Corporate governance and capital market development in the GCC: a comparative literature review

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Abstract

Purpose – This review provides a detailed analysis of corporate governance practices across Gulf Cooperation Council (GCC) countries, focusing on board characteristics, executive remuneration, capital markets and the integration of ethical and sustainable practices. It evaluates how these governance frameworks influence market performance, investor confidence and corporate sustainability within the region.

Design/methodology/approach – The study synthesizes findings from 15 recent research studies, examining corporate governance mechanisms, board composition, executive compensation policies and their impact on market capitalization. The data were collected from major academic databases, including Google Scholar, Springer, Web of Science and Scopus.

Findings – The analysis exhibits both similarities and differences in corporate governance frameworks across GCC countries. Important findings include a universal mandate for the separation of chief executive officer (CEO) and chairman roles, varied board composition requirements and differing executive remuneration and transparency policies. Saudi Arabia and the United Arab Emirates (UAE) lead in market capitalization, reflecting advanced governance practices, though disparities exist among GCC countries. The review also notes the increasing alignment of corporate governance with corporate social responsibility (CSR) principles, especially in sustainability reporting and ethical practices, highlighting a growing commitment to long-term value creation.

Originality/value – This review uniquely synthesizes recent research on GCC corporate governance, offering insights on board structures, executive pay and market dynamics with a focus on ethical and sustainable practices. It provides valuable perspectives for stakeholders, policymakers and academics interested in enhancing governance frameworks in the region while contributing to the global discourse on aligning corporate governance with sustainability standards.

Keywords Economic diversification, Corporate governance, Executive remuneration, Capital markets, GCC countries, Sustainability reporting, Corporate social responsibility (CSR), Board characteristics, Market capitalization, Sustainable development goals (SDG)

Paper type Literature review

1. Introduction

The Gulf Cooperation Council (GCC), established in 1981, is a political and economic alliance of six Middle Eastern countries: Saudi Arabia, Kuwait, the United Arab Emirates (UAE), Qatar, Bahrain and Oman. The GCC's economy has long been predominated by oil revenues, driving the region's prosperity and progress (Christie, 2019). The decline in hydrocarbon revenues has led the GCC countries to experience challenges with governance and stability due to their growing populations and historic rentier social contract.

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Every GCC country is proactively seeking economic diversification by minimizing its reliance on oil and strengthening the private sector's role. Historically, oil prices declined until 2014. As a consequence, national plans for economic liberalization, the emergence of knowledge-based economies and the reduction of oil dependency through fiscal reforms including tariff increases, subsidy reductions and the implementation of value-added taxes are included in government strategies. Despite tough competition, these diversification efforts prioritize industries such as software and technology, finance and tourism due to their potential for high productivity and employment growth. As a result, the GCC nations are negotiating the challenges of economic diversification in an effort to minimize their reliance on oil revenues and promote sustainable economic growth (Gross and Ghafar, 2019).

Additionally, corporate governance plays an essential role in the financial markets, ensuring that companies operate with transparency and accountability. Effective corporate governance practices help balance the interests of numerous stakeholders, increase investor trust and can lead to higher market capitalization and improved financial performance. This is especially essential in the GCC, where financial markets are growing significantly in the region's economic diversification efforts (Bai *et al.*, 2023).

The theoretical framework for corporate governance in the GCC is deeply rooted in several significant theories, including agency theory, stewardship theory and stakeholder theory (Al Harbi, 2018). Agency theory, which addresses the conflicts between management and shareholders, is particularly relevant in the GCC due to the prevalence of family-owned businesses and state-owned enterprises. On the other hand, stewardship theory states that managers act as stewards of the company's assets, which corresponds really well with the cultural emphasis on trust and long-term relationships prevalent within GCC businesses. Lastly, stakeholder theory, with its broader view of corporate responsibility, aligns with the GCC's commitment to sustainable development and social responsibility.

However, the application of corporate governance theories has been utmost important in modulating effective and culturally appropriate governance practices in the GCC. For instance, the emphasis on board independence and the separation of chief executive officer (CEO) and chairman roles can be observed as a response to agency theory's concern with mitigating conflicts of interest (Kilincarslan, 2021). Moreover, the incorporation of international best practices, such as those recommended by the Organization for Economic Cooperation and Development (OECD), has further strengthened the theoretical underpinnings of corporate governance in the GCC, ensuring that it remains strong and adaptable to the evolving global business challenges (Alharbi and Alharbi, 2021).

Despite notable advancements in the enhancement of corporate governance frameworks within the GCC, there persists a significant variability in governance practices, market capitalization and ethical standards across its member states. This variability reveals a significant research gap regarding the impact of these governance practices on capital market development and investor confidence in the region. Furthermore, although GCC countries have achieved considerable progress in aligning with international standards and sustainable development goals (SDGs), there is a lack of comprehensive analysis addressing their specific challenges and progress. The main objective of this review is to systematically assess corporate governance structures, remuneration policies and capital market dynamics within GCC countries, with a focus on identifying disparities and advancements in governance practices. The emphasis on the GCC is essential due to its distinctive economic and regulatory context, which presents both opportunities and challenges that significantly influence corporate governance and market performance. By investigating these aspects, this review seeks to provide valuable insights into how enhanced governance practices can drive market growth and sustainability in this strategically significant region.

The significance of corporate governance in the GCC region lies in its role in sustaining market stability and facilitating economic growth and international competitiveness within capital markets. Strong governance structures, characterized by independent board memberships, strict financial oversight and transparent executive remuneration policies, are essential for investor trust and attracting foreign investment. The GCC's dedication to adapting with global governance norms while accommodating regional business practices demonstrates its commitment to upholding strong and adaptable governance systems. Furthermore, the incorporation of ethical standards and corporate social responsibility (CSR) within governance frameworks is significant for advancing sustainable business practices, aligning with SDGs and driving long-term value creation. The region's continuous efforts to refine governance frameworks, diversify economic portfolios and adhere to ethical practices reflect its strategic intent to ensure economic resilience and enhance global competitiveness in a market environment (Pillai and Al-Malkawi, 2018).

2. Methodology

2.1 Search strategy

In this review, the author utilized previous seven-year research studies that were published in peer-reviewed journals. Data were searched on widely used databases such as Google Scholar, Springer, Web of Science and Scopus. Time frame filters were then applied to improve the review. In order to conduct this review on corporate governance and capital market development in the GCC, data were collected with a specific focus on publications released between 2018 and 2024. As indicated in Table 1 below, the author chose particular search approaches in order to obtain the data.

2.2 Selection criteria

Table 2 represents the inclusion and exclusion criteria of the studies that were utilized to review, focusing on corporate governance and capital market development in the GCC.

2.3 Data analysis

In total, 15 studies were selected based on their titles, publishers and main objective of the review aligned with the current study's rationale. The analysis of the obtained data from the 15 articles was conducted using thematic analysis, as presented in the discussion. The data were obtained by utilizing recurrent keywords in the paper such as corporate governance, capital market development and GCC.

S. No.	Search strategy
1	("Capital Markets GCC") OR ("Market Capitalization GCC ") AND ("Corporate Governance Impact") AND ("Corporate Governance Frameworks") OR ("Corporate Governance")
2	("Financial Markets") AND ("Market Capitalization Disparities ") AND ("Economic Diversification") AND ("Remuneration Practices") OR ("Remuneration Guidelines") AND ("Remuneration Committee")
3	("Board Characteristics GCC ") OR ("Board Committees ") AND ("Financial Expertise Audit Committee") AND ("Disclosure") OR ("Transparency")
4	("Initial Public Offerings (IPOs)") AND ("Agency Theory") AND ("Stewardship Theory") AND ("Stakeholder Theory") AND ("Sustainable Development") OR ("Business Ethics ") AND ("Sustainable Development Goals (SDG) ") AND ("Corporate Social Responsibility (CSR)")

Source(s): Created by authors

Table 1. Search strategies

Table 2. Inclusion and exclusion criteria

Inclusion criteria	Exclusion criteria
Studies that were published in journals with peer-reviewing policies provided by the publishers were included	Studies that were published in journals with peer-reviewing policies not provided by the publishers were excluded
The studies included in the review were selected based on having the keywords, namely corporate governance, capital market development and GCC.	The studies not having the specific keywords, namely corporate governance, capital market development and GCC were excluded from the review
The studies published in the last 7 years from 2018 to 2024 were included in this review	The studies performed or papers published prior to 2018 were excluded
Only studies that were accessible in full-text format for the public view were included	Studies not accessible in open access format in any authorized database were excluded

Source(s): Created by authors

2.4 Quality assessment

The review addresses the study quality based on the corporate governance and capital market development in the GCC. It includes the criteria on which the chosen publications were most relevant to the review aim and were published between 2018 and 2024. Availability of full-text studies was another important requirement that was given priority. These criteria contribute to the quality and reliability of the synthesized data by developing discussions and conclusions on the efficacy of the studies included in this review. The review's main objective is to provide a thorough understanding of corporate governance and capital market development in the GCC while incorporating the most recent data into consideration.

2.5 PRISMA

The 2,325 articles were identified in Google Scholar, Springer, Web of Science and Scopus. Only 15 research studies were included for review, as shown in Figure 1.

3. Results

Table 3 outlines the included researches and provides insights into the corporate governance and capital market development in the GCC.

4. Discussion

4.1 Comparative analysis of board characteristics across the GCC

Table 4 demonstrates a comparative analysis of board characteristics across the GCC countries, including Bahrain, Oman, Qatar, Saudi Arabia and the UAE. This table outlines the governance structures within the boards of corporations in these countries, emphasizing the requirements for CEO-chairman role separation, the composition of independent and non-executive directors, board size limitations, meeting frequencies, committee structures and the need for financial expertise within audit committees. These requirements aim to ensure effective corporate governance practices within the boards of corporations in the GCC countries.

The uniformity in separating the CEO and chairman roles across all GCC countries suggests a regional consensus on the significance of mitigating the conflicts of interest and improving accountability. Table 4 determines variances in board composition and operational procedures, demonstrating each country's distinct approach to corporate

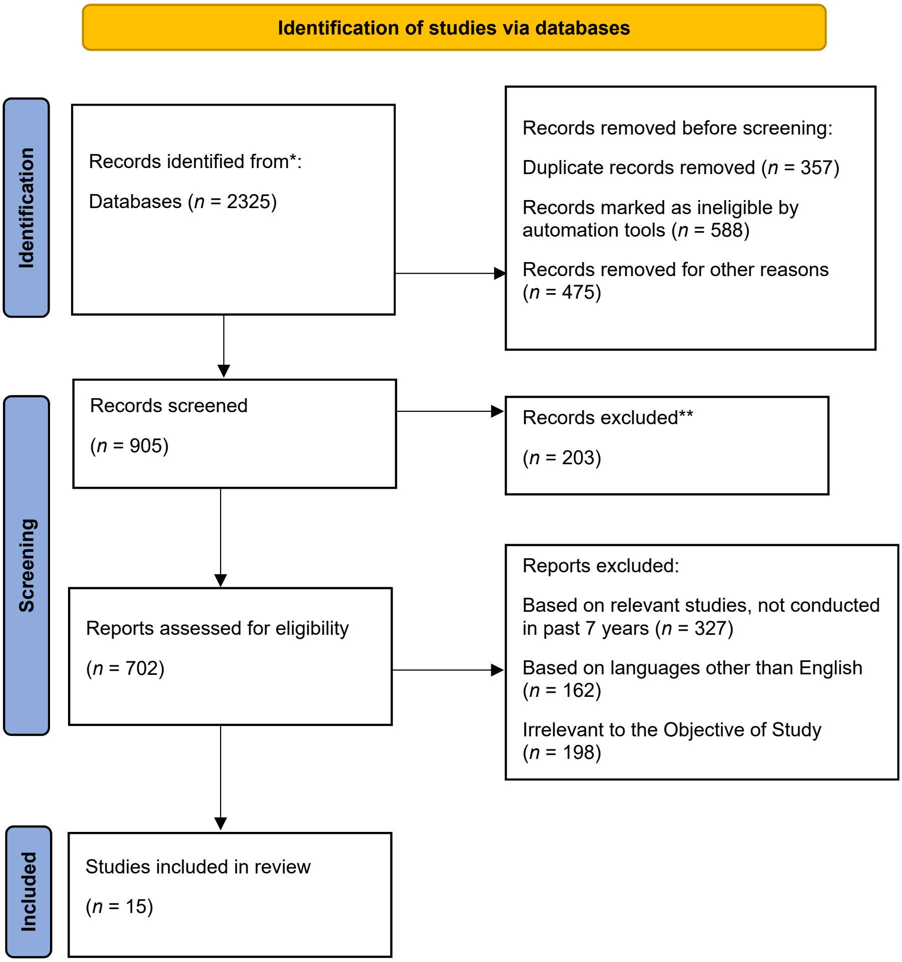

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Figure 1.
PRISMA flow chart for article selection

governance. The presence of independent and non-executive directors is common among all GCC countries, ensuring unbiased oversight and strategic decision-making. Also, Table 4 highlights the emphasis on financial expertise within audit committees, an essential component for maintaining financial integrity and compliance. This analysis is significant for stakeholders, investors and policymakers to better comprehend the corporate governance practices within the GCC, providing valuable insights into the region's commitment to aligning with international best practices while also accommodating local business cultures and regulatory environments.

Overall, in an examination of the board characteristics across the GCC countries, a comparative analysis determines a unified strategy for improving corporate governance achieved via the outline of roles and the establishment of specialized committees.

4.1.1 Separation of powers. A universal mandate across the GCC is the separation of the CEO and chairman roles, emphasizing the commitment to mitigating conflicts of interest and

Table 3.
Included studies

S. No	Author	Journal	Title	Objective	Results
1.	Nobanee and Ellili (2022)	*Corporate Governance: The International Journal of Business in Society*, 22(4), 702–719	Voluntary corporate governance disclosure and bank performance: evidence from an emerging market.	This study aims to assess the extent of voluntary corporate governance disclosure in the annual reports of UAE banks and evaluate its impact on bank performance, distinguishing between conventional and Islamic banks	The study reveals that voluntary corporate governance disclosure is generally low across banks, with no significant difference between conventional and Islamic banks and such disclosure does not significantly affect bank performance
2.	Al-Waaeli (2021)	In European, Asian, Middle Eastern, North African Conference on Management and Information Systems (pp. 430–440). Cham: Springer International Publishing	Corporate Governance and Sustainability of Financial Institutions: A Study of GCC Countries Banks	The study aimed to highlight the correlation between corporate governance and the sustainability of financial institutions in GCC countries, focusing on strategic decision-making, board composition, board size and audit committees	The study found a positive correlation between corporate governance and the sustainability of financial institutions in GCC countries, as measured by strategy policy development and risk management
3.	Al-Ahdal *et al.* (2020)	*Vision*, 27(4), 526–537	Corporate governance practices and firm performance in emerging markets: empirical insights from India and Gulf countries	The study aims to analyze the impact of corporate governance practices on the performance of listed firms in India and Gulf countries using secondary data from 2010 to 2017	Indian companies perform better in corporate governance practices than those in Gulf countries. While governance effectiveness positively impacts performance, overall corporate governance practices negatively affect performance measured by return on assets (ROA) and Tobin's Q (TQ), except for governance effectiveness, transparency, and disclosure, which have positive effects

(*continued*)

S. No	Author	Journal	Title	Objective	Results
4.	Lemma *et al.* (2021)	In *Ownership and Governance of Companies* (pp. 261–281). Routledge	Board remuneration, directors ownership and corporate performance: the South African evidence	To investigate whether board remuneration and directors' shareholding influence a company's financial performance, using agency and board power theories	There is no direct relationship between directors' remuneration or their shareholding and financial performance. However, firms with higher director incentives tend to achieve better financial outcomes, indicating that excessive remuneration can be used as a governance tool to enhance board effectiveness
5.	Al-Qudah and Houcine (2024)	*Journal of Financial Reporting and Accounting*, 22(2), 392–415	Firms' characteristics, corporate governance, and the adoption of sustainability reporting: evidence from Gulf Cooperation Council countries	The study aims to investigate the factors influencing the adoption of sustainability reporting (SDG) and external assurance (EXTA) practices, and examine the relationship between sustainability reporting and corporate economic performance among 99 companies in GCC countries	The study reveals that firm size, profitability, Big 4 auditors, government ownership, and board independence significantly affect sustainability reporting and economic performance, with manufacturing sector firms exhibiting a positive correlation with SDG and EXTA adoption
6.	El-Chaarani *et al.* (2023)	*International Journal of Financial Studies*, 11(1), 36	Corporate governance effects on bank profits in Gulf Cooperation Council countries during the pandemic	The study aims to examine how corporate governance measures, specifically political concentration in ownership and the presence of independent directors, affect bank performance during liquidity crises in GCC countries, particularly in response to supply and demand shocks during the COVID-19 lockdown	The study finds that political connections and independent directors significantly impact bank performance by mitigating liquidity and credit risks, with large banks benefiting from political connections and independent directors enhancing the objective evaluation of management, leading to better management of nonperforming loans

(*continued*)

Table 3.

Table 3.

S. No	Author	Journal	Title	Objective	Results
7.	Ali *et al.* (2024)	*International Review of Financial Analysis*, 91, 103045	The resilience of Shariah-compliant investments: Probing the static and dynamic connectedness between gold-backed cryptocurrencies and GCC equity markets	The study aims to investigate the return spillover between Islamic gold-backed cryptocurrencies and equity markets in GCC countries, identify optimal portfolio weights, and analyze the impact of extreme events on asset class connections	The GCC economies exhibit stronger internal connections than with cryptocurrencies, but extreme events increase the linkage between GCC markets and cryptocurrencies. Asymmetric tails in connectedness suggest a stronger relationship during market extremes, and the study provides optimal portfolio weights and hedging strategies for GCC investors
8.	Al-Qudah and Houcine (2024)	Journal of Financial Reporting and Accounting, 22(2), 392–415	Firms' characteristics, corporate governance, and the adoption of sustainability reporting: evidence from Gulf Cooperation Council countries	The study aims to investigate factors influencing the adoption of sustainability reporting (SDG) and external assurance (EXTA) practices, and to examine their relationship with corporate economic performance among 99 GCC companies	The study finds that firm size, profitability, Big 4 auditors, and government ownership significantly impact SDG and economic performance, with positive correlations between manufacturing sector operations, board independence, and the adoption of EXTA statements
9.	Al Mubarak (2020)	*Corporate Ownership and Control*, 17(2), 57–64	The relationship between corporate governance and stock prices in the GCC financial markets	The study aims to assess the impact of corporate governance characteristics on stock prices within GCC financial markets, using data from 237 firms across four GCC countries from 2013–2017	It finds a positive relationship between corporate governance and stock returns, indicating that improved corporate governance leads to higher stock prices and reduced agency costs in GCC companies
10.	Chebbi and Ammer (2022)	*Sustainability*, 14(19), 12173	Board composition and ESG disclosure in Saudi Arabia: The moderating role of corporate governance reforms	To examine the relationship between board composition (size, independence, and gender diversity) and ESG disclosure in Saudi listed companies, and how corporate governance reforms moderate this relationship	Board size and independence positively impact ESG disclosure, while board gender diversity reveals an insignificant relationship. Corporate governance reforms positively moderate the relationship between board composition and ESG disclosure, enhancing the latter

(*continued*)

S. No	Author	Journal	Title	Objective	Results
11.	Al-ahdal *et al.* (2023)	*Vision*, 27(4), 526–537	Corporate governance practices and firm performance in emerging markets: empirical insights from India and Gulf countries	The study aims to analyze the impact of corporate governance practices on the performance of listed firms in India and Gulf countries, using data from annual reports	Indian companies exhibit better corporate governance practices than Gulf countries. Corporate governance practices generally negatively impact performance, except for governance effectiveness, which has a positive effect. Board structure negatively impacts performance, while transparency, disclosure, and leverage have positive effects
12.	Hammad (2019)	*Journal of System and Management Sciences*, 9(1), 48–68	The vision 2030: Corporate governance perspective in Saudi Arabia	The study aims to review the impact of corruption prevention systems, corporate governance, and economic development in Saudi Arabia, focusing on the effectiveness of McKinsey's productivity-led transformation model and the roles of various sectors and stakeholders in achieving Saudi Vision 2030	The study highlights that McKinsey's model is expected to significantly impact Saudi Arabia's economy by creating new jobs, increasing productivity, and boosting brand value, while identifying gaps in understanding corporate governance issues and recommending further analysis on socio-economic and institutional factors influencing Vision 2030
13.	Tawfik *et al.* (2022)	*Heliyon*, 8(12)	Corporate governance mechanisms, royal family ownership and corporate performance: evidence in GCC market.	The study aims to examine the impact of corporate governance mechanisms on firm performance in GCC countries, with a focus on the influence of royal family ownership and its interaction with governance practices	Effective corporate governance mechanisms, such as board size and audit quality, enhance firm performance, while institutional ownership, CEO duality, and local auditors are detrimental. Royal family ownership positively impacts performance, and the big four international audit firms, along with audit quality, strengthen this effect

(*continued*)

Table 3.

Table 3.

S. No	Author	Journal	Title	Objective	Results
14.	Al Lawati and Kuruppu (2023)	*Corporate Ownership and Control,* 20(3), 305–316	Audit committee characteristics and sustainable development goals: evidence from the Gulf Cooperation Council	The study aims to analyze how audit committee (AC) characteristics influence SDGs disclosure among financial companies listed on the Muscat Stock Exchange (MSX) in Oman	AC attributes such as independence, financial expertise, and overlapping directorships positively affect SDG disclosure, while frequent AC meetings and foreign directors have a negative impact; female directors do not significantly influence SDG disclosure
15.	Al-Naser and Hamdan (2021)	*Economics and Sociology*, 14(2), 85–110	The impact of public governance on economic growth: Evidence from gulf cooperation council countries	The study aims to assess the impact of public governance indicators on economic growth in GCC countries from 1996 to 2019	Government effectiveness and regulatory quality significantly positively influence economic growth, while control of corruption and the rule of law have an insignificant impact. Control variables such as labor force, working capital, oil price, inflation rate, population, and Human Development Index also play a role in economic growth

Source(s): Created by authors

Element	Bahrain	Oman	Qatar	Saudi Arabia	UAE
CEO-chairman role duality	Must Be Separated	Must Be Separated	Must Be Separated	Must Be Separated	Must Be Separated
Independent directors	1/3 Minimum 3	01-Mar	01-Mar	1/3 minimum 2	01-Mar
Non-executive directors	At least 50% should be NEDs	Majority of members should be NEDs	Majority of members should be NEDs	Majority of members should be NEDs	Majority of members should be NEDs
Board size	Not exceeding 15 members	No limits	No limits	Between 3 and 11	No limits
Number of meetings per year	4	4	6	No minimum requirement	6
Board committees	4 Committees: Audit, Nomination, Remuneration, and a CG Committee	Only audit Committee is required	3 Committees: Audit, Nomination, and Remuneration	An Audit Committee and a combined nomination and remuneration Committee	An Audit Committee and a combined nomination and remuneration Committee
Financial expertise (Audit committee)	Majority should be financial experts	At least 1 member should be financial expert	At least 1 member should be financial expert	At least 1 member should be financial expert	At least 1 member should be financial expert

Source(s): Created by authors

Table 4.
Board characteristics comparison across GCC countries

enhancing accountability within corporate governance structures. This bifurcation of leadership roles serves as a check and balance system and is indicative of a broader trend toward more strong and transparent corporate governance practices in the region (Nobanee and Ellili, 2022).

In order to ensure that the same individual does not hold both the CEO and chairman positions, the GCC countries aim to promote independent oversight, preventing the concentration of power and improving a culture of accountability. This mandate aligns with international best practices and demonstrates GCC's efforts to correspond to governance standards with global norms while also adapting to local business environments (Darwish *et al.*, 2018).

4.1.2 Board composition. The composition of boards in the GCC countries plays a pivotal role, with a strong emphasis on the inclusion of independent and non-executive directors. For instance, Bahrain requires a minimum of one-third of the board to consist of independent directors with at least three members. Other GCC countries have similar specifications, ranging from a minimum requirement to a specific percentage. The presence of independent directors is essential for ensuring unbiased oversight and strategic guidance (Fjaertoft, 2018).

4.1.3 Financial expertise. A common characteristic across the GCC is the requirement for financial expertise within the audit committee, ensuring that boards are equipped with the necessary financial knowledge to oversee financial reporting and compliance effectively (Hamdan, 2020).

However, the analysis of board characteristics across the GCC countries determines a rigorous effort to strengthen corporate governance frameworks (Al-Ahdal *et al.*, 2020). While there are shared principles, such as the separation of the CEO and chairman roles and also emphasizes on the financial expertise, there is a recognition of the requirement for flexibility to accommodate the distinct corporate practices of each country. This balance between uniformity and customization exhibits mature and evolving governance ecosystem within the GCC (Al-Qudah and Houcine, 2024).

4.1.4 Board size and meetings. The size of the board and the frequency of meetings in GCC countries are tailored to the unique governance requirements of each country. Bahrain sets a cap of 15 members, while Saudi Arabia allows for a range between 3 and 11 members, suggesting a preference for smaller and manageable boards (Ghafar and Colombo, 2021). The number of annual meetings also varies, with Bahrain and Oman requiring four meetings, Qatar and UAE six and Saudi Arabia having no minimum, which potentially demonstrates distinct strategies to board engagement and oversight (Hannoon *et al.*, 2021).

4.1.5 Committee structures. The GCC countries exhibit a sophisticated strategy to governance via the establishment of board committees. For instance, Bahrain mandates the development of four distinct committees, including audit, nomination, remuneration and corporate governance committees. In comparison, Oman only requires an audit committee. This diversity in committee structures showcases distinct priorities and regulatory philosophies among the GCC countries (Al-Waaeli, 2021).

4.2 Policies and practices of executive and director remuneration across the GCC

The policies and practices of executive and director remuneration across the GCC countries are an essential aspect of corporate governance that corresponds to the interests of executives with those of shareholders and stakeholders (Chebbi and Ammer, 2022). This subsection examines the initiation and development of remuneration policies, the guidelines determining remuneration and the disclosure and transparency requirements related to remuneration within the GCC region.

Table 5 demonstrates a comprehensive comparison of executive and director remuneration policies and practices across the five GCC countries: Bahrain, Oman, Qatar, Saudi Arabia and the UAE. It outlines the initiation and development of remuneration policies, the foundation for the determination of remuneration and the extent of disclosure required for remuneration details in each of these countries.

Additionally, it emphasizes the distinct strategies employed for executive and director remuneration among the GCC, showcasing their distinct economic and regulatory environments (Zaidan *et al.*, 2019). It also highlights the significance of remuneration

Element	Bahrain	Oman	Qatar	Saudi Arabia	UAE
Initiation and policy formulation	Remuneration committee	Based on company policy	Remuneration committee	Remuneration committee	Remuneration committee
Guidelines for remuneration basis	Partially based on performance	Majorly performance based	Mixed	Based on Policy	Fixed for BOD
Disclosure	Details must be disclosed	BOD Remuneration plus top 5 executives plus policies	Disclosure policy	BOD Remuneration plus top 5 executives plus policies	BOD Remuneration plus top 5 executives plus policies

Source(s): Created by authors

Table 5. Executives and directors' remuneration across GCC countries

committees in most countries and performance-based criteria for remuneration and lays emphasis on transparency via disclosure requirements. This comparative analysis is essential for comprehending the governance practices in the region and their impact on corporate performance and investor confidence (Khokhar *et al.*, 2020). Table 5 serves as an informative resource for stakeholders interested in the corporate governance frameworks of the GCC countries, specifically in the domain of executive compensation.

4.2.1 Initiation and policy formulation. The initiation of remuneration policies in the GCC typically begins with the board of directors, specifically the remuneration committee. This committee is responsible for formulating a comprehensive remuneration policy that ensures remuneration structures are competitive, equitable and aligned with the long-term strategy and risk profile of the company (Lemma *et al.*, 2021). The policy formulation process consists of benchmarking against market standards, considering the company's financial position and corresponding with regulatory requirements and best practices. The remuneration committee is also held accountable for the need to attract, retain and motivate executives capable of achieving the company's strategic objectives (Pillai and Al-Malkawi, 2018).

4.2.2 Guidelines for remuneration basis. The foundation for executive and director remuneration in the GCC is guided by numerous important principles. These principles ensure that remuneration packages are designed to be sufficient to attract and retain top talent while being mindful of the need to avoid overcompensation (Shayah and Sun, 2019). The general components of remuneration include a mix of fixed pay, short-term incentives and long-term incentives, with the latter often being correlated to the achievement of strategic targets and shareholder returns. The remuneration basis is regularly reviewed to ensure that it remains relevant and effective in motivating desired executive behaviors and performance outcomes (Pillai and Al-Malkawi, 2018).

4.2.3 Disclosure and transparency in remuneration. Transparency and disclosure are essential for the integrity of remuneration policies in the GCC. Companies are expected to provide a comprehensive disclosure of the remuneration policies and practices and the actual remuneration awarded to executives and directors in their annual reports. This disclosure includes a clear explanation regarding the determination of remuneration levels and the correlation between remuneration and performance (Arayssi *et al.*, 2020). The aim is to provide shareholders and other stakeholders with sufficient information to assess the fairness and effectiveness of the remuneration practices. Enhanced disclosure practices also serve to strengthen the accountability of the remuneration committee and the board, fostering greater trust among investors and the public (Almaqtari *et al.*, 2020).

While disclosure requirements on remuneration have been strengthened in the GCC, there is still room for improvement. Only six out of the 18 Middle East and North Africa (MENA) economies require disclosure of individual remuneration of directors and executives, with most prioritizing aggregate reporting (Update, 2020). However, individual remuneration disclosure is increasingly regarded as good practice globally. The analysis of disclosure practices of the 15 largest listed companies in the GCC found that 13 disclosed the aggregate remuneration to board members and a limited number of important executives, while only one company disclosed individual remuneration. The results also displayed that the level of disclosure is highest for financial statements with companies in Saudi Arabia and the UAE, disclosing the most detailed information (Salman and Nobanee, 2019).

Therefore, the executive and director remuneration policies and practices across the GCC are characterized by a well-defined process of initiation and policy formulation process, clear guidelines for determining remuneration and a strong emphasis on disclosure and transparency. These elements work together to ensure that remuneration practices not only support the strategic goals of the company but also withstand the scrutiny of shareholders and align with broader corporate governance principles.

4.3 Capital markets in the GCC region

The capital markets in the GCC region are an essential indicator of the region's economic vitality and investment potential. These markets are not only robust in performance but also significant in the market capitalization, depicting the region's economic strength. Moreover, corporate governance plays an important role in shaping the development and integrity of these markets (Charfeddine and Al Refai, 2019).

The GCC capital markets have demonstrated remarkable resilience and growth, driven by a favorable macroeconomic environment (El-Saharty *et al.*, 2020). Despite facing global economic challenges such as high interest rates and inflation, the GCC has sustained its economic performance, developing a conducive atmosphere for capital market activities, including initial public offerings (IPOs). This resilience is largely attributed to the expansion in the non-oil sector, which has been propelled by government-led economic diversification efforts (Najafi *et al.*, 2024).

4.3.1 Market capitalization and ranking of GCC capital markets. 2023 marked a significant period for the GCC capital markets, with a collective raising of USD 10.6bn from IPOs (Ali *et al.*, 2024). The Saudi Stock Exchange (Tadawul) was the most active, accounting for 31% of the IPO proceeds. The UAE contributed 58% of the IPO proceeds, primarily through listings on the Abu Dhabi Securities Exchange (ADX). On the other hand, Oman also made notable strides, contributing 10% to the total IPO proceeds, indicating its growing presence in the region's capital markets (Hasou, 2019).

The Kingdom of Saudi Arabia (KSA) stands out as the largest economy in the GCC with a staggering market capitalization of $2,920.00bn, highlighting its economic predominance, driven primarily by its substantial oil reserves and ambitious Vision 2030 economic reforms. The UAE follows closely with a market capitalization of $953.11bn, showcasing its success in establishing itself as a global business hub and diversified economy (Al-Qudah and Houcine, 2024). However, there is a significant gap between these two economies and the rest of the GCC, with Qatar, Kuwait, Oman and Bahrain having significantly lower market capitalizations. This disparity pinpoints the distinct degrees of economic development and the requirement for enhanced corporate governance and economic diversification across the region (Moritz, 2020).

4.3.2 The relationship between corporate governance and market capitalization. Corporate governance is intrinsically linked to market capitalization in the GCC. Effective corporate governance practices are essential for mitigating the impact of capital structure on firm performance, indicating that well-governed companies are more likely to achieve superior financial outcomes and consequently command higher market valuations (Shahid and Bajaber, 2021). The GCC's emphasis on strengthening corporate governance frameworks has been essential in promoting the growth and resilience of its capital markets, with market capitalization often serving as a gauge for the quality of corporate governance within listed entities (Al Mubarak, 2020).

However, the GCC capital markets are characterized by diversity, with KSA and the UAE at the forefront in terms of market capitalization. This disparity among the GCC countries highlights the imperative for concurrent efforts in corporate governance and economic diversification to ensure sustainable growth and resilience against economic fluctuations. The connection between corporate governance and market capitalization emphasizes the significance of robust governance structures in improving the attractiveness and performance of the GCC capital markets on the global stage.

4.4 Synthesis of findings from comparative analysis

Table 6 provides a detailed analysis of corporate governance metrics and their correlation with market capitalization across GCC countries. It provides a concise comparison of the establishment date, market size and the number of listed companies for each capital market in GCC countries.

Country	Capital market	Established (year)	Market capitalization (billion USD)	Number of listed companies
Bahrain	Bahrain Stock Exchange	1987	21.01	42
Kuwait	Kuwait Stock Exchange	1983	140.24	163
Oman	Muscat Securities Market	1988	50.95	41
Qatar	Qatar Exchange	1997	140.24	42
Saudi Arabia	Tadawul	1984	2920.00	269
UAE	Abu Dhabi/Dubai Capital Markets	2000	953.11	123
Total			4225.55	680

Source(s): Created by authors

Table 6. Comparative analysis of the GCC capital markets

The comparative analysis of the GCC capital markets highlights the region's mixed economic landscape, with KSA and the UAE leading the way with market capitalizations of $2,920bn and $953bn, respectively. These figures highlight the economic influence of these nations within the GCC (Al-ahdal *et al.*, 2023). Although other member states are smaller in economic scale, they depict signs of emerging market potential, particularly in light of recent IPO activities (El-Chaarani *et al.*, 2023).

The predominance of KSA and UAE in the GCC capital market is a double-edged sword. Although it showcases the countries' economic strength, it also highlights the requirement for diversification of their economies to mitigate the impact of oil price fluctuations. In comparison, the smaller market capitalizations of Qatar, Kuwait, Oman and Bahrain may showcase less diversified economies, smaller populations or a combination of both (Hammad, 2019). This disparity highlights the distinct degrees of economic development across the GCC countries and the need for improved corporate governance and economic diversification to ensure sustainable growth and stability (Ulrichsen, 2020).

4.4.1 Influence of corporate governance on capital market development. Corporate governance plays an essential role in the market capitalization of the GCC countries. Effective corporate governance practices are essential for building investor trust and attracting foreign investment, leading to increased market capitalization and overall market growth (Ben Zeineb and Mensi, 2018).

Therefore, GCC countries with lower market capitalizations could benefit from strengthening their corporate governance frameworks to increase market confidence and ultimately increase their market capitalizations (Tawfik *et al.*, 2022).

4.4.2 Regional trends and implications for future governance reforms. Regional trends suggest a unified effort towards economic diversification and privatization of government assets, as observed in the successful IPOs of state-owned entities such as Dubai Electricity and Water Authority and Saudi Aramco Base Oil Company Luberef. These trends are a manifestation of various regional government initiatives such as Saudi Arabia's Vision 2030 and UAE's Vision, which aim to shift the majority of economic activity from the public to the private sector (Estrin and Pelletier, 2018).

The future of governance reforms in the GCC region is marked by the requirement for continued improvement in corporate governance standards to sustain the growth of capital market development. This includes addressing the important challenges of economic diversification, ensuring equitable growth across all member states and maintaining an environment that continues to attract international investors (Al-Naser and Hamdan, 2021).

The GCC region's ability to adapt to altering market conditions and its commitment to economic diversification will be of utmost importance for its potential economic performance in the upcoming years (Yetim, 2023).

However, the GCC capital markets are in a situation where the path forward demands a delicate balance between preserving the strengths of the leading economies and promoting the growth of the smaller markets. Effective corporate governance reforms will play a pivotal role in ensuring that the region's capital markets remain competitive and attractive to international investors.

4.5 Ethical governance and CSR in the GCC: promoting sustainable business practices

Effective corporate governance requires a strong ethical foundation, as unethical conduct can result in reputational damage and financial penalties for organizations. Research indicates that adherence to ethical standards is important for sustainable business practices, ensuring that organizations not only adhere to legal compliance but also promote a culture of integrity and accountability (Hamrouni *et al.*, 2023). By integrating ethics into corporate governance frameworks, companies in the GCC can enhance operational performance, build stakeholder trust and contribute to long-term profitability and sustainability, particularly in the rapidly growing and globalizing GCC region (Darwish and Abdeldayem, 2019).

Corporate governance frameworks in GCC countries are increasingly aligning with CSR principles in order to achieve SDGs. Empirical evidence exhibits that stakeholder pressure drives GCC firms to incorporate SDGs in their strategies, enhancing sustainability and transparency (Raub and Martin-Rios, 2019). Research highlights that strong corporate governance, especially through the attributes of audit committee such as independence, financial expertise and the presence of diverse directors within audit committees, significantly impacts SDG reporting and corporate accountability (Gupta and Mahakud, 2021). Integrating CSR into governance structures not only helps mitigate financial risks but also supports the 2030 Agenda for Sustainable Development, aligning economic growth with social and environmental objectives (Al Lawati and Kuruppu, 2023).

The study by Al-Marri *et al.* indicates that numerous companies in the GCC region have advanced the integration of CSR into their governance frameworks. These organizations are now incorporating CSR principles directly into their core business strategies, emphasizing socio-economic impacts rather than solely focusing on charitable initiatives. This transformation is observable in firms that emphasize transparency, sustainability and ethical practices in their operations. Additionally, companies are implementing capacity-building measures, such as employee and management training, to incorporate CSR considerations into routine decision-making processes. Furthermore, some firms are aligning their CSR activities with broader governmental and societal objectives, such as promoting women's empowerment and environmental sustainability, thereby enhancing their brand image, operational efficiency and societal contributions (Al-Marri *et al.*, 2019).

Companies in the GCC are increasingly aligning their operations with the SDGs established by the United Nations (UN) in 2015 under the Paris Agreement, targeting global issues such as climate change and social inequality. This alignment has led financial institutions to improve voluntary disclosures in annual reports concerning SDG-related topics to meet stakeholder expectations and attract foreign investment. Specifically, Omani firms have initiated comprehensive sustainability disclosures focusing on gender equality, clean energy and climate action, driven by government and UN initiatives. These actions reflect a growing commitment among GCC businesses to integrate ethical and sustainable practices into their core strategies, thereby emphasizing long-term value creation over immediate gains (Al Lawati and Hussainey, 2022).

However, the integration of ethical standards and CSR into corporate governance is essential for GCC companies striving for sustainable growth and enhanced transparency. By aligning their strategies with the SDGs and promoting a culture of integrity, these firms not only mitigate financial risks but also build strong stakeholder trust. This commitment to ethical and sustainable practices positions GCC businesses for long-term success in a rapidly evolving global landscape.

5. Conclusion

The review emphasizes the evolving corporate governance landscape across the GCC region, highlighting significant advancements in board structures, executive remuneration and capital market performance. It emphasizes the GCC's commitment to aligning with international standards while adapting to local contexts. Saudi Arabia and the UAE predominate market capitalization, which not only exhibit economic strength but also indicate risks from economic centralization. The significant IPO activity in 2023 highlights growing investor confidence. The integration of ethical practices and CSR into governance frameworks, alongside the push for transparency and sustainability, positions GCC businesses for long-term success. Enhanced corporate governance not only supports economic diversification but also promotes investor confidence and sustainable growth, aligning with global development goals and strengthening the region's economic resilience.

6. Future implications

As GCC countries continue to integrate strict governance frameworks and align with international best practices, there will be a significant emphasis on improving corporate governance standards to strengthen market capitalization and attract foreign investment. The ongoing efforts to refine executive compensation policies, strengthen board compositions and embrace sustainability reporting reflect a broader commitment to ethical business practices and corporate responsibility. Future governance reforms should focus on addressing disparities in market capitalizations across GCC nations, promoting economic diversification and enhancing the integration of SDGs into corporate strategies. By promoting a culture of integrity and accountability, GCC companies can position themselves for sustainable growth and global competitiveness, effectively navigating the challenges of an evolving economic landscape and reinforcing their appeal to international investors.

7. Limitations

Although this review provides a comprehensive analysis of corporate governance and capital market development across GCC countries, the focus on a limited number of studies and the variability in reporting standards across different GCC countries could affect the generalizability of the findings. Additionally, the review does not account for potential biasedness in the selected studies or the influence of emerging regulatory changes and economic conditions on corporate governance practices. Moreover, it could benefit from incorporating perspectives from industry practitioners and policymakers for a more detailed understanding. The emphasis on aggregated data may also diminish country-specific differences and the unique challenges faced by smaller GCC economies compared to larger ones.

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