

# CORPORATE GOVERNANCE IN SAUDI ARABIA: ANALYSIS OF CURRENT PRACTICES

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## ABSTRACT

*Corporate governance has been introduced and developed to address the financial scandals and corporate misconducts as experienced by various countries across the world. This paper analyses the current practices of corporate governance in Saudi Arabia. In order to promote, transparency, accountability and ethical behaviour Saudi Arabia has amended its corporate governance regulation in 2017. Saudi policy-maker has been seen as pioneering, among Arabic countries in light of his approval of corporate governance regulations. These regulations are agreed to have been the most important of the recent legal, finance and administrative regulations prepared in Saudi Arabia. The principal target of this research is to study the current prevailing governance system in Saudi Arabia. The second reason for the examination is to explore the current practices associated with Saudi corporate administration action plans. The paper states that the Saudi corporate administration has been declared in agreement with standards of on-going global corporate administration. Accordingly, Saudi corporate administration arrangements can be viewed as based to a great extent on positive man-made laws. The paper further found that Saudi corporate administration as an institutional system is separated between a few organizations, regardless of whether inward or outside, which may bring about clarity with regards to executing great corporate administration, rehearses.*

**Keywords:** Corporate Governance, Practices, AND Regulations

## INTRODUCTION

As a result of globalization and advancement in the financial world, the instruments of corporate governance have become a subject of pivotal importance due to which an essential need to address it effectively to further capitalize from the advanced methodologies has arisen (Wallace, 2002). The desire for effective corporate administration has not only got significant attention in the most advanced countries but also in the developing world too. Due to the monetary breakdown also termed as a financial crisis, the experience faced by different nations to overcome those effects has resulted in taking drastic considerations to prevent such a grave emergency in the coming times (Verick & Islam, 2010). The core of the lesson learned from such a grave situation was that to rebuild business enterprise and to prevent them from critical risks, effective corporate administration is a must. These breakdowns were not just because of a disappointment in speculator certainty, but on the other hand were because of the absence of organized corporate structure for efficient administration and corporate straightforwardness and disclosure (Bawley, 1999). Because of this premium, conference and gatherings have been held to study the causes; particular books have been written as a result of the serious researches and distributed for awareness in the related circles. Also, critical research-based investigations have been instructed to carry out to understand the causes, to effectively curb the consequences and to avoid such a grave failure in governance in the future. As the burden of the happenings was to fall on them so the legal experts, solicitors, and analysts were the ones who organized conventions and conferences to expound on corporate administration related issues. Such research reports and examinations demonstrated the ever-increasing importance of corporate administration and the degree to which it impacts different monetary, social and legitimate viewpoints, in light of the goal of the exhaustive change of corporations.

In relation to the research, it was the collapse of the exchange of Saudi Arabia in 2006 that provoked the Saudi related authorities to find ways and means to guarantee the future protections in such cases and pressurized the financial specialists to take prudent steps if there should be an occurrence of breakdown in the coming times (Al-Khatteeb, 2015). As a result of such brain-storming of great minds, the Corporate Governance Code (CGC) was developed by Capital Market Authority Board and it became a necessary code for the listed corporations in Saudi Arabia. By spearheading such a great strategy among Arab Nations, Saudi Arabia has become a pioneer in implementing after acceptance of such corporate governance and administration regulations. These guidelines have proven themselves to be the most important currently-in-effect managerial, funding and law-related guidelines in Saudi Arabia because of their relationship with the outer institutional system for corporate administration on one hand, and the relationship with the enterprise's top managerial staff, the board, and investors on the other. The purpose of this study is to take into examination the current Saudi practices related to corporate governance and administration by taking it into account as a case study for reform.

### **Research Significance and Problem**

As of now, to help corporate administration develop to reach new avenues of knowledge around the world, it is important to create specific leading standards of governance, which can give the way to maintaining a strategic and safe distance from unpredictable risks and ensuring the advantages of every one of partners' gatherings against mismanagement. Corporate administration arrangements have depicted the significance of the association between investors' and other partners' gatherings, the top managerial staff and the top administration of enterprises. Therefore, the corporations have delivered an assortment of considerable rules for proper regulation to the controllers, closely relating the efficiency of such to the working population, environment and the investors. Seemingly, the significance of corporate administration as a device by which to create and control organizations to ensure legal and positive results are self-evident. This is because corporate administration calls for standards, for example, reasonableness to exist between investors, likewise promising divulgence of the partnership's data, helping the society, battling bad behavior, which should be possible by the top managerial staff. Undoubtedly, different variables propose the significance of corporate administration. A huge point focusing on the significance of corporate administration is that a lack of satisfactory systems and control methodologies has adversely affected the matter of universal stock agencies over the whole world. So our main research problem is to:

“Examine and assess the present practices of the Saudi corporate governance system, and find out the degree of interest to further elevate these practices to new heights.”

### **Research Methodology**

The research methodology includes specific techniques to conduct a thorough and step by step research (Kabir, 2016). The research strategy utilized by the researcher in this paper has taken into account the methodology, which is critical study of the current governance system through an in-depth analysis. Right off the bat, the methodology will be applied, including looking into changed group of regulations concerning time, laws and guidelines which give an outline of the Saudi corporate governance system to be followed as per law, and afterward recommending such changes as easily conceivable and adaptable to the current situation. All the more explicitly, the guidelines set up by either the Capital Market Authority Board in regards to the subjects of corporate administration will be taken into account. This study depends on a particular contextual analysis of Saudi Arabia, thus huge thought is fundamental in regards to the guidelines of Saudi Arabia, with explicit consideration being paid to the official Capital Market Law (hereinafter CML) and Implementing Regulations.

Besides, this methodology will be utilized to accomplish the results of the points of this critical examination. One of the potential advantages of the methodology is that it characterizes clarifications to specific or novel lawful issues experienced in different locales. Controllers of the regulations over the whole world value the comparative study approach methodology when studying and putting into effect the laws and guidelines from industrialized countries. This is because of the significant objective of a similar methodology is to improve the extent of laws.

## DISCUSSION

### Background of Saudi Corporate Governance

Until the mid-1980s, there was no worked-out corporate governance system operating on a governmental level in Saudi Arabia. Around then, rules and regulations regarding the stock exchange were feeble, and hence unfit to ensure and pull in investors and speculators from around the world (Piper, 2019). The stock exchange market was on its metamorphosis stage and had its casual beginnings during the 1930s with the foundation of the principal joint-stock company. Until 1975, 14 public companies were operational. The fast financial and economic extension encouraged by the oil boom during the 1970s prompted an expansion in the quantity of enormous open organizations and banks. However, the securities exchange stayed dormant until 1985, when the Saudi Arabian Monetary Agency (SAMA) (Central Bank) administration was given the task of building up the stock exchange. From 1985, the SAMA was assigned the duty to have a check and balance on the stock market. Afterward, the Capital Market Authority (CMA) was established in July 2003 to further carry on the momentous task (Tadawul, 2012).

To observe the fair conduct of enterprises and the offers related to it, the Saudi Companies Act was given in 1965 (Haniffa & Hudaib, 2007). Nonetheless, it does not come under the jurisdiction of the Act to cater to the things directly related to the wider corporate administration dynamism, aside from a set number of components identifying with board qualities and the get together of investors. After a suitable literature review, the writings propose that Saudi Arabia is a significant rising economy. (Al-Filali & Gallarotti, 2012). Moreover, Saudi Arabia has been a significant member having a say in the G20 since 2008, generally because of the acceptance of the importance of the invariable rising of its economy.

During the 2000s, the number of recorded firms and the intricate estimation of market capitalization didn't mirror the significance of the Saudi financial and economic position locally and on an international level (Al-Filali & Gallarotti, 2012). Due to which, there was a developing call by scholastics, speculators, and specialists to change and update the securities exchange and corporate administration system in Saudi Arabia to further benefit the economic system.

Thus, the Saudi government took a rigorous jump start to seek after governance improvement changes as a major aspect of general economic monetary and changes related to up-gradation in the mid-2000s (Piper, 2012). New specialists were set up by the worthy Saudi government such as the Supreme Economic Council, the Saudi Arabian General Investment Authority (SAGIA) and the Saudi Stock Exchange (Tadawul), to better the speculated investment and upgrade financial development. In particular, corporate administration changes related to up-gradation were started in 2003. As a result, the Capital Market Authority (CMA) came into existence.

Since the foundation of the CMA, it has been assigned the task of re-controlling the stock exchange and corporate administration system. As a conclusion, the Saudi economy saw a generous development and growth.

In mid-2004, the Saudi financial exchange saw quick increments in the price of the shares. This pattern of fast market development proceeded until February 2006, when it encountered a sensational drop; by December 2006, the collective loss was \$480bn which is around 53% of its fairly estimated worth in terms of value in the market. The abrupt market

crash featured a genuine need to improve corporate administration systems inside Saudi firms (Tadawul, 2012). At the backdrop of this scenario, the Saudi Corporate Governance Code (SCGC) was thusly presented in November 2006 by the CMA as an immediate reaction to that dramatic crash in the market. Its main purpose was to re-establish trust in the market and securing financial specialists also known as investors.

### **Framework of External Saudi Governance System**

Until now the Saudi government has taken the following steps: The Ministry of Finance, shaped in 1932, the Saudi Monetary Agency (SAMA), set up in 1952, the Ministry of Commerce, framed in 1953, and the Public Investment Fund (PIF), established in 1971. The Saudi General Investment Authority (SAGIA) started functioning in 2000. In 2003, the Capital Market Authority (CMA) and the Saudi Stock Exchange (Tadawul) was setup. The sole purpose was to cater to the ever-increasing demands of times to work out better and better corporate administration systems in the nation.

The Ministry of Commerce and Industry (MCI) is responsible to regulate the working of listed enterprises. In particular, until 2003, the MCI was the sole power that controlled the undertakings of recorded firms and the association of the general get together of investors. The Companies Act passed in 1965, puts on limelight the set of governance procedures to secure the investors. Also, it outlined the duties of the people occupying the higher hierarchy such as managerial level, etc. and the privileges which were the investors' rights. Ultimately, the drastic 2006 corporate administration changes resulted in the transfer of many supervisory obligations of the MCI to the CMA.

Similarly, to build up the stock market, the Saudi Stock Exchange (Tadawul) was established in 2003 by the CMA (Tadawul, 2012). The Tadawul is an administrative body that is answerable for sorting out all the queries related to financial matters in the market. It is overseen by a top managerial staff delegated by the Council of Ministers, including agents of officials, authorized Saudi business and officially listed firms.

### **Framework of Internal Saudi Governance System**

To improve the inner corporate administration components in Saudi firms, the following steps were taken: (i) Saudi Corporate Governance Code; (ii) Tadawul's Listing Rules; and (iii) Companies Act. The three guidelines comprise the fundamental inner corporate administrative structures inside the Saudi corporate setting. (Salem & Kahtani, 2013)

The Saudi Corporate Governance Code (SCGC) is viewed as a primary driver in executing great corporate governance-related regulations across the Saudi listed firms. The SCGC fundamentally comprises of four sections: (i) preliminary provisions; (ii) shareholders' rights and the general assembly; (iii) disclosure and transparency; and (iv) board of directors. (Salem & Kahtani, 2013)

The initial segment of the fundamental arrangements shows the essential definitions and the connection between the SCGC and different bits of enactment. To exhibit the degree of consistency with the code in yearly reports, the controller expects organizations to clarify any non-actualized arrangements.

The primary conventional endeavour to control corporate tasks and exercises was in 1965 when the Companies Act was presented (Al-Habshan, 2017). The segment on board structure contains arrangements identifying with: (i) board size; (ii) the CEO-Chairperson correlation; (iii) the board's power; (iv) the annual board report; and (v) the regularity of board meetings.

Second, 89 of the Act require open recorded organizations to give yearly reports containing a board report, the fundamental budget summaries, and an external auditor's report. To alleviate the potential irreconcilable circumstance among operators and principals, 69 call

attention to that an agreement or exchange between the organization and executives must be approved by the general gathering. To urge investors to practice their entitlement to go to the general get together gathering, 88 solicitations the distribution of subtleties of the gathering in a daily newspaper at any rate 25 days before the gathering. The gathering subtleties ought to incorporate the gathering plan, date, time and area.

## CONCLUSION

The fundamental reason for this analysis was to propose a change of the Saudi corporate administration structure from a legitimate point of view. The thorough analysis set out to give a general comprehension of how current corporate administration arrangements are seen by recorded enterprises, as well as to explore the sufficiency of the current corporate administration system. This study clearly indicates the prominence of corporate governance and the extent to which it influences various economic, social and legal aspects, in consideration of the objective of the comprehensive reform of corporations. Provisions of corporate governance are not only significant for local corporations, but are also essential for withdrawing foreign investment in order to ensure a powerful economy and the quality of a country's institutions of governance.

## ACKNOWLEDGEMENT

The author would like to acknowledge the support of Prince Sultan University for paying the Article Processing Charges (APC) of this publication.

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