

The Implications of ESG for Oman's Economy

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Abstract

This article examines the implications of environmental, social, and governance (ESG) frameworks for Oman's economic development, with particular focus on policy and practice. As Oman pursues its Vision 2040 agenda, ESG adoption is emerging as both a necessity and an opportunity for diversifying the economy, attracting sustainable investment, and enhancing competitiveness in global markets. The paper situates Oman within broader debates on sustainability in resource-dependent economies, analyzing the drivers, opportunities, and barriers to ESG implementation. It highlights that effective integration of ESG principles can support long-term resilience by fostering transparency, strengthening corporate governance, and enabling transitions toward renewable energy and non-oil sectors. At the same time, Oman faces institutional and regulatory challenges, including fragmented disclosure practices, limited ESG expertise, and uneven corporate readiness. Policy recommendations are advanced to guide regulators, firms, and investors in embedding ESG in national development strategies. The article contributes by contextualizing ESG adoption in a Gulf economy in transition, offering practical lessons for policymakers and business leaders.

Keywords

ESG, Oman, Economic Diversification, Oman Vision 2040, Sustainable Development, Corporate Governance

1. Introduction

Over the past decade, environmental, social, and governance (ESG) considerations have gained prominence in global policy, corporate strategy, and investment decisions. From multinational corporations disclosing carbon footprints to investors screening portfolios against governance risks, ESG has become a critical lens through which economic performance and legitimacy are judged. The rise of ESG

coincides with heightened awareness of climate change, social inequalities, and the role of corporate governance in safeguarding long-term stability.

For resource-dependent economies such as Oman, the relevance of ESG adoption is particularly pronounced. Oman's economy has historically relied heavily on hydrocarbons, leaving it vulnerable to oil price volatility and global decarbonization trends. Recognizing these structural vulnerabilities, the Sultanate has embarked on an ambitious diversification program under Vision 2040, aimed at fostering sustainable growth, innovation, and resilience. Integrating ESG practices into this transformation agenda can play a decisive role in attracting foreign direct investment (FDI), improving corporate accountability, and enhancing competitiveness in non-oil sectors such as logistics, renewable energy, tourism, and financial services.

This article explores the implications of ESG adoption for Oman's economy, with an emphasis on the policy and practice dimensions. While ESG literature has expanded rapidly in Western contexts, limited attention has been paid to how ESG frameworks intersect with the developmental trajectories of Gulf Cooperation Council (GCC) states. This paper contributes by situating Oman within this underexplored space, offering insights into how ESG can both enable and constrain economic diversification in a resource-rich but reform-oriented setting.

The paper proceeds as follows: Section 2 provides an overview of Oman's economic context and situates ESG adoption within global and regional trends. Section 3 reviews relevant literature and conceptual framing. Section 4 examines Oman's policy and institutional landscape in relation to ESG. Section 5 analyzes the economic implications of ESG adoption. Section 6 advances specific policy recommendations. Sections 7 and 8 discuss broader implications and conclude.

2. ESG and Oman's Economic Context

Globally, ESG has evolved from a voluntary corporate responsibility practice into a mainstream investment criterion. Institutional investors increasingly assess ESG performance to evaluate long-term risk, while regulators and stock exchanges mandate disclosure of non-financial indicators. In emerging markets, ESG adoption is often linked with the need to enhance legitimacy and attract external capital.

Oman presents a unique case. Unlike some of its GCC peers, Oman has a smaller oil reserve base and relatively modest sovereign wealth capacity. This has heightened the urgency of economic diversification, with Vision 2040 emphasizing sustainable growth, green energy, and private sector empowerment. Yet, ESG awareness and adoption remain nascent compared with neighboring countries such as the United Arab Emirates, where sustainability reporting frameworks and green finance instruments are more advanced.

Corporate practices in Oman demonstrate uneven ESG integration. Some large firms—particularly in the energy, banking, and telecom sectors—have adopted sustainability reporting in line with international standards. However, small and medium enterprises (SMEs), which constitute the majority of Oman's business

sector, often lack the capacity or incentives to pursue ESG disclosure. This unevenness creates a dual challenge: while leading firms can signal transparency and attract investors, the broader business ecosystem risks lagging behind global sustainability benchmarks.

At the regional level, competition among GCC states to position themselves as sustainable investment hubs creates additional pressure on Oman to advance ESG frameworks. Failure to do so risks reputational disadvantage and missed opportunities in attracting FDI, especially as global capital flows increasingly align with sustainability imperatives.

3. Literature Review and Conceptual Framing

The study of Environmental, Social, and Governance (ESG) has grown significantly over the past two decades, reflecting its increasing importance as a framework for sustainable economic development and corporate accountability. This literature review situates ESG within global debates while highlighting its specific relevance for resource-dependent economies like Oman. It draws on scholarship from finance, management, public policy, and development studies to provide a comprehensive foundation for understanding ESG adoption and implications.

The academic literature on ESG spans multiple domains, including finance, management, and public policy. ESG is often conceptualized as a multidimensional framework through which firms address environmental stewardship, social responsibility, and governance integrity. Research suggests that ESG adoption can reduce firm-level risk (Friede, Busch, & Bassen, 2015), improve stakeholder relations (Aguinis & Glavas, 2012), and enhance access to capital (Cheng, Ioannou, & Serafeim, 2014).

In the context of developing economies, scholars highlight ESG as a mechanism for institutional convergence with global norms (Jamali & Karam, 2018). Yet, challenges persist, including weak regulatory enforcement, cultural variability in CSR practices, and the risk of “greenwashing.” Within the Middle East, ESG research is limited but growing, often emphasizing the tensions between state-led development agendas and private sector sustainability practices (Sidani & Al Ariss, 2014).

This article draws on two theoretical lenses. Institutional theory suggests that organizations adopt ESG practices to gain legitimacy and respond to coercive, normative, and mimetic pressures. For Oman, coercive pressures stem from regulators and global investors; normative pressures arise from societal expectations under Vision 2040; and mimetic pressures emerge as firms imitate regional peers adopting ESG. Stakeholder theory complements this by highlighting the role of diverse actors—government agencies, investors, employees, and communities—in shaping ESG adoption. Together, these perspectives illuminate how ESG becomes embedded within Oman’s economic and institutional fabric.

Figure 1 illustrates the conceptual framework adopted for this study, linking ESG dimensions to four key economic outcomes.

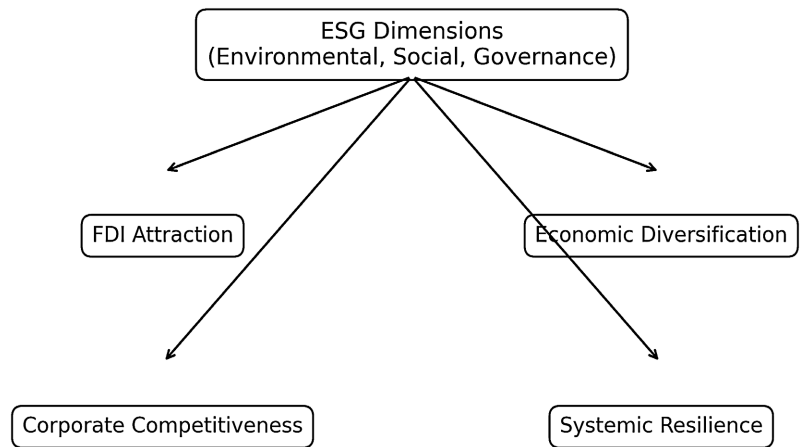


Figure 1. Conceptual framework of ESG implications for Oman's economy.

ESG and Foreign Direct Investment (FDI)

One of the most direct economic implications of ESG adoption is its impact on Oman's ability to attract FDI. International investors increasingly integrate ESG criteria into investment decisions, using frameworks such as the Principles for Responsible Investment (PRI) and the UN Sustainable Development Goals (SDGs) as benchmarks. Studies indicate that firms and economies with higher ESG compliance attract larger and more stable investment flows, as they are perceived to carry lower long-term risk (Cheng, Ioannou, & Serafeim, 2014).

For Oman, this is particularly significant. The Sultanate relies heavily on foreign capital to finance its diversification projects in infrastructure, logistics, and renewable energy. Yet, without strong ESG reporting standards, Omani firms risk exclusion from global investment portfolios that require verifiable sustainability metrics. Evidence from neighboring markets suggests a clear trend: in 2020, the UAE issued green bonds totaling over USD 4 billion, while Saudi Arabia attracted record levels of ESG-linked financing. Oman has yet to replicate these developments, but stronger ESG adoption could pave the way for similar instruments.

Moreover, Oman's smaller oil reserves and fiscal constraints make ESG-driven capital even more critical. By embedding ESG into corporate reporting and regulatory frameworks, Oman could strengthen its attractiveness as an FDI destination, positioning itself as a responsible, transparent market in a region where sustainability credentials are increasingly competitive.

ESG adoption can enhance Oman's attractiveness to international investors seeking transparent and responsible markets. Global asset managers increasingly integrate ESG screening into portfolio allocation, meaning Oman's firms that fail to disclose ESG metrics may be excluded from investment pipelines. Conversely, credible ESG adoption signals commitment to long-term sustainability and governance integrity, strengthening Oman's appeal as an FDI destination.

ESG and Economic Diversification

Oman's Vision 2040 emphasizes diversification into logistics, renewable energy, tourism, and financial services. ESG adoption is central to this agenda. Each

of these sectors is deeply influenced by sustainability imperatives:

- **Logistics and Trade:** Global supply chains now demand carbon accounting and emissions disclosure. Omani logistics firms that implement ESG frameworks can gain a competitive edge in international trade, particularly with European partners bound by strict environmental standards.
- **Renewable Energy:** Oman's solar and wind resources create opportunities for ESG-linked investment. International financiers often require robust ESG compliance as a condition for funding large-scale renewable projects.
- **Tourism:** Sustainable tourism is increasingly favored by travelers and investors. ESG adoption ensures that Oman's cultural heritage and environmental resources are preserved while supporting economic growth.
- **Financial Services:** Banks and capital markets play a crucial role in channeling capital toward ESG-compliant firms. By integrating ESG into lending and investment decisions, Omani banks can promote sustainability while mitigating credit risk.

Comparative evidence from the GCC reinforces this point. In Saudi Arabia, the Public Investment Fund (PIF) has embedded ESG principles in its investment strategy, directing billions toward sustainable infrastructure. Similarly, Dubai has positioned itself as a green finance hub. For Oman, ESG adoption is not just a matter of reputation—it is a structural enabler of economic diversification (Sadriwala et al., 2024).

Oman's Vision 2040 emphasizes diversification into logistics, renewable energy, tourism, and knowledge-based industries. ESG adoption supports this agenda by aligning firms with global supply chain standards. For instance, logistics firms that disclose carbon footprints gain competitive advantage in international trade, while renewable energy projects benefit from global green finance instruments. ESG integration thus acts as a catalyst for diversifying away from hydrocarbons.

These ESG pillars are not just abstract frameworks: Oman Vision 2040 explicitly commits to increasing renewables to ~30% of electricity generation by 2030 and 35-39 % by 2040, under its Sustainable Environment pillar (mapping to "E"); envisions enhanced judicial independence, oversight, and legislative participation under its Governance and Institutional Performance pillar (mapping to "G"); and seeks improved societal wellbeing, inclusion and opportunity via its People & Society priorities (mapping to "S").

ESG and Corporate Competitiveness

At the firm level, ESG adoption enhances competitiveness by improving access to finance, reducing operational risks, and strengthening stakeholder trust. Research shows that companies with robust ESG practices often enjoy higher valuations, better credit ratings, and greater resilience to crises (Friede, Busch, & Basen, 2015). For Omani firms, especially those listed on the Muscat Stock Exchange (MSX), ESG disclosure could improve visibility among international investors.

Several large Omani corporations have begun adopting ESG practices. For ex-

ample, Oman Oil Marketing Company and Bank Muscat have issued sustainability reports aligned with global standards. These firms signal transparency and attract responsible investors. However, adoption is uneven. Small and medium-sized enterprises (SMEs), which account for over 90% of Oman's businesses, often lack the resources or incentives to pursue ESG compliance. Without targeted support, this could create a dual economy: one where large firms thrive under ESG integration while SMEs lag behind, widening structural inequalities.

Comparative insights underscore the importance of corporate ESG adoption. In the UAE, firms that issued sustainability-linked bonds experienced higher investor interest and favorable financing conditions. For Omani firms, similar opportunities could materialize if ESG practices become more widespread and standardized.

At the firm level, ESG can drive innovation, operational efficiency, and brand reputation. Companies that adopt ESG practices are better positioned to manage environmental risks, engage employees, and access sustainable finance. This enhances competitiveness both domestically and internationally. However, without policy support, SMEs may lack resources to integrate ESG, creating uneven playing fields.

ESG, Risk Management, and Systemic Resilience

Oman faces multiple systemic risks: climate change, water scarcity, fiscal pressures, and social transitions linked to labor market reform. ESG adoption enhances resilience by encouraging firms and governments to anticipate, disclose, and mitigate these risks.

- **Environmental Risks:** Oman is one of the most water-scarce countries in the world. ESG frameworks encourage firms to disclose water usage, adopt conservation measures, and invest in sustainable technologies. This is critical for sectors such as agriculture, mining, and tourism.
- **Social Risks:** Oman's young population and rising unemployment present challenges for social stability. ESG adoption can support inclusive labor practices, gender equality, and workforce development, aligning with Vision 2040's goals.
- **Governance Risks:** Transparency and accountability remain areas of concern. By embedding ESG into corporate governance codes, Oman can reduce corruption risks and enhance investor confidence.

The COVID-19 pandemic further highlighted the importance of ESG. Firms with strong ESG practices were found to be more resilient, maintaining operations and stakeholder trust during crises. For Oman, institutionalizing ESG could serve as a long-term buffer against global shocks, whether environmental, economic, or geopolitical.

Comparative Regional Analysis

Placing Oman within the GCC context highlights both opportunities and challenges:

- **Saudi Arabia:** Mandatory ESG indices and sovereign sustainability-linked fi-

nancing instruments set a strong precedent.

- **UAE:** Early adoption of green finance and mandatory sustainability reporting provides a roadmap for Oman.
- **Qatar and Kuwait:** Similar to Oman, these economies are in earlier stages of ESG adoption, suggesting opportunities for collaborative regional frameworks.

Oman can leverage lessons from its peers while tailoring ESG to its unique context—smaller reserves, limited fiscal buffers, and a stronger need for external investment. Collaboration across the GCC on harmonized ESG standards could enhance the region’s collective attractiveness to global investors.

3.1. Global Perspectives on ESG

Globally, ESG has transitioned from a voluntary corporate social responsibility (CSR) initiative into a mainstream framework for investment and risk assessment. Large institutional investors, including pension funds and sovereign wealth funds, increasingly rely on ESG metrics to screen investments, mitigate risks, and identify opportunities for long-term value creation (Friede, Busch, & Bassen, 2015). Empirical studies demonstrate that firms with strong ESG performance often enjoy superior financial outcomes, improved reputational capital, and enhanced resilience against crises (Clark, Feiner, & Viehs, 2015).

At the regulatory level, the European Union has led efforts with the Non-Financial Reporting Directive (NFRD) and the upcoming Corporate Sustainability Reporting Directive (CSRD), mandating disclosure of ESG indicators. Similarly, in the United States, the Securities and Exchange Commission (SEC) has advanced climate-related disclosure requirements. These global trends illustrate a clear shift toward institutionalizing ESG in financial markets and corporate governance systems.

3.2. ESG in Emerging Markets

In emerging economies, ESG adoption has a dual purpose: signaling alignment with international norms and addressing domestic sustainability challenges. Studies show that firms in developing countries often adopt ESG practices to attract foreign direct investment (FDI), gain legitimacy in global markets, and manage reputational risks (Jamali & Karam, 2018). However, adoption is frequently uneven, constrained by weak institutions, regulatory gaps, and limited stakeholder awareness.

A recurring theme in the literature is the problem of “greenwashing”, where firms adopt ESG labels without substantive change (Delmas & Burbano, 2011). This challenge is particularly acute in contexts where enforcement mechanisms are weak and investors rely on self-reported disclosures. Nonetheless, research suggests that even partial ESG adoption can catalyze institutional reforms by raising expectations of transparency and accountability (Ioannou & Serafeim, 2012).

3.3. ESG in the Middle East and GCC

The Middle East, and particularly the Gulf Cooperation Council (GCC), presents

a unique landscape for ESG adoption. Resource-rich economies in the region face mounting pressure to diversify away from hydrocarbons and align with global sustainability agendas. Recent studies indicate that GCC governments are increasingly framing ESG as a strategic tool for economic transformation (Sidani & Al Ariss, 2014).

For instance, the United Arab Emirates (UAE) has introduced mandatory sustainability reporting for listed companies, while Saudi Arabia's Tadawul Stock Exchange has launched an ESG index to benchmark corporate practices. These reforms aim to integrate GCC markets into the global sustainable investment ecosystem and attract green finance flows. However, scholarship also points to significant barriers, including fragmented regulatory frameworks, limited corporate capacity, and socio-political structures that influence governance norms (Al-Khater & Naser, 2003).

Oman, compared to its GCC peers, has been slower in institutionalizing ESG frameworks (Aggarwal, Azeez, Muslim, & Khan, 2024). While Vision 2040 emphasizes sustainability, explicit ESG regulations remain voluntary. This makes Oman an interesting case of a resource-dependent economy navigating ESG adoption without the extensive sovereign wealth buffers of larger neighbors like Saudi Arabia and Qatar.

3.4. Theoretical Frameworks for ESG Adoption

Two theoretical perspectives dominate ESG literature: institutional theory and stakeholder theory.

1) Institutional theory posits that organizations adopt ESG practices in response to external pressures—coercive (regulatory), normative (societal), and mimetic (peer emulation) (DiMaggio & Powell, 1983). For Oman, coercive pressures stem from international investors and multilateral organizations; normative pressures arise from societal demands for sustainability; and mimetic pressures are visible as Omani firms benchmark themselves against regional peers in the UAE and Saudi Arabia.

2) Stakeholder theory, articulated by Freeman (1984), emphasizes the need for firms to consider the interests of diverse stakeholders—shareholders, employees, customers, communities, and regulators. ESG adoption becomes a mechanism for balancing competing interests and achieving long-term legitimacy. In Oman, stakeholders include not only domestic constituencies but also global actors influencing capital flows.

Together, these frameworks provide an analytical lens to assess how ESG becomes embedded within Oman's economic and institutional environment.

3.5. ESG and Sustainable Development Goals (SDGs)

An emerging body of research links ESG adoption with the United Nations Sustainable Development Goals (SDGs). Firms and governments adopting ESG frameworks can directly contribute to goals such as climate action (SDG 13), de-

cent work and economic growth (SDG 8), and strong institutions (SDG 16). For Oman, aligning ESG with SDGs offers a pathway to demonstrate global commitment while advancing domestic development priorities under Vision 2040.

3.6. Research Gaps

Despite growing scholarship, significant gaps remain. First, empirical studies on ESG in the GCC are limited (APCO Worldwide & GCC, 2023), with most focusing on larger economies like Saudi Arabia and the UAE. Second, little is known about how SMEs in the region engage with ESG frameworks, despite their dominant role in national economies. Third, there is limited exploration of the intersection between ESG adoption and economic diversification strategies in resource-dependent contexts. Addressing these gaps, this study contributes by analyzing how ESG adoption in Oman can reshape economic trajectories, strengthen resilience, and attract sustainable investment.

4. Methodology

4.1. Research Design

This study adopts a qualitative, exploratory research design, appropriate for contexts where theoretical frameworks are still emerging and empirical evidence is limited. While ESG adoption has been studied extensively in developed economies, Oman remains an under-researched case. An exploratory approach allows for a comprehensive understanding of how ESG principles are being interpreted, adopted, and operationalized in a resource-dependent economy undergoing structural reforms under Vision 2040.

The research design integrates elements of comparative policy analysis and case study methodology. Comparative analysis situates Oman within broader regional and global ESG developments, while the case study approach allows for a deeper investigation of Oman's unique institutional, economic, and regulatory context. Together, these methods provide a balanced approach: situating Oman's ESG trajectory within global sustainability debates while offering granular insights into national realities.

4.2. Data Sources

The study relies on multiple sources of secondary data, ensuring breadth and depth of coverage:

- 1) Policy Documents and National Strategies (Oman Ministry of Finance, 2024).
- 2) Oman Vision 2040 strategy papers, sustainability frameworks, and regulatory guidelines issued by the Capital Market Authority (CMA) and the Central Bank of Oman.
- 3) Reports from ministries, particularly the Ministry of Commerce, Industry and Investment Promotion and the Ministry of Energy and Minerals.
- 4) Oman's policy framework demonstrates an increasing emphasis on sustainability, though explicit ESG regulation remains underdeveloped. The Vision 2040

strategy identifies sustainability as a cross-cutting priority, targeting renewable energy development, private sector growth, and enhanced governance standards.

5) Several institutions play pivotal roles. The Capital Market Authority (CMA) oversees listed company disclosures and has begun encouraging sustainability reporting, though guidelines remain voluntary. The Central Bank of Oman has highlighted the importance of ESG in risk management, particularly within the banking sector. The Ministry of Commerce, Industry, and Investment Promotion promotes foreign investment aligned with diversification goals, yet explicit ESG incentives are limited.

6) Challenges persist. Reporting frameworks are fragmented, with firms using diverse standards (e.g., Global Reporting Initiative, integrated reporting) without national harmonization. Regulatory enforcement is weak, and ESG adoption remains concentrated among large firms. Moreover, the absence of green finance instruments and limited investor engagement constrain ESG integration at the systemic level.

7) Compared with regional peers, Oman lags in institutionalizing ESG. For example, the UAE has introduced mandatory sustainability reporting for listed companies, while Saudi Arabia's Tadawul exchange has incorporated ESG indices. Without stronger regulatory intervention, Oman risks falling behind in regional sustainability benchmarks.

8) Corporate Disclosures and Reports.

9) Annual and sustainability reports of leading Omani firms, particularly in the energy, banking, and telecom sectors.

10) ESG disclosure practices of listed companies on the Muscat Stock Exchange (MSX).

11) International Databases and Reports.

12) World Bank, International Monetary Fund (IMF), and United Nations Development Programme (UNDP) reports on sustainability and governance.

13) ESG performance indices and global benchmarking platforms (e.g., MSCI ESG Ratings, Sustainalytics).

14) Academic Literature.

15) Peer-reviewed journal articles on ESG adoption globally, regionally, and in developing economies.

16) Theoretical frameworks from institutional theory, stakeholder theory, and development studies.

Using multiple data sources enhances validity through triangulation, reducing reliance on any single perspective and ensuring more robust findings.

4.3. Analytical Framework

The analysis follows a thematic coding approach, categorizing data into four key themes:

1) Policy and Institutional Frameworks: Government policies, regulatory guidelines, and institutional capacity to promote ESG adoption.

2) Corporate Practices: Firm-level adoption of ESG, with attention to differ-

ences between large corporations and SMEs.

3) Economic Implications: ESG's impact on FDI, diversification, competitiveness, and resilience.

4) Comparative Perspectives: Benchmarking Oman against regional peers in the GCC and emerging markets globally.

Thematic coding is guided by concepts from institutional theory (coercive, normative, and mimetic pressures) and stakeholder theory (balancing multiple stakeholder interests). This dual-theoretical framing ensures analytical rigor, linking findings to established scholarly debates.

4.4. Limitations of the Study

Several limitations must be acknowledged:

- **Data Availability:** ESG disclosure in Oman is uneven and often voluntary, limiting comparability across firms and sectors.
- **Lack of Longitudinal Data:** ESG adoption is a recent phenomenon in Oman, restricting the ability to track long-term trends.
- **Potential Bias in Reporting:** Corporate sustainability reports may exaggerate ESG achievements, raising risks of greenwashing.
- **Focus on Secondary Data:** The study does not incorporate primary data (e.g., interviews, surveys), which could provide richer insights into firm-level motivations and challenges.

Despite these limitations, the study offers valuable insights by consolidating fragmented evidence and situating Oman within a comparative ESG framework.

4.5. Justification of Methodology

The chosen methodology aligns with the research objectives for several reasons:

- **Exploratory Nature of ESG in Oman**
Since ESG is still in its infancy in Oman, qualitative exploration is better suited than quantitative econometric modeling, which requires more mature datasets.
- **Policy Relevance**
A focus on policy documents and institutional frameworks ensures that findings are actionable for regulators and policymakers.
- **Comparative Value**
By situating Oman within the GCC and broader emerging markets, the study highlights both shared challenges and unique dynamics, contributing to regional sustainability debates.
- **Academic Contribution**
Linking ESG adoption to institutional and stakeholder theories provides conceptual rigor and positions the study within broader theoretical conversations.

4.6. Ethical Considerations

Although based on secondary data, the study adheres to academic integrity prin-

ciples by ensuring proper citation, transparency in data selection, and critical engagement with sources. Where possible, data is cross-validated across multiple reports to reduce the risk of bias.

This section analyzes the implications of ESG adoption for Oman's economy across four dimensions: foreign direct investment (FDI), economic diversification, corporate competitiveness, and systemic resilience. Each dimension is examined with reference to Oman's policy environment, corporate practices, and comparative insights from the Gulf Cooperation Council (GCC) region.

5. Implications of ESG for Oman's Economy

This study examined the implications of ESG adoption for Oman's economy, highlighting its potential to attract investment, support diversification, enhance corporate competitiveness, and strengthen systemic resilience. The analysis reveals that ESG represents both a necessity—to meet investor and stakeholder demands—and an opportunity—to position Oman as a sustainable, innovative economy in transition.

The findings suggest that ESG integration in Oman remains uneven, concentrated among large firms while SMEs lag behind. Policy frameworks are evolving but lack mandatory disclosure standards, leaving gaps in transparency and comparability. Nonetheless, opportunities abound: Oman's renewable energy potential, strategic geographic position, and reform agenda under Vision 2040 provide fertile ground for ESG-driven growth.

Three key policy implications emerge. First, regulators should establish national ESG disclosure standards aligned with global frameworks to build credibility. Second, incentives such as green finance instruments and SME capacity-building programs are critical to broadening adoption. Third, Oman must engage in regional collaboration to harmonize ESG standards across the GCC, ensuring collective competitiveness in global markets.

Ultimately, ESG adoption in Oman should be understood not as an isolated corporate responsibility initiative but as a strategic lever for national transformation. Its integration will determine the extent to which Oman can achieve Vision 2040 goals, diversify beyond hydrocarbons, and secure long-term prosperity in a rapidly evolving global economy. Future research should extend this analysis through empirical assessments of firm-level ESG practices across sectors, contributing to comparative understanding of sustainability transitions in the Gulf region.

The findings highlight both opportunities and challenges of ESG adoption in Oman. From a theoretical perspective, institutional and stakeholder frameworks explain how external pressures and local actors shape ESG trajectories. Practically, ESG adoption aligns Oman with global investment trends and supports Vision 2040 objectives, but requires strong policy intervention to overcome institutional gaps.

Compared with regional peers, Oman faces the dual challenge of catching up with advanced ESG frameworks while tailoring practices to its domestic context.

Policymakers must balance rapid diversification with gradual ESG adoption, ensuring that reforms are inclusive and context-sensitive.

This section analyzes the implications of ESG adoption for Oman’s economy across four dimensions: foreign direct investment (FDI), economic diversification, corporate competitiveness, and systemic resilience. Each dimension is examined with reference to Oman’s policy environment, corporate practices, and comparative insights from the Gulf Cooperation Council (GCC) region.

Figure 2 presents a comparative overview of ESG adoption levels across GCC countries, highlighting Oman’s relative position in the region.

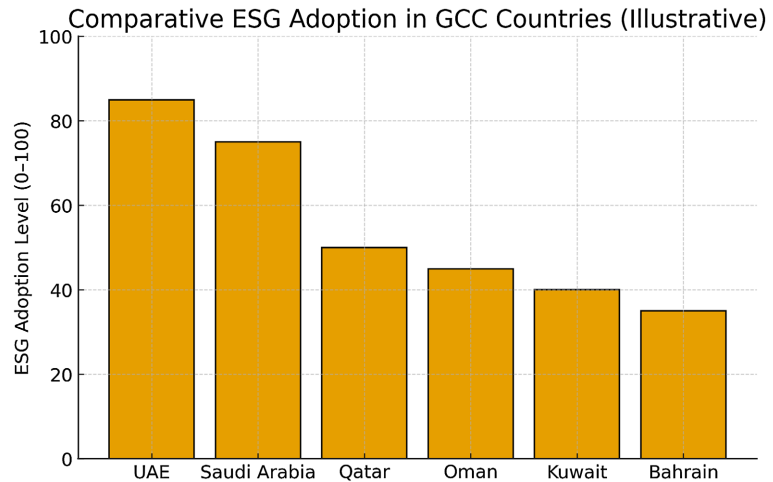


Figure 2. Comparative ESG Adoption in GCC Countries (Illustrative).

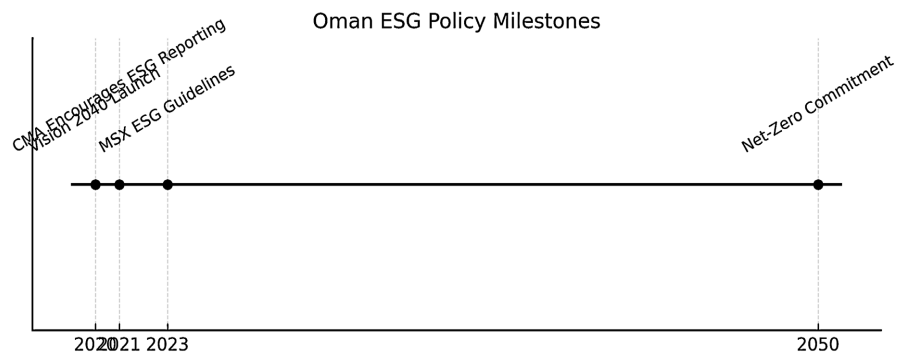


Figure 3. Oman ESG Policy Milestones (Al-Shidhani & Hayyan, 2025).

Figure 3 shows ESG Policy Milestone in Oman Commitment till 2050.

The findings demonstrate that ESG adoption in Oman presents both transformative opportunities and structural challenges. By situating Oman’s trajectory within broader global and regional contexts, this discussion highlights the implications for policy, business, and society. It also reflects on how institutional and stakeholder theories explain the dynamics observed.

5.1. Institutional Pressures and ESG Adoption

Institutional theory emphasizes the role of external pressures in shaping organi-

zational behavior. In Oman, coercive pressures include growing expectations from global investors, multilateral agencies, and trade partners. As sustainable investment becomes mainstream, failure to comply with ESG standards could restrict Oman's access to critical financing. Normative pressures stem from the domestic reform agenda under Vision 2040, which frames sustainability as a national priority. Finally, mimetic pressures arise as Omani firms look to regional peers, particularly in the UAE and Saudi Arabia, who have advanced ESG frameworks. These dynamics explain why ESG adoption, though uneven, is gaining traction among leading Omani firms.

Applying institutional theory, Oman's transition reflects multiple pressures. Coercive pressures stem from state mandates in Vision 2040 (e.g., renewable energy targets and Omanisation policies), which compel firms to adapt. Normative pressures arise from professional and societal expectations, such as alignment with international ESG reporting frameworks and adherence to Islamic finance principles. Meanwhile, mimetic pressures are evident in Oman's replication of successful Gulf models, from logistics hubs to sustainability disclosures, as firms and policymakers seek legitimacy through imitation under uncertainty

5.2. Stakeholder Expectations and Social Transformation

Stakeholder theory underscores the need for balancing the interests of diverse actors. For Oman, the integration of ESG is not merely about attracting investors but also about delivering social outcomes. Youth employment, gender inclusion, and labor market reform are pressing national issues. Embedding ESG principles in business practices can help firms align with these societal priorities, thereby strengthening legitimacy and social license to operate. However, SMEs—the backbone of Oman's economy—require targeted support to engage meaningfully with ESG, or risk being excluded from the sustainability agenda.

While large corporations in Oman are better positioned to respond to ESG pressures, SMEs face resource and capability barriers. To address these, policymakers could introduce a simplified ESG reporting framework tailored to SMEs, alongside financial incentives such as tax breaks or preferential green loans. Further, capacity-building programs and digital reporting tools would lower compliance costs, while prioritising ESG-compliant SMEs in public procurement could create powerful market incentives. Such measures would not only ease adoption but also ensure that SMEs, which make up the backbone of Oman's economy, contribute meaningfully to the sustainability targets of Vision 2040 (World Bank Group, 2025).

5.3. Regional Comparisons and Competitive Positioning

The comparative analysis reveals a stark divergence within the GCC. The UAE and Saudi Arabia have institutionalized ESG through mandatory reporting and financial instruments, while Oman lags behind. Yet Oman's smaller scale offers advantages: reforms can be implemented more flexibly, and niche sectors such as

renewable energy and sustainable tourism could become strategic differentiators. By learning from peers but tailoring ESG adoption to its context, Oman can avoid a one-size-fits-all approach and create a more resilient, inclusive model of sustainability.

5.4. Risks of Partial Adoption and Greenwashing

A major challenge identified is the risk of greenwashing. Without standardized disclosure requirements, firms may adopt ESG labels superficially, undermining credibility. This risk is amplified by the voluntary nature of Oman's current ESG guidelines. To address this, policymakers must strengthen regulatory frameworks, introduce national ESG disclosure standards, and incentivize genuine integration rather than cosmetic compliance (KPMG Oman, 2025).

In Oman, the predominance of voluntary ESG guidelines and relatively weak enforcement mechanisms increases the risk of greenwashing, as firms can publicize sustainability commitments without undergoing rigorous verification. This dynamic undermines the credibility of Vision 2040's sustainability agenda and risks reducing ESG to symbolic compliance rather than a catalyst for genuine transformation.

5.5. Long-Term Economic Implications

The long-term implications of ESG adoption extend beyond investment flows. By institutionalizing ESG, Oman can reduce systemic risks, foster innovation, and enhance resilience to global shocks. Conversely, failure to embed ESG could exacerbate vulnerabilities, leaving the economy exposed to climate risks, reputational disadvantages, and exclusion from sustainable finance. Thus, ESG adoption should be viewed not as an optional reform but as a strategic necessity for economic transformation under Vision 2040 (Figure 4).

Opportunities	Challenges
Attracting ESG-linked FDI	Weak ESG disclosure standards
Renewable energy expansion	Limited SME capacity
Sustainable tourism growth	High compliance costs
Enhanced global competitiveness	Risk of greenwashing

Figure 4. ESG opportunities and challenges for Oman.

6. Conclusion

ESG adoption represents both a necessity and an opportunity for Oman's economy. By embedding ESG into national strategies, Oman can attract investment, enhance competitiveness, and build resilience in a rapidly changing global economy. However, success depends on coordinated regulatory frameworks, corporate readiness, and sustained policy support. The article underscores that Oman's transition under Vision 2040 will be shaped not only by economic reforms but also by the extent to which ESG principles are institutionalized. Future research should

empirically assess ESG adoption at the firm level across GCC economies, providing comparative insights into sustainability transitions in resource-dependent states.

To maximize ESG's impact, Oman must adopt coordinated policy interventions. Five key recommendations are advanced:

1) Establish National ESG Disclosure Standards

Introduce mandatory reporting guidelines aligned with global frameworks (e.g., GRI, SASB) to ensure comparability and transparency.

2) Incentivize Sustainable Investment

Provide tax benefits, subsidies, or preferential financing for ESG-compliant projects, particularly in renewable energy and SMEs.

3) Capacity Building and Awareness Programs

Develop training programs for corporate leaders, regulators, and SMEs to build ESG expertise and literacy.

4) Strengthen Regulatory Oversight

Empower the CMA and other agencies to monitor ESG practices, enforce compliance, and integrate ESG metrics into corporate governance codes.

5) Promote Public-Private Partnerships (PPPs)

Encourage collaboration between government, private firms, and academia to pilot ESG initiatives and foster innovation.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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