursuing sustainable value creation (Ringe, 2022). This diversity raises the question of whether an EU-level clarification of directors' duties is either required or desirable, particularly given the subsidiarity principle and the flexibility inherent in national corporate governance frameworks.

A fundamental question relates to who should be bound by due diligence obligations, either the business organization itself or its board members. It appears that the Commission's strategy in the CSDDD primarily leans towards making an organization responsible for due diligence, due to its nature that goes beyond the board's scope. Organizations are still made liable for due diligence, but it will be an operation at an organization's level. It aligns with global best practices, as seen with OECD Due Diligence Guidance, and will be facilitated or backed by enforcement tools (Smit et al., 2020).

At the same time, codes of corporate governance within Europe increasingly deal with issues of sustainability using soft-law tools. Thus, codes within a large number of Member States recommend ESG factors be incorporated into risk management, strategy, and remuneration frameworks for executives. Various Member States recommend aligning variable remuneration with sustainability performance, enhancing disclosure on sustainability matters, and requiring dedicated sustainability committees. Soft-law tools are usually more dynamic compared to hard-law rules and enable more flexible treatment within the sector itself. It avoids imposing strict obligations at an EU level. Overall, it appears that there are some important developments within the area of sustainability and due diligence introduced at an EU level, but it would not appear that there is a strong case for reform at an EU level based on the duties of directors. It would appear that there are already flexible duties at a national level under national law, and these have been supplemented at a soft-law level with codes that include ever-expanding considerations with regard to sustainability. It would appear that there may be risks associated with imposing an additional mandatory duty at an EU level with limited advantage given the scope of the business judgment rule.

7. DISCUSSION

The findings of this study revealed that the legal and regulatory treatment of directors ESG duties in the EU, UK, and UAE remains fragmented. Thus, it becomes clearly identifiable that even though ESG factors have enjoyed equal importance and relevance within the broader dynamics of global corporate governance, they have not been institutionally and uniformly incorporated among directors' duties as fiduciaries. A significant emerging theme from this comparative analysis is that no country as yet has adopted a fully harmonized and comprehensive statutory framework with regards to directors' ESG duties. Rather, it can be seen that all these jurisdictions have adopted a mix-and-match strategy involving soft and hard law. This fact can be illustrated with regards to the UK's hybrid strategy. It can be seen that under section 172 of the Companies Act 2006, directors are required to have regard to at least environmental and societal considerations. However, as seen from the judgment in 'ClientEarth v. Shell Companies Ltd', there remains considerable leeway within which directors have discretionary powers on ESG considerations. Even so, as seen with 'Better Business Act', there are moves afoot that seek to consolidate a more prescriptive approach on ESG obligations.

The EU adopts a more regulatory and systemic approach, notably with regards to the adoption of the CSRD, EU Taxonomy, and on-going CSDDD bargaining. The discussion on Article 25 of the CSDDD extends an indication on the challenge that arises as a consequence of balancing an imposed directive on an atypical common EU-wide character on directors about an assigned sustainability role with an appreciation on an adapted and pre-existing degree on national institutional set-aside for directors. The facts on Member States document that directors' duties include consideration on divergent Member States on an admittance on integration of sustainability matters.

The UAE shows a different scenario with well-developed ESG governance primarily as a result of market-driven disclosure requirements and not based on fiduciary responsibilities. The UAE stock exchanges' rapid compliance with international sustainable finance efforts and its establishment of mandatory sustainability reporting rules via SCA rules clearly highlight rapid compliance developments. These developments are reinforced by developments relating to UAE's removal from the AML high-risk list on account of improvements within its governance structure. It becomes clearer from the UAE pattern that emerging economies align with ESG rules based on incentives and not on requirements imposed on directors. Within these regions, an important observation is that financial and foreign investment trends form an integral part of shaping regulatory ambitions. The strong trade relationship between the UK and UAE, as well as the presence of UK MNEs within the Gulf States, have encouraged the spreading of ESG standards, and indeed, with the comprehensive regulatory structure offered within the EU, more prescriptive regulations have been facilitated. Overall, it appears from the comparative analysis that while ESG considerations are mainstream within discourse on corporate governance, there still remains jurisdiction-specific consideration in relation to its integration into directors' responsibilities. And clearly, this represents an issue of legal ambiguity that acutely impacts MNCs operating within several systems at once.

8. CONCLUSION

This article examined how environmental, social, and governance (ESG) considerations are incorporated into directors' duties within the corporate governance frameworks of the European Union, the United Kingdom, and the United Arab Emirates. Through a comparative doctrinal analysis, it demonstrated that despite the growing centrality of ESG to corporate regulation and market expectations, directors' fiduciary responsibilities in relation to sustainability remain legally fragmented and unevenly articulated across jurisdictions.

The analysis shows that the European Union has developed the most comprehensive ESG regulatory architecture, relying on mandatory disclosure, due diligence obligations, and sector specific sustainability instruments such as the Corporate Sustainability Reporting Directive and the proposed Corporate Sustainability Due Diligence Directive. However, these measures largely operate at the level of corporate compliance rather than imposing harmonised, enforceable sustainability duties directly on directors. The United Kingdom continues to adopt a principles-based approach grounded in section 172 of the Companies Act 2006, which allows consideration of environmental and social factors but preserves wide managerial discretion, as illustrated by recent case law and ongoing reform debates. The United Arab Emirates, by contrast, has advanced ESG governance primarily through disclosure-based regulation, stock exchange initiatives, and financial governance reforms, without explicitly redefining directors' fiduciary obligations.

Taken together, these findings support the article's central normative claim: while ESG has become a core component of corporate governance discourse, existing legal frameworks have not provided directors with sufficiently clear or consistent guidance on how sustainability considerations should be integrated into fiduciary decision-making. This lack of clarity creates uncertainty for boards, particularly those operating across multiple jurisdictions, and limits the effectiveness of ESG regulation in shaping substantive corporate behaviour. The reliance on a combination of hard law, soft law, and market-driven mechanisms has preserved flexibility, but at the cost of legal coherence and predictability.

The article therefore concludes that more explicit normative alignment is required between ESG regulatory objectives and directors' duties. This does not necessarily demand rigid or uniform statutory obligations across jurisdictions. Rather, it calls for clearer articulation, whether through refined statutory provisions, strengthened governance codes, or authoritative regulatory guidance, of how ESG considerations relate to directors' core fiduciary responsibilities. Such clarification would enhance board accountability, reduce cross-border compliance uncertainty, and support more consistent integration of sustainability considerations into corporate decision-making, while still respecting legitimate differences in legal tradition, market structure, and regulatory capacity**.**

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