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Corporate governance in Saudi Arabia
a stakeholder perspective

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Corporate Governance in Saudi Arabia: A Stakeholder Perspective

Khalid I. Falgi

A Thesis Submitted to the University of Dundee in Fulfilment of the Requirements for the degree of Doctor of Philosophy

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Dedication

For my parents, my wife Aisha, my son Yazan, my daughter Laila, my brothers and sisters. Thank you all for your love and support.

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Abbreviations

AGM	Annual General Meeting
CMA	Capital Market Authority
CEO	Chief Executive Officer
GCC	Gulf Cooperation Council
I	Institutional Stakeholders
KSA - SA	Kingdom of Saudi Arabia
LAS	League of Arab States
M	Management
MCI	Ministry of Commerce and Industry
MPMR	Ministry of Petroleum and Mineral Resources
N	Non- Executive Directors
NED	Non- Executive Directors
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of the Islamic Conference
O	Other Stakeholders
SOCPA	Saudi Organization for Chartered Public Accountants
PHUH	Peace Be Upon Him (Prophet Mohammed)
R	Regulators
SAGIA	Saudi Arabian General Investment Authority
UK	United Kingdom
UN	United Nations
USA	United States of America
WTO	World Trade Organisation

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Finally, I would like to give a special thanks to my lovely wife Aisha for her patience and understanding, and without her support this work could not have been accomplished.

Declaration

I hereby declare that I am the author of this thesis; that the work of which this thesis is a record has been done by my self, and that it has not previously been accepted for a higher degree.

Signed ....

Date ..5/6/09..........................

Khalid Idris Falgi

Certificate

I certify that Khalid Idris Falgi has worked the equivalent of nine terms on this research, and that the conditions of the relevant ordinance and regulations have been fulfilled.

Signed ..C. V. Helliar..........................

Professor Christine V. Helliar

Date ..5/6/09..........................

Signed ....

Professor David J. Collison

Date ..5/6/09..........................

Abstract

Corporate Governance in Saudi Arabia:

A Stakeholder Perspective

This thesis investigates corporate governance in Saudi Arabia by examining the perceptions of different stakeholder groups. The study examines the understanding of corporate governance, the current practice, the corporate governance framework and the impact of the social, cultural and economic aspects on the situation on corporate governance in Saudi Arabia. The study uses semi-structured interviews and a questionnaire survey with wide groups of stakeholders and an accountability perspective is adopted to interpret the results. The findings suggest that corporate governance in Saudi Arabia is in its early stages and is characterised by a lack of accountability, a weak legal framework and poor protection of shareholders. The influence of the social, cultural and economic factors is evident and boards of directors are dominated by major shareholders; thus good corporate governance practices have many challenges.

Chapter 1

Introduction

Chapter 1

Introduction

1.1 Preamble

The massive collapse and enormous failures of companies such as: "Enron"; "WorldCom"; "Parmalat" and "Tyco" has resulted in corporate governance gaining far more attention from a range of parties who are concerned about business. In recent years there has been a remarkable worldwide effort to issue and develop corporate governance principles and standards in order to ensure that good corporate governance codes are in place for companies, to improve their practice of corporate governance and protect companies' stakeholders from potential crises that poor corporate governance could cause. This effort has been accorded regardless of the nature and the size of the capital market or the legal system of these countries. Furthermore, some codes have been issued for specific continents or regions in the world or by specialist organisations such as the Organisation for Economic Co-operation and Development (OECD).

In Saudi Arabia corporate governance did not become an issue until the stock market crash in February 2006, when the debate started about the need for good corporate governance in the Saudi business environment. As a result of this crash the Capital Market Authority issued the corporate governance code for Saudi companies in November 2006. The period after issuing the Saudi code drove attention to issues relating to the practice of corporate governance in Saudi. There were debates about the need for such regulation in the local environment and its benefits, the ability of local companies to comply with corporate governance principles, and the nature of the corporate governance framework to assist good practices. To date, there has been a lack of studies that describe the consideration of corporate governance by Saudi stakeholders, of companies' current practices and the evaluation of the corporate governance code and framework in the Saudi business environment. In addition, there is a lack of research that investigates: ownership structures; shareholders' rights; board of directors' composition, authorities and responsibilities; sub-committees; the legal system in Saudi Arabia; and the impact of social, political and economic factors over companies' practices. In addition, no research has been published in relation to the perception and the practice of accountability and Islamic accountability in the Saudi business environment. All the above has motivated the researcher to carry out a study that investigates corporate governance from the perspective of Saudi stakeholders in order to provide a general picture of how Saudi stakeholders perceive corporate governance and to seek their opinion about the current practice of corporate governance by Saudi companies, as well as their evaluation of the corporate governance framework. The issues related to accountability and Islamic accountability are also considered.

1.2 Research Aims and Questions

The thesis examines corporate governance in Saudi Arabia from a stakeholder perspective and assesses the adequacy of the corporate governance framework in Saudi Arabia. In order to achieve this aim, the research addresses the following questions:

1. *What is the understanding of the concept of corporate governance in Saudi Arabia and does this fit in with an accountability and stakeholder framework?*
2. *Do the current practices of corporate governance in Saudi Arabia reflect corporate accountability to stakeholders?*
3. *How adequate is the corporate governance framework in Saudi Arabia?*

And the answers of these three questions will lead to answer the fourth research question of:

4. *What is the understanding of accountability and its current practice in Saudi Arabia and does it differ between different stakeholder groups?*

1.3 Scope of the Research

The main objective of the study is to examine corporate governance in Saudi from a stakeholder perspective using an interpretive paradigm, as identified by Burrell and Morgan (1979), and using an accountability theoretical framework to interpret Saudi stakeholder perceptions. Different groups of people who are considered to be company stakeholders will be included such as: company d irectors, managers and employees; shareholders; regulators; auditors; academics; and financial consultants. Semi-structured interviews and a questionnaire survey are used to seek their opinions in regard to different corporate governance issues. The stakeholder approach has been chosen because of the significant accountability relationships that stakeholders have with companies and their perceptions will be very important in portraying a general picture about corporate governance in Saudi. The stakeholders are asked to express their views on issues related to corporate governance, obtained both from the literature and from corporate governance principles. The research will focus on issues such as how corporate governance is perceived in Saudi and the importance of corporate governance for Saudi companies. The translations of the English term "corporate governance" to the Arabic language will also be discussed. The stakeholders will be asked about boards of directors in Saudi companies and the process of selecting directors; the board's sub-committees; the board's meetings, the board's authorities and responsibilities. The study will investigate the ownership structure in Saudi companies and the influence of major shareholders over companies will be highlighted as well as the rights of shareholders including minority shareholders. Furthermore, disclosure and transparency will be considered as well as stakeholders and their rights and influence over companies. The perception of accountability and Islamic accountability and their application in the business environment will be included. In addition, the corporate governance framework will be examined as well as the role of other factors such as the social, political and economic situation over the practices of corporate governance in Saudi.

The study contributes to filling the gap in the literature in relation to corporate governance in Saudi and contributes to knowledge by providing the perspective of stakeholders about corporate governance in a developing country such as Saudi; it will help our understanding of the perception of corporate governance in Saudi and the current practices and obstacles and possible improvements that could be made. The current study will contribute to an understanding of corporate governance in developing countries and in particular the Arabian Gulf countries as well as in the Islamic countries. Moreover, one of the main contributions of the study is investigating the relationship between corporate governance and the Islamic teachings of *Sharia* and the impact of such regulations over corporate governance, in addition to the concept of Islamic accountability and practices in an Islamic society.

1.4 Structure of the Thesis

This thesis has been divided into seven chapters. The current chapter gives an introduction to the study. Chapter 2 reviews the general literature related to corporate governance such as: definitions; legal systems; board of directors; disclosure and transparency; and stakeholders. The Chapter also covers the literature related to corporate governance in developing countries. In addition, it provides a general overview about the Saudi Arabian environment such as: the political, social, economic and legal system. In addition, it gives an overview about the accounting and auditing profession and corporate governance developments and regulations in Saudi.

Chapter 3 lays out the accountability theoretical framework that is used to interpret the study results. The chapter also provides a brief view of the Islamic conception of accountability. Chapter 4 describes the methodology and methods that the study will use. The chapter sets out the assumptions relating to the nature of social science (ontology, epistemology, human nature and methodology) and considers the methods that are used to collect the primary data (semi-structured interviews and the questionnaire survey).

Chapter 5 reports the interview results that were held with twenty two individual stakeholders in Saudi between May and July 2007. The chapter summarises and analyses the findings gathered from the participants in relation to corporate governance issues. Chapter 6 presents the results of a questionnaire survey that was administered in Saudi between April and June 2008. The chapter presents the results of the statistical analysis and summarises the findings.

Chapter 7 discusses the main findings obtained from both the interviews and the questionnaire, and the contribution to knowledge and presents some suggestions to improve corporate governance in Saudi; it identifies some limitations of the current study and makes suggestions for further research.

Chapter 2

Literature Review

Chapter 2

Literature Review

2.1 Introduction

This chapter reviews the literature that relates to corporate governance in general and to emerging markets and then Saudi Arabia specifically and discusses various issues in order to provide a general picture of current practices. The vast majority of studies look at corporate governance from a positivist agency perspective and take into account only shareholders' interests. Shareholders are deemed to be interested in performance measured using different factors such as Tobins Q, abnormal share price returns etc. These studies comment on "good" governance from this narrow shareholder perspective. This thesis therefore reviews the literature based mainly on agency theory; in such a context the literature review may refer to best practice and good governance from that narrow perspective. However the theoretical and methodological perspectives of this thesis encompass a wider, stakeholder, perspective than that taken by the positivist studies. The empirical evidence examines perceptions of a range, although by no means an exhaustive range, of stakeholders. Section 2.2 of this chapter looks at the major aspects of corporate governance. Section 2.3 addresses issues relating to corporate governance in emerging markets, followed by Section 2.4 with focuses on corporate governance in Saudi Arabia. Finally, Section 2.5 concludes the chapter.

2.2 Corporate Governance Aspects

In order to give a general perception of the current practice of, and concerns about, corporate governance according to the literature, a range of topics related to corporate governance will be highlighted in this section, especially various concepts of corporate governance, corporate governance models, boards of directors and ownership.

2.2.1 Corporate Governance Concept

Corporate governance has gained a lot of attention in the last decade from different interested parties such as regulators, professional bodies and academics, but despite this fact no specific definition has won general agreement among these parties. Consequently, the literature includes various definitions to explain what corporate governance means. These definitions reflect different understandings and perspectives on corporate governance.

One of the most popular and earliest definitions of corporate governance is that provided by Sir Adrian Cadbury in his report on corporate governance (The Cadbury Report, 1992); it defined corporate governance as: "The system by which companies are directed and controlled". Further, MacAvoy and Millstein (2003) state that:

> "[Corporate governance is] a set of structure relationships that determines authority and responsibility for the conduct of an organisation and its management."

These definitions are based on a narrow agency perception of corporate governance as an internal task of a company. Keasey and Wright (1993), however, consider corporate governance from the success of a company by defining corporate governance as:

> "The structures, processes, cultures and systems that engender the successful operation of the organization".

Another perspective on corporate governance emphasises shareholders; Parkinson's (1994) description states that it is:

> "The process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders". (p. 159).

This standpoint extends corporate governance to accountability to an important related party to a company, i.e. its shareholders. Other definitions have adopted a wider perspective that takes into account other stakeholders rather than only shareholders. For example, Tricker (1984) argues that:

> "The governance role is not concerned with the running of the business of the company per se, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries."

In the same context, the OECD's (2004) principles of corporate governance also acknowledge a wide view of corporate governance, with a stakeholder emphasis, by stating that:

> "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring." (p. 11).

However, using a stakeholder perspective, a good corporate governance system should determine the accountability relationships between a company and a wide set of stakeholders. As Bain and Bland (1996) state, it is: "To add value to as many organisational stakeholders as possible". Based on a broad accountability perspective to all stakeholders, Solomon (2007) defines corporate governance as:

> "The system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity" (p.14).

Thus, there are a set of definitions which refer to corporate governance based on various perspectives and emphasizing different sets of stakeholders. However, all the perceptions seem to recognise that accountability is a key, but the difference between them relates to whom that accountability is due; some restrict the duty of accountability to shareholders, and others have a wider standpoint to include all of a company's stakeholders.

2.2.2 Corporate Governance Models

The literature indicates two models of corporate governance: the outsider model, which is used in Anglo-American countries (e.g. US, UK, Canada, Australia, New Zealand), and the insider model, which applies more in countries such as Germany, Japan and France. The outsider model places a great reliance on: equity finance; dispersed ownership; strong legal protection of shareholders; strong bankruptcy regulations and the courts; less role for creditors, employees and other stakeholders in company management; strong requirements for disclosure; and considerable freedom to merge with or acquire other organisations (Rosser, 2003). The insider model is characterised by: a high reliance on bank finance; concentrated ownership; weak legal protection of minority shareholders; a central role for stakeholders in the ownership and management of companies; weak disclosure; and limited freedom to merge or acquire (Rosser, 2003). However, Table 2.1 summarises characteristics of both models of corporate governance.

Table 2.1 Characteristics of Insider and Outsider Models of Corporate Governance

	Insider	Outsider
Owners	Insider shareholders	Outsider shareholders
Ownership structure	Concentrated	Dispersed
Separation of ownership and control	Little	Separated
Control over management	Insider shareholders	Managers
Agency problems	Rare	Exist
Hostile takeover activity	Rare	Frequent
Protection of investors	Weak	Strong
Shareholders' rights	Potential for abuse of power by majority shareholders	Potential for shareholder democracy
Shareholders voting	Majority of shareholders tend to have more 'voice' in their investee companies	Shareholders characterized more by 'exit' than by 'voice'

Source: Solomon (2007)
Note: This Table summarises the differences between insider and outsider models of corporate governance

2.2.3 Board of directors

The board of directors is a significant mechanism to improve corporate governance in both market-based and bank-based systems (Andres et al., 2005). The following sections will focus on different aspects related to the board of directors.

2.2.3.1 Unitary and Dual Boards of directors

There are two popular forms of boards of directors in the business world, the unitary (one-tier) and dual (two-tier) boards. The former is widespread in Anglo-Saxon, English-speaking and common law countries (e.g. US, UK, Canada, Australia, New Zealand), while in countries with civil law (e.g. Germany, France, Austria, Netherlands) the dual board is dominant (Solomon, 2007). The unitary board comprises both executive and non-executive directors (NEDs) in one single board, where directors are elected by shareholders and their responsibilities cover all the company's activities (Lynch-Fannon, 2005 and Mallin, 2004). In contrast, the dual board consists of two entities, the supervisory board, whose members are appointed by shareholders and others to oversee the direction of business, and the executive (management) board, appointed by the supervisory board to run the business (Maw et al., 1994; Mallin, 2004). Some commentators and reformers criticise what they see as a lack of independence in unitary boards (Maassen and van den Bosch, 1999); furthermore, within a unitary board executive and non-executive directors work together in an unequal environment in respect of the adequacy of the information to which they have access (Maassen and van den Bosch, 1999).

Proponents of dual boards argue that a two-tier structure has the benefit of giving stakeholders (e.g. employees and banks) the opportunity to have representatives on the board, enabling them to protect their interests (Solomon, 2007). One other advantage of the dual board is the clear separation between executive and non-executive directors, and between the roles of chairman and chief executive officer (CEO) (Maassen and van den Bosch, 1999). In addition, there is a lack of a separation between the functions of monitoring and management on a unitary board (Mallin, 2004). On the other hand, the supporters of unitary boards claim that adopting a one-tier system provides a closer relationship between directors and better information flows (Mallin, 2004).

2.2.3.2 Board Composition

The board of directors is responsible for planning and monitoring a company's objectives and it is essential to have an effective board of directors with an appropriate composition of directors to assist the board in achieving its goals and the success of the company. The composition of the board has a direct impact on a company's activities (Klein, 1998) and on its potential and ability to oversee managers (Davidson et al., 1998). Van der Walt and Ingley (2003) claim that:

> "While boards need to be reflective of their ownership and the wider social environment, diversity per se is insufficient in building effective corporate boards. The boards of today's companies need to focus foremost on merit criteria for director selection and, ideally, to comprise qualified individuals reflecting in the mix-gender and a range of expertise, experience and ethnicity. Boards also need to be cognisant of the potential to add value by utilising the social capital contributed collectively by their directors as a strategic resource for their organisation." (p. 232).

The most important factors that should be considered by the board of directors to promote efficiency are: a balance of both executive and non-executive directors, since both groups bring different essential skills to the board (Solomon, 2007); and a diversity and complementarity of the board managers. It should consist of a mix of directors with different personalities and educational, occupational and functional backgrounds, but they must also be complementary. Boards of directors that appoint "clones" do not work and are even dangerous (Van den Berghe and Levrau, 2004). Appropriate attention should also be given to directors' compensation and appointing the right people on the board as this is a crucial step to building a strong and effective board of directors (Walker, 2005). However, although previous studies emphasized the substantial role that the board of directors have, some studies have minimized the impact of the board of directors characteristics over companies (Baysinger and Butler, 1985; Hermalin and Weisbach, 1991; and Bhagat and Black,1997). The next section will draw attention to the separation of chairman and CEO roles.

2.2.3.3 Chairman and CEO

The chairman leads the board of directors. Chairmen's duties include running board meetings and overseeing the process of hiring, firing, evaluating and compensating the CEO (Jensen, 1993). Jensen argues that chairmen should be independent if they are to act objectively and carry out leadership tasks; it may be impossible for a CEO to act other than from self-interest; consequently, the problem of conflicts of interest arises (Fama and Jensen, 1983; Jensen, 1993), it is thus essential for the firm's effectiveness to separate the positions of chairman and CEO. The separation of CEO and chairman can assist in reducing the domination of management over the board (Van den Berghe and Levrau, 2004). To protect shareholders rights, agency theory suggests that the roles of CEO and chairman should be split (Williamson, 1985). The OECD Principles of Corporate Governance (2004) recognise this and state that:

> "Separation of the two posts may be regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management." (p. 63).

The UK Combined Code (2006) also recommends the separation of the role of CEO and chairman:

> "There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision." (p. 4).

However, although the literature appears to be in favour of the separation of the role of a company's chairman and CEO, some studies do not agree with that. For example, Brickley et al. (1997) take an opposing view; although the separation of chairman and CEO is justified and has potential benefits for the firm, the potential costs of such separation are greater. Further, Baliga et al. (1996) find weak evidence that CEO-chairman duality negatively affects companies. In addition, Donaldson and Davis (1991) find that CEO-chairman duality can positively affect companies.

Thus, although there are some studies which disagree with the importance of splitting the role of chairman and CEO, there is a wide range of researchers and also regulatory bodies who consider the separation of chairman and CEO roles as good practice of corporate governance which would help to enhance board independence and efficiency and reduce potential conflict of interests. The next section deals the role of non-executive directors as another important aspect related to the board of directors.

2.2.3.4 Non-Executive Directors

As mentioned previously, it is essential for a company to have an effective board of directors to achieve its goals, and it has been argued that non-executive directors (NEDs) are one of the main tools for an effective board. The key roles that NEDs should fulfil include: preventing the undue exercise of power by executive directors; safeguarding shareholders' interests in board decision-making; contributing to strategic decision-making; and ensuring competitive performance (Pye, 2001). The UK Combined Code (2006) states that:

> "Non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, executive directors, and in succession planning." (p. 3).

Randoy and Jenssen (2004) argue that there is less need for NEDs to monitor in highly competitive industries than that in less competitive ones. High level of competition increases the pressure over the board to perform in good way, while the lack of such pressure in a low-competition environment could lead to an increase in the risk of conflicts of interest and the role of NEDs would be crucial to oversee the board. Further, Beasley (1996), in a study of the role of NEDs in reducing financial statement fraud, found that non-fraudulent companies had a greater number of NEDs than fraudulent ones.

However, although, according to conventional wisdom, NEDs should add value to a board, the results of many studies have shown that the more NEDs the worse it is for the company (Yermack, 1996; Klein, 1998). Bhagat and Black (1999) investigated the board composition of US companies and found no strong evidence that companies did benefit from the existence of a great number of NEDs on the board, but there was some evidence that companies benefit from a moderate number of inside (executive) directors. In addition, Lee et al. (1999) found stock market reaction to be negatively correlated with the announcement of new NED appointments.

However, it is necessary for NEDs to practice effectively in order to contribute to the board; therefore, suitable guidance and training to assist their effectiveness should be available and NEDs should have appropriate knowledge, skills, experience and time (Ezzamel and Watson, 2005). In the UK, the Higgs review (2003) focused on the role and effectiveness of NEDs. Higgs states:

> "To be effective, non-executive directors need to be well-informed about the company and the external environment in which it operates, with a strong

> command of issues relevant to the business. A non-executive director should insist on a comprehensive, formal and tailored induction. An effective induction need not be restricted to the boardroom, so consideration should be given to visiting sites and meeting senior and middle management. Once in post, an effective non-executive director should seek continually to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant." (p. 63).

It seems that NEDs face difficulties in fulfilling their roles for a number of reasons, such as: they are usually in part-time posts, are simultaneously members of other boards, and are often required to undertake complicated tasks on the basis of insufficient information. These impede their performance and may lead to unsatisfactory performance by NEDs (Bozec, 2005). Also NEDs may be prevented from accomplishing their tasks by obstacles they face. Pay (2001) states that:

> "Even where NEDs are encouraged to contribute to and interrogate executive actions and proposals, they do not have perfect access to information or even access to perfect information: hence even those who have no prior connection with a board (i.e. 'truly independent') are still very much in the hands of the chairman and the CE in terms of how agendas are put together, meetings are framed, information shared and decisions made." (p. 191).

This finding seems less surprising, however, in light of what is now known about the methods and standards of appointment of NEDs and their characteristics. The tracking of the use of the term 'non-executive director' in past studies shows clearly that it has been misused as if it designated an independent director, whereas in fact indications run against the independence conception (Lawrence and Stapledon, 1999). The following section will look at independent non-executive directors.

2.2.3.5 Independent Non-Executive Directors

There is a wide acceptance that the appointment of independent NEDs is a crucial device to assist the board of directors in monitoring a firm's management (Stapledon and Lawrence, 1997). The importance of outsider directors is in fulfilling the role of monitoring management, which they are only able to do properly if unaffiliated (Hanson and Song, 1998). The OECD Principles of Corporate Governance (2004) state that:

> "Independent board members can contribute significantly to the decision-making of the board. They can bring an objective view to the evaluation of the performance of the board and management. In addition, they can play an important role in areas where the interests of management, the company and its shareholders may diverge such as executive remuneration, succession planning, changes of corporate control, take-over defences, large acquisitions and the audit function." (p. 64).

Cotter and Silvester (2003) find evidence that Australian companies benefit from the existence of independent NEDs on the boards. Bhagat and Black (2002) find that companies suffering from some difficulties respond by increasing the proportion of independence NEDs on their board. However, Stapledon and Lawrance (1997) and Lawrence and Stapledon (1999) offer the following suggestions as to why independent directors fail to add value to their firms:

a) There may be a lack of efficiency or effectiveness when independent directors perform a monitoring role;
b) Sometimes poor performance is related to the company's history and has nothing to do with independent directors;
c) Independent directors may be a minority compared to executive directors and affiliated non-executive directors;
d) Some independent directors may lack ability or their other engagements may prevent or limit their contribution;
e) Monitoring by independent directors may be seen as a hindrance in some situations (e.g. decision-making in high-volatility environments);

f) There may be personal relationships between independent directors and the CEO;
g) Independence may be diluted by working as an independent director for many years;
h) If the independent directors are executive directors in other firms, that may affect their desire to monitor.

However, the literature indicates the major role that independent non-executive directors are assumed to play on the board which could help to monitor management and ensure that the interests of different parties are considered when making decisions. At the same time, it is critical that independent NEDs have appropriate independence and are able to fulfil their expected roles.

2.2.3.6 Role of the Board of Directors

It is essential for every company to have a well-functioning and effective board of directors (Solomon, 2007), and boards of directors should have clearly defined roles, duties, and responsibilities (Mallin, 2004). The UK Combined Code (2006) states that:

> "The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met". (p. 3).

The board is also supposed to monitor and control a company in order to improve corporate governance (Andres et al., 2005). Blake (1999) has identified the main functions of the board of directors as being: providing strategic direction and values; approval of planning; monitoring and control of performance; ensuring organisational capability; awareness of, and compliance with, legal responsibility. From his perspective Walker (2005) points out that boards of directors play three important roles: providing strategic advice to help to maximise long-term values for shareholders; helping to manage risk; and holding management accountable for their actions.

2.2.3.7 Size of the Board of Directors

Some studies have looked at the size of the board of directors in order to suggest an appropriate size for the board. These studies generally indicate that a small board of directors seems to act much better and to be more effective than a large one. Using a sample of 452 large American companies, Yermack (1996) found that a small board of directors is better for companies. Ahmed et al. (2006) also discovered the same result. Furthermore, Eisenberg et al. (1998) investigated the effect of board size on mid-size and small companies, and found that smaller boards were best. Similarly, Huther (1997) found that companies were negatively affected by large boards of directors.

Small boards may thus be better whereas large boards may result in ineffectiveness and lead to the domination by the CEO of the board (Jensen, 1993). A recent study conducted on 450 non-financial companies in 10 OECD countries had results similar to those of previous studies; large board size appears to be worse than a small board, and given the variation in board composition and functions within the sample, large boards may suffer from a lack of c oordination, flexibility and communication, w hich may outstrip the benefits of having large boards (Andres et al., 2005).

2.2.3.8 Board of Directors' Sub-Committees

The board of directors may establish different committees and delegate some activities to these committees which should report to the board about their works, as the board is responsible for these committees' activities (Mallin, 2004). The UK Combined code (2006) recommends three types of committees that board of directors should have, audit; remuneration; and nomination committees. However, companies may establish other types of committee such as risk and executive committees according to companies' circumstances. The following sections discuss three main board sub-committees.

2.2.3.8.1 Audit Committee

The audit committee plays an important role as a board subcommittee. The Smith Report (2003) explains its role thus:

> "While all directors have a duty to act in the interests of the company, the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control." (p. 3).

An analysis of the corporate governance codes of twenty European countries by Collier and Zaman (2005) showed that their codes assign a set of functions which should be fulfilled by an audit committee as follows: a) oversight of external audit; b) oversight of internal audit; c) involvement in external auditor selection or dismissal; d) oversight of risk and internal control reporting by the board; and e) oversight of financial reporting quality. The audit committee functions as a representative of the full board to provide personal contact and communication between the board, external auditors, internal auditors, the finance director and the operating executives (Song and Windram, 2004). Song and Widram (2004) describe one of the audit committee's functions as acting as a final safeguard to approving the financial statements prior to their release to shareholders and other stakeholders.

Haron et al. (2005) from a principal –agent perspective claim that the audit committee is expected to protect the interests of the principals and ensure that the agents carry out their roles in accordance with their contracts. They enumerate three roles for the audit committee: to ensure that management does not override established prudent financial practices and procedures; to assist the board of directors in discharging its responsibilities for financial reporting and internal controls; and to provide an impartial channel for complaints concerning the management and direction of the company. Furthermore, Kala (2001) sees the audit committee's role as assisting the board of directors in overseeing and ensuring the adequate functioning of the internal control mechanisms, monitoring and focusing on the review of financial risk and other aspects of risk management.

2.2.3.8.2 Remuneration Committee

The remuneration committee[1] can be seen as an administrative device that ensures an acceptable degree of integrity in the setting of executive remuneration (Main et al., 2008). As a response to concerns about directors' remuneration the Greenbury Report (1995) stated that:

> "To avoid potential conflicts of interest, boards of directors should set up remuneration committees of non-executive directors to determine on their behalf, and on behalf of the shareholders, within agreed terms of reference the company's policy on executive remuneration and specific remuneration packages for each of the executive directors, including pension rights and any compensation payments." (p. 14).

[1] Remuneration committee called compensation committee in some parts of the literature.

The Greenbury Report did not attempt to reduce directors' salaries, rather, it provided a means of establishing a balance between the salaries and the performance of directors (Solomon, 2007). The UK Combined Code (2006) recommended that companies establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors. The Code stated that:

> "The remuneration committee should consult the chairman and/or chief executive about their proposals relating to the remuneration of other executive directors. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration." (p. 12).

2.2.2.8.3 Nomination Committee

There are two major roles for a nomination committee; the first is identifying the required skills for the replacement of, or the appointment of additional, directors and to approach potential candidates, and the second and more critical is to review the performance of the board on a regular basis (Carson, 2002). As a result, the protection of stakeholders' interests should be greater in companies with a nomination committee than other companies, as the existence of a nomination committee should lead to fewer grey directors[2] compared to other companies that lack a nomination committee (Vafeas, 1999; Shivdasani and Yermack, 1997).

Indeed, the UK combined Code (2006) reports that:

> "There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors." (p. 7).

[2] Grey directors are those directors who may develop a fiduciary relationship to the firm by providing business services for personal gain. Given their potential business ties to the firm, their independence is compromised and they are less likely to protect shareholder interests with the same dedication as unaffiliated outside directors (Baysinger and Butler, 1985).

2.2.4 Ownership Structure

As an essential dimension of corporate governance, many studies have investigated companies' ownership structures and their impact over corporate governance practices. La Porta et al. (1999) identify five different forms of company ownership structure whereby firms may be owned by: a family; the state; a widely-held financial institution (e.g. bank, pension fund or insurance company); a widely-held corporation; or a miscellaneous grouping. It has been argued that a country's legal system has a crucial and direct impact on the ownership structure of firms. In other words, in any country where minority shareholders' rights are protected, there will be many more firms with diversified shareholder bases, while in contrast, in a country where there is less protection of minority shareholders' rights there is discouragement of diverse shareholder bases. Family-controlled firms are more likely to exist, and families are liable to retain control of firms for longer, as a result of investors finding it undesirable to invest in these firms because they see their rights as being unprotected (La Porta et al., 1997; Mallin, 2004). In this context La Porta et al. (1999) argue that:

> "In these countries, controlling shareholders have less fear of being expropriated themselves in the event that they over lose control through a takeover or a market accumulation of shares by a raider, and so might be willing to cut their ownership of voting rights by selling shares to raise funds or to diversify. In contrast, in countries with poor protection of minority shareholders, losing control involuntarily and thus becoming a minority shareholder may be such a costly proposition in terms of surrendering the private benefits of control that the controlling shareholders would do everything to keep control. They would hold more voting rights themselves and would have less interest is selling shares in the market." (p. 473).

La Porta et al. (2002) conducted a study of 539 firms in twenty seven wealthy economies, some with a good regime of protection of minority shareholders' rights and others without. They found that family-controlled firms were the most common; those with widely-held shares, state-controlled firms and those controlled by financial institutions were far less common. They note that there are several advantages of concentrated ownership. For example, it can be a valuable tool to monitor managers, in addition to overcoming agency problems such as the misalignment of interests between shareholders and managers. On the other hand, it may lead to other sorts of agency problems; for instance, controlling shareholders with privileged access to the management may only be concerned with a firm's performance from their own personal interests at the expense of other stakeholders (Kim 2006). La Porta et al. (1999) state that:

> "These firms are run not by professional managers without equity ownership who are unaccountable to shareholders, but by controlling shareholders. These controlling shareholders are ideally placed to monitor the management, and in fact the top management is usually part of the controlling family, but at the same time they have the power to expropriate the minority shareholders as well as the interest in so doing." (p. 511).

Anderson and Reeb (2003) studied family owned firms in the US and note that family firms are better than non-family firms and that it is also better when firms' CEOs are family members. A study by Mishra et al. (2001) found similar results among Norwegian firms. Cadbury (2000) claims that:

> "Family firms have distinctive characteristics from which they can derive significant competitive advantage. A long-term perspective comes from building a business for future generations while the strength of most family firms' founding values gives them a clear identity in an increasingly faceless corporate world." (p. 2).

However, family-controlled firms are not perfect. Klein et al. (2005) did not find any ownership type better than any other amongst Canadian firms; for example, family-controlled firms could face internal obstacles due to disagreements among the family members and between the generations. As mentioned previously, such firms also could suffer from agency problems, there being a concern that managers would tend to act in favour of the family and ignore the other shareholders (Morck and Yeung, 2003). Furthermore, Mishra et al. (2001) state that:

> "One potential drawback of founding family ownership is that these firms might have difficulty accepting professional managers capable of responding to new technology and increased competition. Family businesses can also confiscate corporate property for personal use." (p. 236).

Using a sample of 1500 publicly traded firms in 1935 and 4220 firms in 1995, Holderness et al. (1999) found that the percentage of managerial ownership of publicly traded firms had increased from 13% in 1935 to 21% in 1995, and Cheung and Wei (2006) found that companies with insider ownership do well. In addition, Jensen and Meckling (1976) state that:

> "As the owner-manager's fraction of the equity falls, his fractional claim on the outcomes falls and this will tend to encourage him to appropriate larger amounts of the corporate resources in the form of perquisites. This also makes it desirable for the minority shareholders to expend more resources in monitoring his behaviour." (p. 12).

Jensen and Meckling (1976) identify three elements of agency costs: a) the monitoring expenditures by the principal; b) the bonding expenditures by the agent; c) the residual loss. By studying the relationship between agency costs and ownership structure in small firms, Ang et al. (2000) suggest that the agency costs increase as the equity share of the owner-manager declines, while agency costs increase with the number of non-manager shareholders and out sider-managers increase the agency costs, whereas agency costs should be reduced within family-controlled firms. Also, small firms could reduce agency costs by delegating monitoring to banks. Patibandla (2006) investigated the role of outside investors in overseeing and controlling management. The findings show that outside institutional investors have a positive effect on firms. In countries such as Japan and Germany, large banks play a significant role in raising capital for firms, acting as monitors, and in the case of financial distress, serve as guarantors for other creditors (Morck et al., 2000). Furthermore, the results of a study by Morck and Nakamura (1999) of bank ownership structure in Japan suggests that there is a positive relation between investment expenditure and bank ownership, higher bank ownership being associated with higher company liquidity, with a positive relation between bank ownership and interest costs for firms that meet regulatory restrictions for issuing public debt.

Regarding government ownership, Patibandla (2006) found that government financial investment negatively affected firms. However, Ang and Ding (2006) also investigated government ownership but their results showed that it was beneficial to be a government-linked firm. Ang and Ding argue that:

> "The government can lead in providing risk capital when the venture capital industry is not yet developed, and may serve as a large monitoring shareholder when institutional investors have not yet reached the critical threshold of share ownership. It may set the standard of corporate governance for other privately controlled companies to emulate. However, it should be recognized that, beyond the transition period of development, when the economy is developed and other institutions and mechanisms for control are in place, government-linked firms may outlive its usefulness and be phased out." (p. 66).

However, a review of the ownership structure literature indicates that each type of ownership has some problems related to it. Insider ownership may decrease the agency cost but this may lead to greater control over a company resulting in less consideration for other stakeholders' interests.

2.2.4.1 Institutional Investors

Institutional investors consist of organisations such as insurance companies, investment trusts, pension funds, and unit trusts. The importance of institutional investors arises from the significance of the proportion they own in their investee companies, so they are expected to play a role equal in importance with their holdings. Mallin (1996) states that institutional investors own between 65% and 75% of British quoted companies, and in the US between 47% and 50%. Table 2.2 shows the ownership structure in the largest six industrial countries and indicates the significant proportions of equities that institutional investors have in these markets.

For example, according to the UK Combined Code (2006), institutional investors should undertake:

a) Dialogue with companies: "Institutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives." (p. 19).

b) Evaluation of governance disclosures: "When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional shareholders should give due weight to all relevant factors drawn to their attention." (p. 19).

c) Shareholder voting: "Institutional shareholders have a responsibility to make considered use of their votes." (p. 20).

Furthermore Figure 2.1 signifies the increase in the amount of investments of institutional investors in OECD countries from 1989 to 2001. Consequently, institutional investors should recognize their responsibility to control firms in which they invest by practicing their right to vote; indeed, they should take it as a fiduciary duty (Mallin, 2001).

However, many questions should be raised in regard to institutional investors, such whether they have the appropriate experience and skills to participate in controlling and as managing investee companies; the accountability they seek in investee companies (Jackson, 2001); and they have a long-term view of their investee companies.

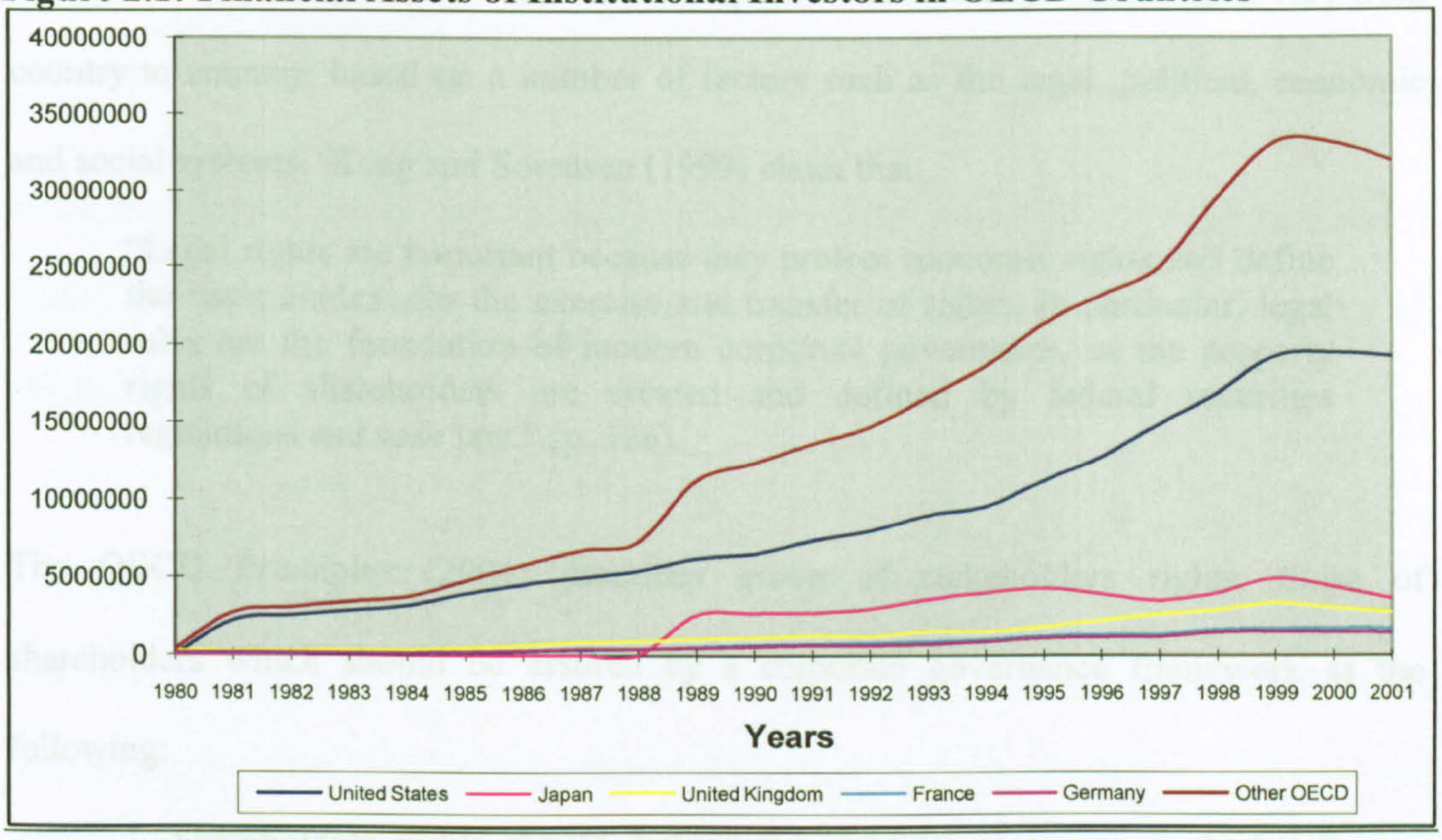
Table2.2 The Ownership Structure of Common Stock in the Six Largest Industrial Countries

	France 1994	USA 1994	Japan 1992	Germany 1993	Italy 1994	UK 1993
Financial institutions	**7.8**	**44.5**	**48.0**	**29.0**	**7.8**	**61.8**
Banks	3.8	0.1	18.9	14.3	4.4	0.6
Insurance	1.9	6.0	19.6	7.1	3.4	17.3
Other	2.1	38.4	9.5	7.7	--	43.9
Non-financial institutions	**92.2**	**55.5**	**52.0**	**71.0**	**92.2**	**38.2**
Non-financial enterprises	57.9	--	24.9	38.8	24.5	3.1
Households	19.5	51.4	22.4	16.6	50.5	17.7
Government	3.7	--	0.7	3.4	8.0	1.3
Foreigners	11.1	4.2	4.0	12.2	9.2	16.3

Source: OECD Economic Surveys (1997)
Note: The Table show the percentage of different ownership types in the six largest industrial countries.

Jackson (2001) recognizes that there are barriers to institutional investors' participation in voting, including the free-rider effect. Whereby, when one institution takes an activist stance, all the others reap the benefits, questioning the rationality of individual activism. He also suggests that activism might manifest itself in differing ways, including through formal and informal meetings with investee companies, which can achieve the required results without any damaging effects on the company. Webb et al. (2003) claim that it is impossible to expect institutional investors to have a long-term partnership with investee companies, such as those of banks, because they have different constraints, objectives, horizons and abilities. Graves and Waddock (1994) support the contention that institutional investors have a short-term perspective. Furthermore, Sherman et al. (1998) found that not all institutional investors are "patient investors".

Figure 2.1: Financial Assets of Institutional Investors in OECD Countries



Source: OECD (2002)

Note: The Figure shows the total financial assets of institutional investors in OECD countries (United States, Japan, United Kingdom, France, Germany and Other OECD countries) in million US dollars and as percentage of GDP.

Farrar and Girton (1981) suggest that business relationships between institutions and their portfolio companies may tend to diffuse the identity of interests between institutional and other stockholders, and may even introduce a conflict between the interests of the institutions and the beneficiaries of the portfolios under their management.

2.2.4.2 Shareholders' Rights

As mentioned above, the separation of ownership and control is a widely adopted model in the world of business, which leads to a situation where managers, and possibly majority shareholders, control and manage firms, whereas minority shareholders are without any authority to intervene in a firm's business; consequently, it is very important to protect minority shareholders and other stakeholders by giving them some rights to ensure that they are protected from the other parties' ascendancy. These rights vary from country to country, based on a number of factors such as the legal, political, economic and social systems. Kang and Sorensen (1999) claim that:

> "Legal rights are important because they protect economic rights and define the basic context for the exercise and transfer of rights. In particular, legal rules are the foundation of modern corporate governance, as the property rights of shareholders are created and defined by federal securities regulations and case law." (p. 126).

The OECD Principles (2004) describes group of stakeholders rights, those of shareholders which should be assured by a corporate governance framework as the following:

> 1. Shareholders rights should include the right to: a) secure methods of ownership registration; b) convey or transfer shares; c) obtain relevant and material information on the corporation on a timely and regular basis; d) participate and vote in general shareholder meetings; e) elect and remove members of the board; and f) share in the profits of the corporation.
>
> 2. Shareholders should have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes cush as: a) amendments to the statutes, or articles of incorporation or similar governing documents of the company; b) the authorisation of additional shares; c) extraordinary transaction, including the transfer of all or substantially all assets, that in effect result in the sale of the company.
>
> 3. Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures, that govern general shareholder meetings: a) shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting; b)shareholders should have the opportunity to ask questions to relating to the annual external audit, to place items on the agenda of general meetings,

> and to propose resolutions, subject to reasonable limitations; c) effective shareholder participation in key corporate governance decisions, such as the nomination and election of board members, should be facilitated; d) shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.
>
> 4. Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.

It has been argued that greater protection of stakeholders, especially shareholders' rights should help monitor managements and increase a company's performance (Jiraporn and Gleason, 2007; and Chi, 2005).

2.3 Corporate Governance in Emerging Markets

The term 'emerging market' is used to refer to the markets of developing countries that have grown in recent decades. According to Singh (2003), most emerging markets are not active markets for corporate control in the Anglo-Saxon sense; these markets are likely to be even more imperfect and suffer from greater informational deficits than markets in the US and the UK. Emerging markets are different from developed markets in areas such as accounting transparency, liquidity, corruption, volatility, governance, taxes and transaction costs (Bruner et al., 2002).

It has been widely discussed that the weakness of corporate governance is one of the most significant reasons for the waves of economic crisis suffered by emerging markets. For example, Singh and Zammit (2006) assess the most important defects of the Asian way of doing business as follows: a) poor corporate governance; b) the poor state of competition; c) the close relationship between government, business and banks, which leads to crony capitalism. Oman et al. (2003) report that:

> "In developing countries, the widespread preponderance of smaller firms that do not have listed shares, and of large family-owned, state-owned and/or foreign-owned companies whose shares are also not widely traded locally, is thus an important reason why the potential importance of corporate governance was long ignored." (p. 7).

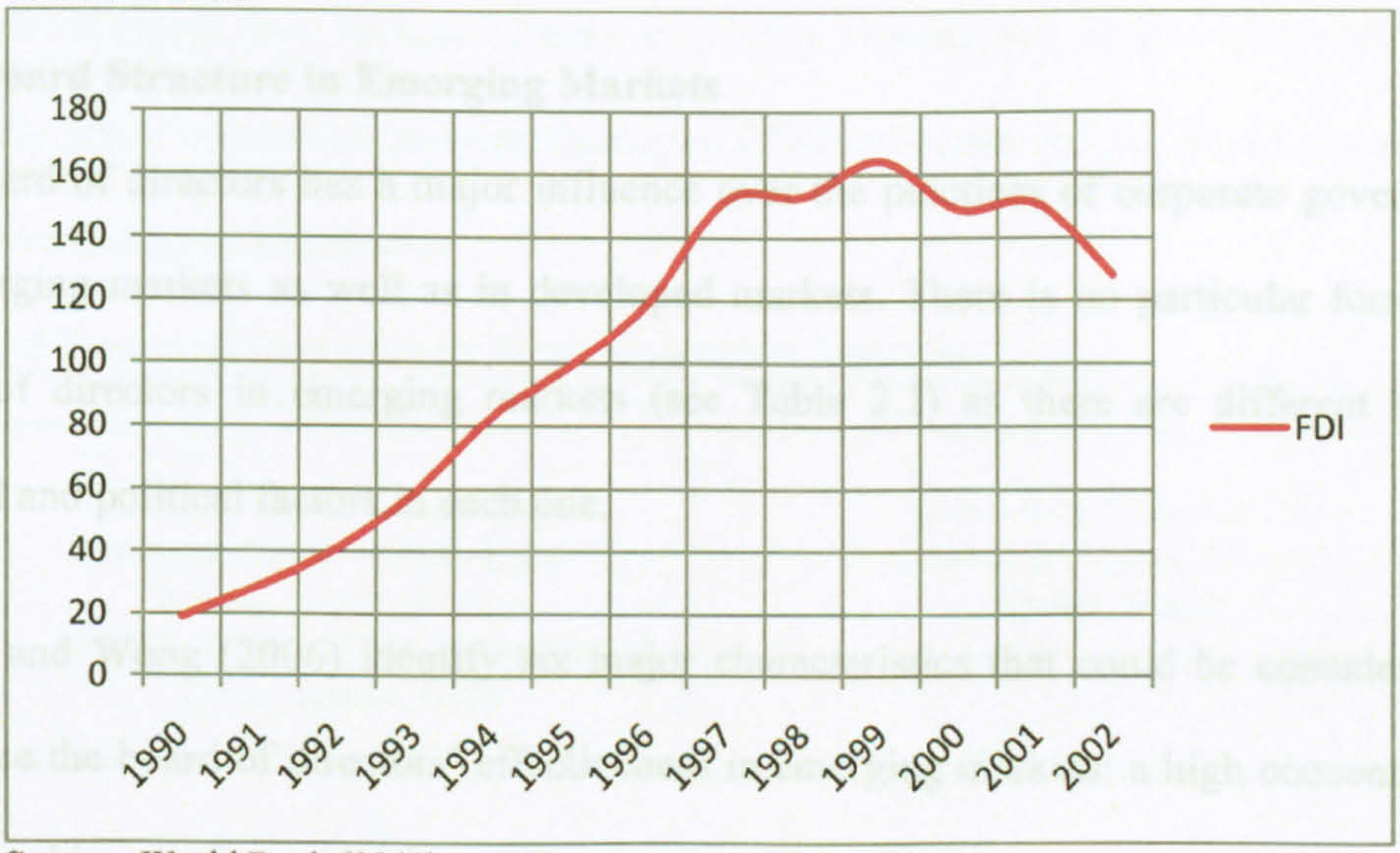
Singh (2003) believes that emerging markets are unlikely to introduce satisfactory solutions to serious corporate governance issues. Consequently, it is essential for emerging markets to develop their standards of corporate governance, as better corporate governance will help companies in those markets to avoid any potential crises. However, although these markets are still less developed as a whole, some emerging markets (in 30 of 150 developing countries) are in transition to higher levels of economic development, while pre-transition countries also offer interesting investment opportunities (Bruner et al., 2002). As better corporate governance is good for companies (Klapper and Love, 2004) it necessary for these markets to encourage companies to have good corporate governance practices. In addition, Singh (2003) states that:

> "Although there might be shortcomings in corporate governance in many developing countries, leading emerging countries have vibrant product markets, displaying as much intensity of competition as that observed in advanced countries. Further, despite the capital market imperfections, stock markets in these countries have been growing fast and contributing significantly to corporate growth through new primary issues." (p. 460).

2.3.1 The Importance of Corporate Governance in Emerging Markets

Bruner et al. (2002) argue that emerging markets will continue to attract foreign investors, adding that the economies of roughly 30 emerging countries widely followed by investors are growing at real rates two or three times higher than those of developed countries, and the roughly 150 countries not regarded as developed are not only huge but also account for the predominance of the world population, land mass and natural resources. Figure 2.2 shows the foreign investment in emerging markets between 1990 and 2002. The Figure indicates a rapid increase in foreign direct investment in emerging markets.

Figure 2.2 Foreign Direct Investments in Emerging Markets between 1990 to 2002



Source: World Bank (2003)

Note: The Figure shows the foreign direct investments in emerging market in billion US dollars in twelve years.

Good corporate governance plays a significant role in attracting foreign investors and is a good motivation for emerging markets to develop their corporate governance systems (Black et al., 2006). Furthermore, good corporate governance has a crucial role to play in helping emerging markets to increase the flow and lower the cost of the financial capital that firms need to finance their investment activity; this role has grown significantly recently and is likely to continue, as the needs of corporations for extra-firm finance to supply those needs has greatly diminished (Oman, 2001). Oman et al. (2003) go so far as to state that:

> "Corporate governance matters not only because the health of a country's corporate sector matters for the country's entire economy but because the quality of a country's institutions of governance matters greatly for national development. The ability to move from heavily relationship-based to predominantly rules-based institutions of corporate as well as public governance is central to the success of the long-term development process in all countries." (p. 8).

2.3.2 Board Structure in Emerging Markets

The board of directors has a major influence over the practices of corporate governance in emerging markets as well as in developed markets. There is no particular form of a board of directors in emerging markets (see Table 2.3) as there are different social, cultural and political factors in each one.

Barton and Wong (2006) identify six major characteristics that could be considered to influence the board of directors' effectiveness in emerging markets: a high concentration of ownership; weak recruitment processes and a shortage of experienced directors; poor focus; an inadequate supply of information; complex cultural traditions; and underdeveloped legal regimes.

Various studies have examined boards of directors in emerging markets and identified certain characteristics. For example, Chen et al. (2006) conducted a study in China to explore the relationship between fraud and board structure as an aspect of corporate governance. The results indicate that boardroom characteristics are a factor in explaining fraud and that a company could reduce fraud by increasing the number of outside directors on the board of directors. Another study in Greece indicates that concentrated ownership leads to strong ties between major owners and management and that the board of directors is generally very passive and follows management's decisions. Further, non-executive directors in these companies, who should look after stakeholders' interests, do not actually supervise the management efficiently (Spanos, 2003). Furthermore, studying the top 50 Egyptian listed companies, Abdelsalam et al. (2008) do not find any significant evidence that board of directors' composition has any impact over Egyptian companies. However, Kaymak and Bektas (2008) in Turkey, found that more insider directors positively affect companies and that duality of CEO and chairman and board tenure have a negative impact on companies.

Table 2.3 Board of Directors in Some Emerging Markets

Unitary	Dual
Greece, South Korea, India, Malaysia, South Africa, Uganda, Kenya, Egypt, Jordan, Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, UAE	Czech Republic, Poland, Russia, Hungary, Taiwan, China, Brazil

However, other studies found different results. For example, in Thailand the composition of the board of directors' has a positive impact over companies (Connelly and Limpaphayom, 2004), and Choi et al. (2007) find that a greater proportion of outside directors is better for Korean companies.

These results indicate that there is no clear pattern that explains the influence of the composition of boards of directors over companies in emerging markets.

2.3.3 Ownership Structure in Emerging Markets

It has been discussed above that ownership structure has a major impact over companies' practices of corporate governance. This section reviews some studies that deal with ownership structure in emerging markets.

Claessens et al. (2000) study the ownership structure of East Asian firms by using data from 2980 publicly traded companies from nine countries. The results, supported by La Porta et al. (1999), indicate that the separation of management from ownership control is rare in those countries, due to the fact that more than two thirds of firms are controlled by a single shareholder. Furthermore, ownership of about 60% of firms whose shares are not widely held are related to the family of the controlling shareholder. They also find that large families control more than half of firms; however, there are differences from one country to another: firms in Indonesia and Thailand are mainly family controlled, while state control is significant in Indonesia, Korea, Malaysia, Singapore and Thailand, whereas in Japan, a developed country, firms are generally widely held.

A study conducted in Malaysia to study corporate finance and governance structure before and after the financial crisis, suggests that ownership concentration helps to mitigate conflict between managers and owners (Suto, 2003). Kim (2006) examines the impact of controlling families' block ownership and capital structure on the productivity of Korean firms. He presents evidence that family ownership concentration is associated positively with firm-level productivity performance. Xu and Wang (1999) studied the impact of ownership structure on publicly listed companies in China, and emphasised the importance of large institutional shareholders in corporate governance, the inefficiency of state ownership, and the potential problems in an overly-dispersed ownership structure.

Other research has focussed on the role of foreign investors in emerging markets. An empirical study by Patibandla (2006) shows that a stronger presence of foreign institutional investors has a positive impact on companies, whereas firms that depend on their own government's financial institutions for external finance are worse; Patibandla (2006) goes so far as to state that:

> "In recent years, several developing economies have opened their financial and equity markets to foreign institutional investors. These institutional investors not only are able to invest in information to monitor and discipline managers of firms but also to bring in efficient tools to monitor agents. This should improve corporate governance in developing economies by increasing transparency and thereby facilitating convergence of basic tenets of institutional conditions." (p. 40).

In the same context, studying the effects of the economic crisis in Korea, Baek et al. (2004) found that firms with large equity ownership by foreign investors were much better than those whose ownership was concentrated in the hands of owner-managers or affiliated firms. In addition, Suto (2003) found that foreign ownership was beneficial in the financial liberalisation in Malaysian companies.

Lins (2003) investigated ownership structure using data from 1433 firms in 18 emerging markets and provides evidence that large non-management block-holders can be beneficial to firms. Douma et al. (2006) argue that the effect of ownership in emerging markets is likely to be different: the external mechanisms are less developed in emerging markets, so the governance of listed corporations takes place mainly through internal mechanisms; furthermore, institutional factors like family-run business groups play a distinctive role. However, they add that in these markets government-controlled financial institutions are often important shareholders and have different incentives and objectives from those of other stakeholders.

However, these studies show that the ownership structure in emerging markets is mainly concentrated on family, state or institutional investors. These major stakeholders have a direct impact on companies, and companies with a concentrated ownership, especially companies with family and institutional investors as owners, perform much better than dispersed ownership structure companies.

2.3.4 The Legal System in Emerging Markets

A country's legal system generally influences corporate governance, not only laws related to corporate governance but also other laws that may impact on corporate governance practices (Luo, 2007). However, countries with a civil law system usually have ineffective stakeholders' protection (Mallin, 2004).

Klapper and Love (2004) use data from 14 emerging markets to explore the differences in firm-level governance mechanisms and their relationship with a country's legal environment. They find that: 1) firms in countries with weak overall legal systems have on average lower governance rankings; 2) firm-level governance is correlated with measures such as firm size, sales growth and intangibility of assets; 3) firms that trade shares in the United States have higher governance rankings, especially those based in countries with weak legal systems; and 4) good governance is positively correlated with performance. Klapper and Love (2004) suggest that companies could improve stakeholders' protection by increasing disclosure, selecting well-functioning and independent boards, and imposing disciplinary mechanisms to prevent management malpractice.

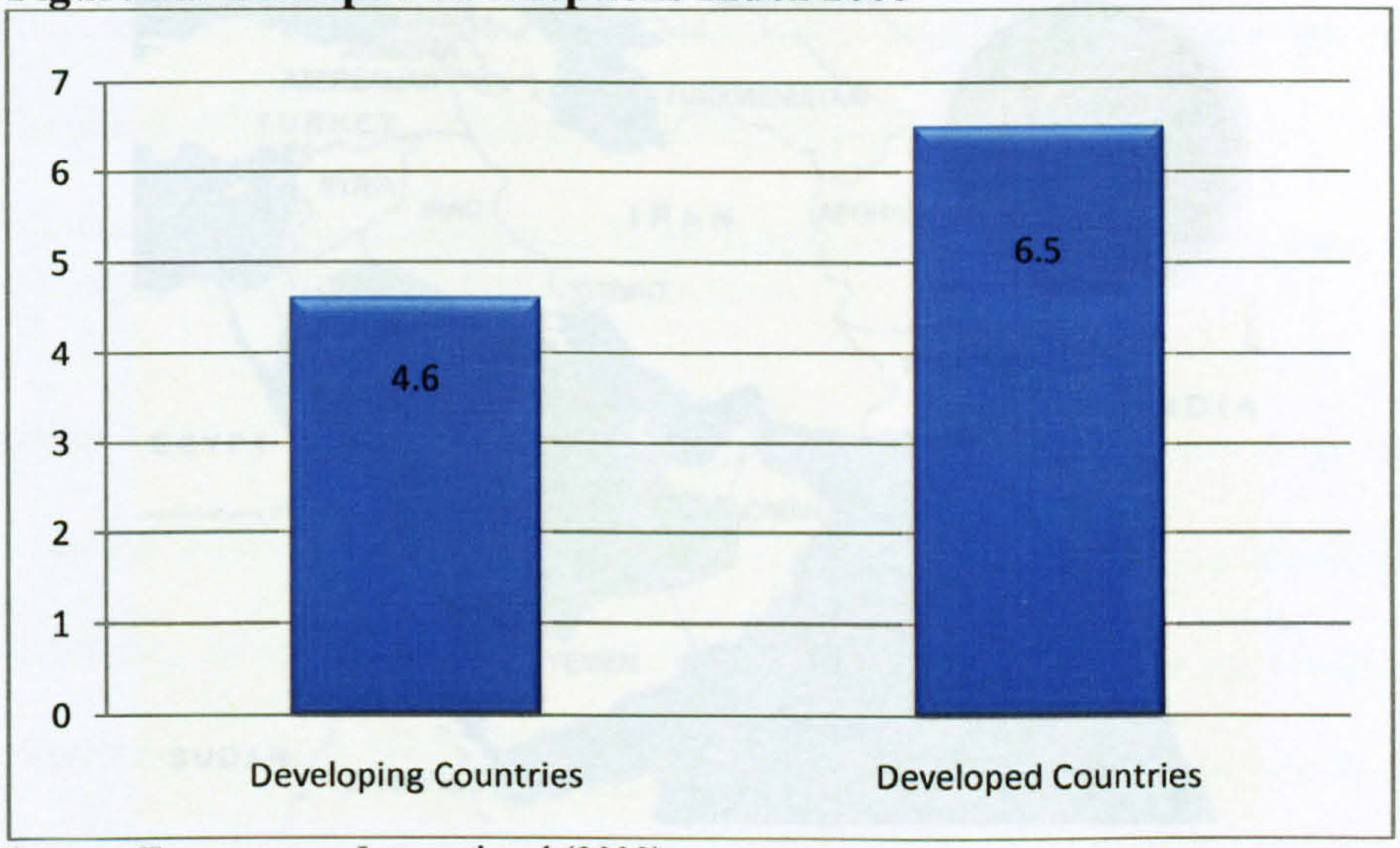
Doidge et al. (2007) claim that country characteristics are expected to play an overwhelming role as a determinant of governance in poorly developed countries. Furthermore, they state that it is costly to improve stakeholders' protection in countries with weak development, because the institutional infrastructure is lacking and good governance has political costs. Consequently, in such countries the benefits of improving governance may be weaker because their capital markets lack depth.

2.3.5 Corruption in Emerging Markets

Transparency International defines corruption as the misuse of entrusted power for private gain. Corruption includes activities such as bribery, fraud, extortion, and favoritism (Luo, 2007). Although different markets suffer from corruption, emerging markets in developing countries in general have a more corrupt environment (see Figure 2.3) and weaker corporate governance institutions; therefore, financial markets tend to price assets in emerging markets at a discount with respect to comparable assets in developed markets (Bruner et al., 2002).

Using firm-level data from 43 countries, Lee and Ng (2004) investigate the impact of corruption on companies. Their results indicate that firms from more corrupt countries trade at significantly lower market multiples and vice versa. Further analysis shows that this result is attributable primarily to higher required rates of equity return in more corrupt countries. Another study conducted by Wu (2005) looked at the linkage between corporate governance and corruption; the results suggest that the improvement in corporate governance may be a catalyst to break the vicious cycle of bribery and corruption. He also found that firms from countries with lower corporate governance standards are more likely to be involved in bribery practices when they export goods or services to other nations. Therefore, improving corporate governance in some leading exporting nations should be a top priority in the global anticorruption campaign.

Figure 2.3 Corruption Perceptions Index 2005



Source: Transparency International (2009).
Note: The score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

2.4 Corporate Governance in Saudi Arabia

The third section of this chapter concentrates on corporate governance in Saudi Arabia. It starts with a general background to the Kingdom including political, social and economics issues and the legal system in Saudi Arabia as an important feature of corporate governance framework.

2.4.1 Background to Saudi Arabia

In order to study the business environment in Saudi Arabia it is necessary to give a general background concerning a number of aspects of Saudi politics, economics and culture. This section will provide a brief background to Saudi Arabia by showing the most important aspects of the Saudi environment.

Figure 2.4 Map of the Kingdom of Saudi Arabia

King Abdulaziz Al-Saud (1880–1953) announced the foundation of the Kingdom of Saudi Arabia on 23 September 1932, after great efforts to unite the different parts of the Arabian Peninsula under one flag (Al-Angari, 1999; Al-Turaiqi, 2008) and the country has since become one of the most significant in the Middle East. As shown in Figure 2.4, Saudi Arabia is located in the South West of Asia, having an area of about 2,100,000 square kilometers (868,730 square miles), with a population of 24 millions; the annual population growth was 3% in 2006 (World Bank, 2009).

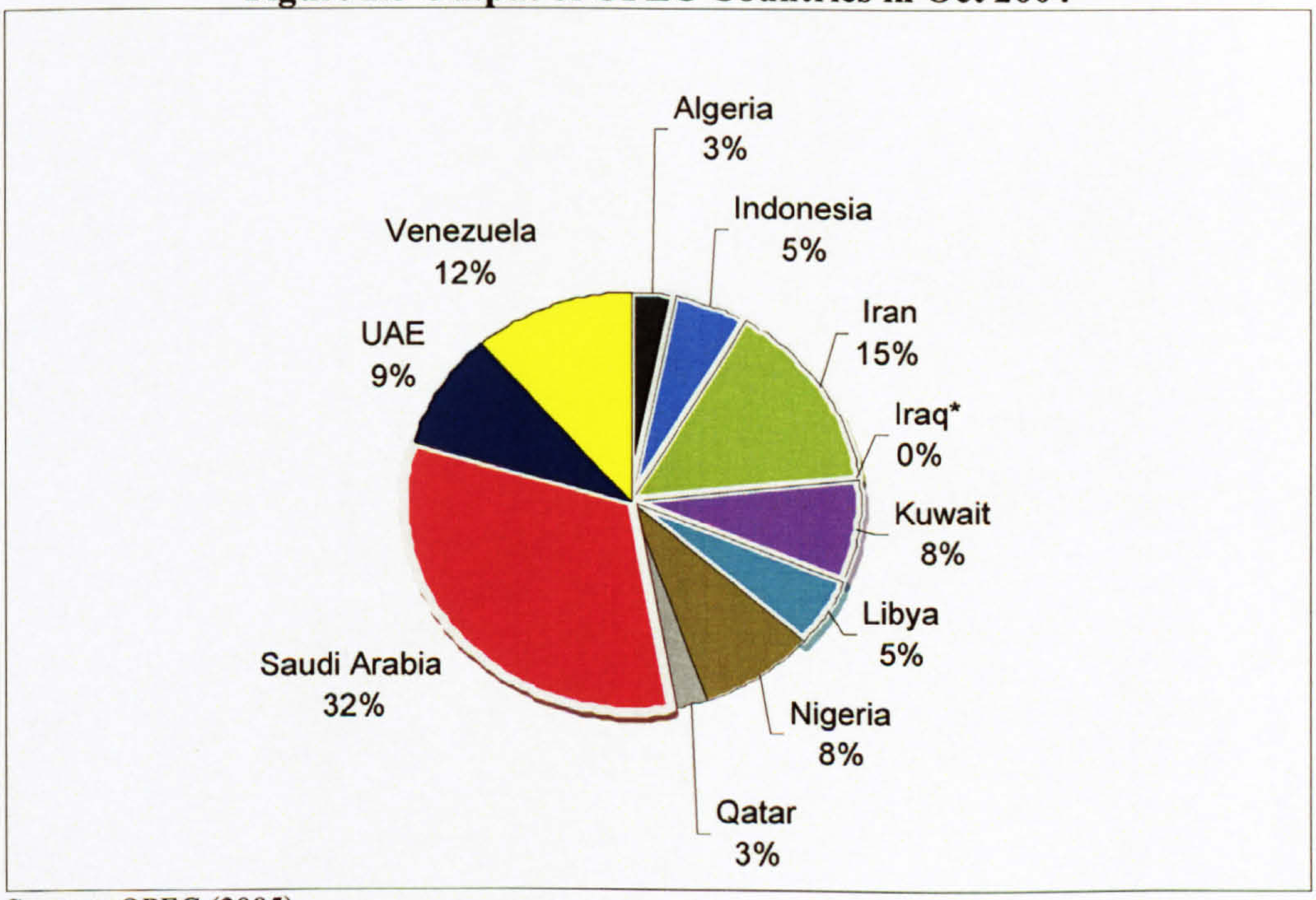
The system of governance in Saudi Arabia is a monarchy, limited to male descendants of King Abdulaziz. It is a centralized system, the King being the head of the Council of Ministers, which is responsible for the management of the internal and external affairs of the Kingdom, in addition to organising and coordinating the various branches of government (Fundamental Governance System, 1992). Furthermore, the three fundamental powers, executive, legislative and judicial, are vested in the King. According to the Fundamental Governance System, the Saudi constitution is based on the Holy Quran and all legislation is subject to Islamic law (Ministry of Foreign Affairs, 2007). Chapter 8 of the Fundamental Governance System states that:

> "Governance in the Kingdom of Saudi Arabia rests on fairness, consultation and equality, pursuant to Islamic legislation."

Saudi Arabia has a special position in the Islamic world because it contains the holiest Moslem sites of Mecca (the direction of prayer for more than one billion Muslims) and Medina (the city of which prophet Mohammed (PBUH) emigrated and where he is buried). Furthermore, it is the land of prophecy and the cradle of Islam, which spread from there to all parts of the earth. Each year about two and a half million Muslims come to these holy lands to take part in the Hajj (pilgrimage). The Islamic religion has a distinct influence on most aspects of life in Saudi Arabia, and this goes back to the establishment of the Kingdom, when Mohammed Ibn Saud (the political leader) agreed with Sheikh Mohammed Ibn Abdulwahhab (the religious leader) in 1744 to set up a state (the first Saudi State) occupying most of the Arabian peninsula, governed by the House of Al Saud (from which Saudi Arabia takes its name) and adopting Islamic legislation (Al-Rumaihi, 1997; Al-Turaiqi, 2008 ; and Bowen, 2008). Saudi Arabia is a charter member of the Gulf Cooperation Council (GCC), the League of Arab States (LAS), the Organisation of the Islamic Conference (OIC) and the United Nations (UN).

Saudi Arabia is a developing country; its economy depends on oil exports, which are the main source of national income (90–95% of total national income and 35–40% of GDP). It is estimated to hold about one quarter of the world's proven oil reserves and will continue as the largest producer of oil for the foreseeable future (Ministry of Economy and Planning, 2007). It is presently the dominant producer, having produced 32% of OPEC output in 2004 (OPEC, 2005) (See Figure 2.5).

Figure 2.5 Output of OPEC Countries in Oct 2004

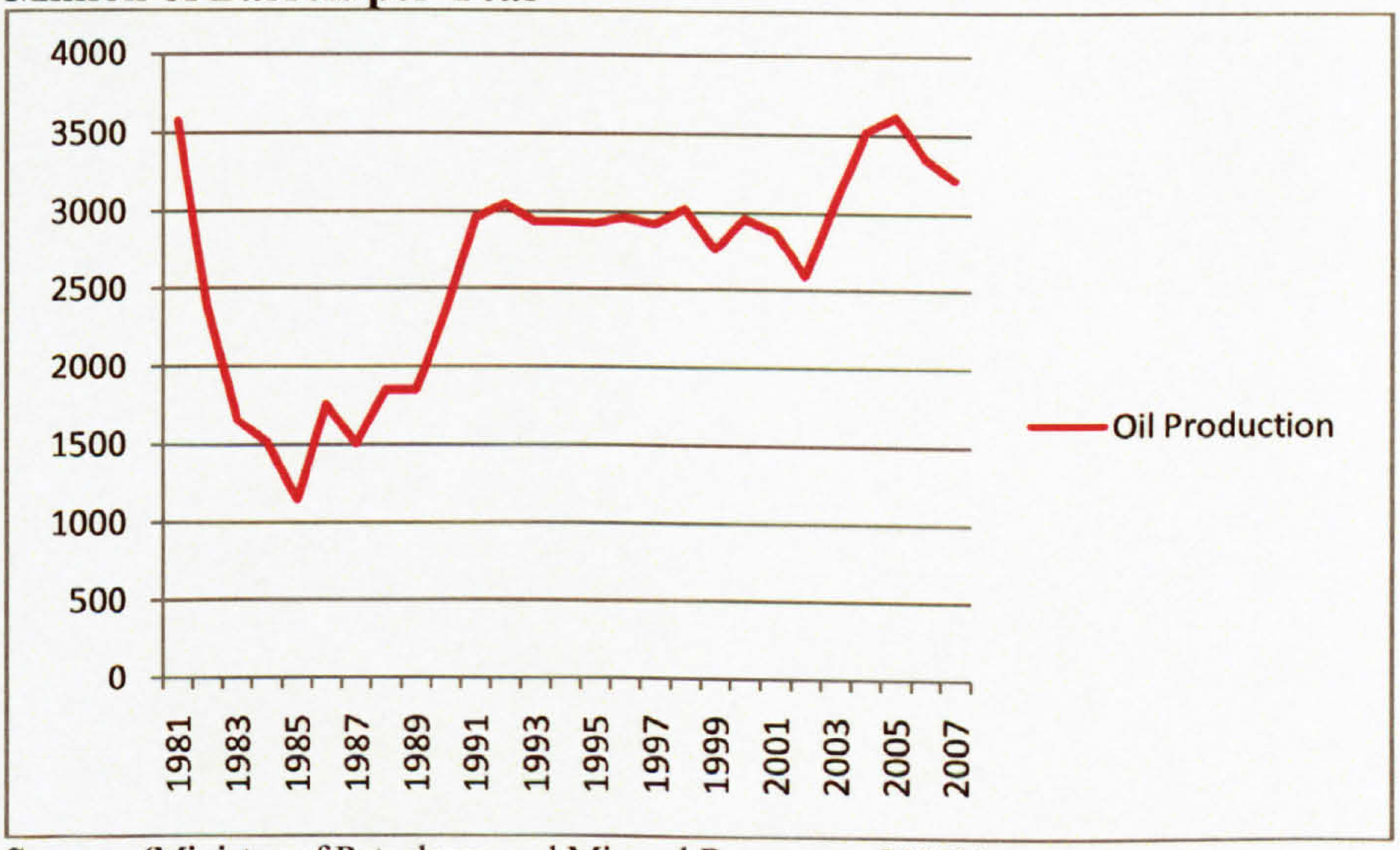


Source: OPEC (2005)

Note: The Figure shows the oil production of OPEC's countries in October 2004.
*Iraqi production was stopping in this time because of the war.

Saudi produces about 11% of the world production of oil and Figure 2.6 shows the Saudi yearly production of oil from 1981 to 2007. The Figure indicates that the average in 2006 was 8.9 million barrels per day and it is planning to increase its production capacity to 12.5 million barrels per day by 2010 (MPMR, 2007a). Ras Tanura Port in the Eastern coast of Saudi witnessed the first Saudi oil shipment in May 1939 to the international market (MPMR, 2009a). Since then, oil has played, and still plays, a significant role in the life of Saudi Arabia. This also will continue in the future, as the Ministry of Petroleum and Mineral Resources (MPMR) estimates that the proven and recoverable reserves of oil in Saudi are about 260 billion barrels, and undiscovered resources are conservatively estimated at 200 billion barrels. Six new oil and gas fields discovered between 2004 and mid 2005 in the Kingdom, these all indicate that Saudi Arabia will be able to produce oil for more than a hundred years into the future (Cordesman, 2003; MPMR, 2007a).

Figure 2.6 The Saudi Oil Productions between 1981 and 2007 in Million of Barrels per Year



Source: (Ministry of Petroleum and Mineral Resources, 2009b)
Note: The Figure shows the daily average of oil production by Saudi Arabia in million of barrels.

Although it is a huge country (equal in size to the UK, France and Germany together), it lacks natural resources such as rivers and lakes. Indeed, about 80% of its area is desert. Life before 1938 (when oil was discovered) was very simple, and Saudi Arabia was one of the poorest countries in the world. The rate of change has been particularly great since the 1970s, especially after the remarkable increases in oil prices. The government started five-year plans at this time, targeting the development of the education and healthcare systems and improving the infrastructure for many aspects of life. All of that would have been impossible without oil.

Today in Saudi Arabia there is a trend towards reform in politics and business; it is now ranked as the 59th least corrupt country. The government has recently updated its regulations and systems to fulfill the WTO's requirements. In December 2006, Saudi Arabia became the 149th member of the WTO, after very long rounds of negotiations over the last 12 years (Ministry of Commerce and Industry, 2006). Also in this field, the government has created the Saudi Arabian General Investment Authority (SAGIA), which aims to improve the investment environment and remove the obstacles with which both local and foreign investors have been faced.

2.4.2 The Legal Framework in Saudi Arabia

The legal system in operation before the establishment of the Kingdom of Saudi Arabia can be categorized as of two kinds, the Desert Adjudication, and the second, the Metropolitan Adjudication. The Desert Adjudication a pplied in most of the Arabian Peninsula, where the land was occupied by Arabian tribes and clans, who lived in traditional way dominated by customs and tradition; those transmitted conventions have affected the nature and procedures of the legal system in those areas, in addition to Islamic legislation. The other type of legal system, which applied in the more urban areas, was the so-called Metropolitan Adjudication. Due to the cultural diffusion of academic learning and sciences in the cities, people were aware of the role and importance of the existing legal system, based on Islamic legislation. Furthermore, the availability of qualified educators, because of the spread of religious education, contributed to the strengthening of this system (Ministry of Justice, 2007).

After taking power, King Abdulaziz became concerned about the legal system as part of reorganising his new country; the adjudication was very simple and its procedures suffered from lack of organisation and construction, so the establishment of a proper legal system was an urgent requirement at this stage of the country's history. Consequently, King Abdulaziz issued sets of regulations to organise the status of the courts and to ensure the hegemony and independence of the judiciary (Ministry of Justice, 2007). In particular, the King stressed that Islamic legalisation was the fundamental basis of the legal system, adopting more specifically the *Hanbli* doctrine, one of the four doctrines of *Sunnism* (The Islamic Sunni party regulations follow four major schools that belong to their scholars' thoughts named as: *Malki*, *Shafeai*, *Hanafi* and *Hanbli*).The Law of the Judiciary issued by the Royal Decree No. M/64 in 1975 painted the broad lines of the legal system in the KSA. Article No. 1 stated that:

> "Judges are independent and, in the administration of justice, they shall be subject to no authority other than the provisions of *Sharia* (Islamic legalisation) and laws in force. No one may interfere with the Judiciary."

According to the Law of the Judiciary (1975), courts in the KSA have four forms:

a) **The Supreme Judicial Council,** whose role is to supervise the courts in addition to looking into issues required by the King or the Minister of Justice. The Council is composed of eleven members: five full-time members of the rank of Chief of the Appellate Court, who shall be appointed by Royal Order; five part-time members, who shall be the Chief of the Appellate Court or his deputy, the Deputy Minister of Justice, and three among those having the longest service as Chief Judges of the General Courts in the major cities; presided over by the Chairman of the Council.

b) **The Appellate Court**, composed of a Chief Judge and a sufficient number of judges. The Court shall have a panel to look into criminal cases, another to examine cases of personal status, and a third to look into other cases. The deputies of the Chief Judge of the Appellate Court are appointed by the Minister of Justice on the recommendation of the Supreme Judicial Council. Appellate Court decisions become final only when approved by the Minister of Justice.

c) **General Courts,** composed of one or more judges appointed by the Minister of Justice on the recommendation of the Supreme Judicial Council.

d) **Summary Courts,** similarly composed of one or more judges appointed by the Minister of Justice on the recommendation of the Supreme Judicial Council.

Articles No. 53 and 54 state that the appointment, promotion and remuneration of the judges shall be effected by a Royal Order based on the decision of the Supreme Judicial Council, stating that the statutory conditions in every individual case have been fulfilled. On the other hand, according to article No. 87, the role of the Ministry of Justice is to:

> "Assume the administrative and financial supervision over the courts and other judicial panels, take actions, and submit to the appropriate authorities such proposals and projects as may secure the proper standard for the justice system in the Kingdom. It shall also study the proposals and decisions

which it receives from the Supreme Judicial Council, and submit to the High Authorities those which require issuance of Royal Orders or Decrees."

2.4.3 Corporate Governance in Saudi Arabia

This section highlights the issues in relation to corporate governance in Saudi Arabia such as: the companies regulatory, supervision and monitoring bodies; the accounting and auditing profession; other corporate governance aspects; the corporate governance code; and the major studies that have looked at corporate governance in Saudi Arabia.

2.4.3.1 Companies Regulatory, Supervision and Monitoring Bodies in Saudi Arabia

There are four major bodies in charge of regulating, supervising and monitoring companies in Saudi Arabia. The Consultative Council, the Ministry of Commerce and Industry, the Capital Market Authority and the Saudi Organization for Chartered Public Accountants which will all be briefly described.

2.4.3.1.1 The Consultative Council (*Shura* Council)

The Consultative Council holds legislative power in the KSA established by Royal Decree No. A/91 in 1992. It consists of one hundred and fifty members chosen by the King, their nomination depending on their knowledge, experience and education in various fields, such as management, economics, politics, education, health and the military. Council members' ranks, rights, duties and all their affairs are defined by royal decree. Article No. 15 of the Consultative Council law which defines the Council's function as to express its opinion on the general polices referred by the Prime Minister. Its duties include:

a) Discussing general plans for economic and social development and giving its view;

b) Revising laws and regulations, concessions, international treaties and agreements, and making whatever suggestions it deems appropriate;

c) Analyzing laws;

d) Discussing the annual reports of government agencies and attaching new proposals when it deems it appropriate.

In relation to Consultative Council decisions Article No. 17 of Shura Council Law (1992) states that:

> "The Council's resolutions shall be submitted to the King, who decides what resolutions are to be referred to Cabinet. If the views of both the Shura Council and the Cabinet agree, the resolutions are issued after the King's approval. If the views of both councils vary, the issue shall be returned to the Shura Council (Consultative Council) to decide whatever it deems appropriate, and send the new resolution to the King, who takes the final decisions."

2.4.3.1.2 The Ministry of Commerce and Industry (MCI)

The Ministry of Commerce and Industry is considered as the major body that looks after companies in Saudi Arabia. The MCI is responsible for regulating and supervising and monitoring all kinds of companies, and it has, by law, to ensure companies' compliance with The Company Act and other related regulations. One of the main roles that the Companies General department at the MCI holds is studying and authorising the applications of establishing new joint stock companies and reviewing the articles of incorporation. In addition, the ministry is responsible for registering and monitoring companies' businesses and checking companies' balance sheets and supervising the implementation of the Company Act (TMCI, 2007a).

2.4.3.1.3 The Capital Market Authority (CMA)

The CMA which was established by royal decree in 2004 is an independent government organisation and reports directly to the Prime Minister. For the purpose of regulating and developing the Saudi capital market, the CMA issues rules and regulations for the implementation of the provisions of Capital Market Law (the CMA, 2007). However, in order to achieve its goals, the CMA is authorised to (the CMA, 2007):

- Regulate and develop the capital market;
- Protect investors and the general public from unfair and unsound practices involving fraud, deceit, cheating, manipulation and insider trading;
- Achieve fairness, efficiency and transparency in securities transactions;
- Develop measures to reduce the risks pertaining to securities transactions;
- Develop, regulate and monitor the issuance and trading in securities;
- Regulate and monitor the activities of entities subject to the control of the CMA;
- Regulate and monitor full disclosure of information related to securities and their issuers;
- Regulate proxy and purchase requests and public share offerings.

2.4.3.1.4 Saudi Organization for Chartered Public Accountants (SOCPA)

The accounting and auditing profession suffered two major defects; the first was the lack of an appropriate professional system of education and training and the lack of qualified national human resources. The second was the absence of a specialised organisation to look after, organise and develop the profession, which led to an absence of professional standards, rules and regulations in relation to practices of accounting and auditing (Al-Angari, 2004).

In 1991, Royal Decree No. M/12 authorised a new regulation of chartered public accountants in Saudi and included the establishment of SOCPA which operates under the supervision of the Ministry of Commerce and Industry, and aims to promote the accounting and auditing profession and develop and improve the practice of the profession in Saudi. The main objectives for SOCPA are to (SOCPA, 2007a):

- Review, develop and approve accounting standards.
- Review, develop and approve auditing standards.
- Establish the necessary rules for fellowship certificate examination (Certified Public Accountants exam.) including professional, practical and scientific aspects of audit profession and applicable regulations.
- Organize continuous education programs.
- Establish an appropriate quality review program in order to ensure that Certified Public Accountants implement professional standards and comply with the provisions of Certified Public Accountants Regulations and relevant by-laws.
- Conduct special research work and studies covering accounting, auditing and other related subjects.
- Publish periodicals, books and bulletins covering accountancy and audit related subjects.
- Participate in local and international committees and symposiums relating to the profession of accounting and auditing.

2.4.3.2 The Accounting and Auditing Profession in Saudi Arabia

The accounting and auditing profession in Saudi Arabia is relatively young compared with countries that have had a long history of professional application and practice, such as the United States and the United Kingdom. This is because people in the Arabian Peninsula have traditionally practiced a different kind of commerce. Mecca was the most important place for trade, as many pilgrims visited the city, even before the Islamic era.

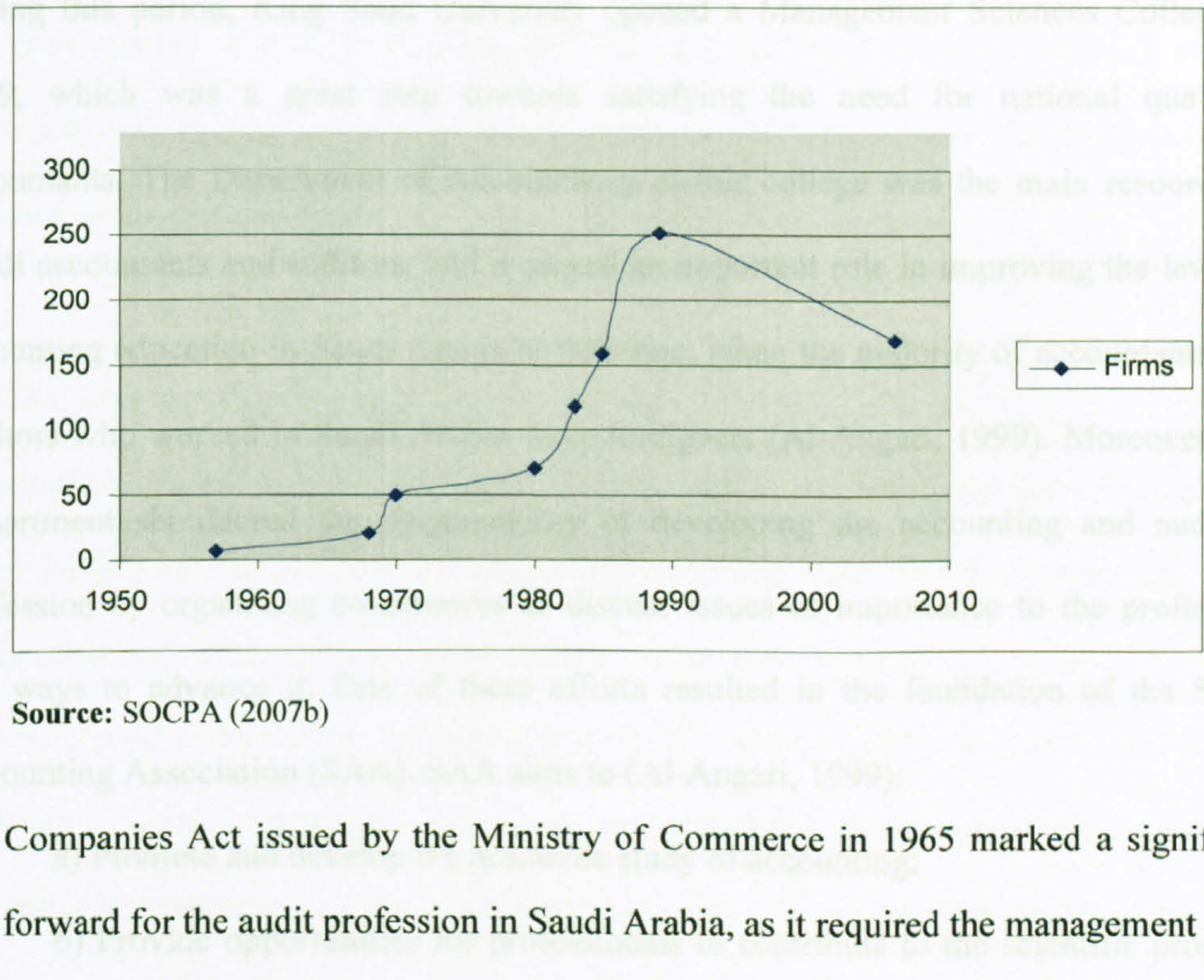
As early as the fourteenth century, Islamic regulations required Muslims to record the details of their business transactions, so that these could be used when needed:

> "O Believers, when you contract a debt for a stated term, write it down; and let a writer write down between you justly." (The Holy Quran, Albakarah, 282).

The practice of record-keeping remained connected to the general level of civilisation and commercial development in the Islamic world. The modern profession appeared rather late in Saudi Arabia. The Income Tax regulations issued in 1950 mentions, in Section 16, that financial statements provided by taxpayers were to be deemed correct and complete if they were audited by an internationally certified accountant. This clause was considered to be the first regular acceptance of the accounting and auditing profession in Saudi Arabia, although no audit firms actually existed in the new Kingdom at that time. There were many reasons for the lack of domestic auditors, including the low level of economic activity, the lack of professionals and the complete absence of accounting education. Thus, the situation at that time can be seen as consisting of a few companies working in a very restricted economic environment in a new country with a very simple regulatory system. In such a juvenile country with a developing economy at an early stage of building its infrastructure, the majority of professionals were foreigners who practiced according to their own background and efforts (Al-Angari, 2004). This status continued until 1955, when the first licence for an audit firm was issued by the Ministry of Finance and National Economics, which later granted seven licences, six of them to foreigners and one to a Saudi (see Figure 2.7), before the issuing of professional licences was transferred to the Ministry of Commerce and Industry in 1957.

The period from 1950 to 1965 can be seen as a time of the birth of the profession in Saudi Arabia, since there is no mention of the accounting and auditing profession before 1950, whereas there were a number of licensed audit firms after 1955. Nevertheless, these firms tended to practice the profession as they saw fit, according to their education, knowledge and experience. Lacking a professional body or any regulations or standards to control audit firms' performance and the process of issuing licenses, the profession remained without a clear identity (Al-Angari, 2004).

Figure 2.7 Number of Audit Firms in Saudi Arabia from 1957 to 2006



Source: SOCPA (2007b)

The Companies Act issued by the Ministry of Commerce in 1965 marked a significant step forward for the audit profession in Saudi Arabia, as it required the management of all companies to prepare a financial statement and submit it to a chartered public accountant (Al-Twaijry et al., 2003). This was the first regulation obligating companies to have audited financial statements; before that, preparing a financial statement was an optional operation. Despite the importance of this step, there was no system to control an audit of firms' performance, or any standards to monitor professional practice, which was left entirely in the hands of the audit firms themselves. However, three years later, in 1968, the Ministry of Commerce closed this organizational gap by establishing a set of requirements for licensed audit firms, including their nationality, residence, reputation, qualifications and years of experience. However, this regulation excluded an important requirement, that of passing a professional examination to measure the practical competence of the auditor (Al-Angari, 2004).

During this period, King Saud University opened a Management Sciences College in 1959, which was a great step towards satisfying the need for national qualified accountants. The Department of Accountancy at this college was the main resource of Saudi accountants and auditors, and it played an important role in improving the level of accounting education in Saudi Arabia at that time, when the majority of accountants and auditors who worked in Saudi Arabia were foreigners (Al-Angari, 1999). Moreover, the Department shouldered the responsibility of developing the accounting and auditing profession by organising conferences to discuss issues of importance to the profession and ways to advance it. One of these efforts resulted in the foundation of the Saudi Accounting Association (SAA). SAA aims to (Al-Angari, 1999):

a) Promote and develop the academic study of accounting;

b) Provide opportunities for professionals to contribute to the scientific progress of accounting;

c) Facilitate the process of exchange of publications and scientific ideas in the accounting field between interested organisations within Saudi Arabia; and

d) Provide consultation services and carry out necessary studies to increase the level of professional performance in different organisations and establishments.

However, the Royal Decree No. m/43 in 1974 was the first law concerning certified public accountants in Saudi Arabia. Furthermore, it was the first law to regulate the audit profession by creating the Certified Public Accountants Committee, which aimed to control the process of issuing licences and the supervision and development of the profession.

The development of a professional accounting and auditing profession was one step in the process of developing a corporate governance framework in Saudi Arabia, and this is explored in the next section.

2.4.3.3 Corporate Governance Aspects in Saudi Arabia

The concept of corporate governance is relatively new in the Saudi business environment, its use having been confined to economics and academic writers who are concerned with the development of companies. Nevertheless, commentators are now writing in the Saudi economic press reflecting the increasingly loud call for corporations to apply standards of governance. Saudi companies' obligations are restricted to what appears in regulations that cover the business of companies and which may have some relation with corporate governance, such as the Companies Act (1965), the Capital Market Law (2004) and the corporate governance code 2006 issued by the CMA. This section highlights the major aspects of corporate governance in Saudi business in the light of applicable regulations.

2.4.3.3.1 The Companies Law (1965)

The Companies Law which was issued by the Royal Decree in 1965 is considered to be the first organised attempt to regulate the operations of companies in Saudi, and is regarded as the legal reference for Saudi companies. Many modifications have since been made by royal decree to update the Companies Law (the Ministry of Commerce and Industry, 2007b). The following are the most important issues that appear in the Company Law in relation to corporate governance.

2.4.3.3.1.1 Company Structure

According to Article 66 of the Companies Law, each company is to be managed by a board of directors, which must have at least three members, who are appointed at the company annual general meeting for a period of office of not more than three years. Such boards of directors in Saudi companies take the form of unitary boards, as in the UK and the USA, characterized by one single board comprising both executive and non-executive directors (Mallin 2004). The Companies Law allows a board member to be a member of other boards and to be appointed many times. The Companies Law stipulates only one requirement for membership of a board of directors, which is holding at least ten thousand Saudi Riyal (equivalent to approximately 1,600 Pounds Sterling) of market value of the company's shares. The Law allows companies to choose appropriate methods to remunerate the board of directors, including salary, compensation for attendance, "material features[3]", or a proportion of the profits. The board of directors reports at the AGM and must declare to it what directors earn from the company.

[3] This is a literal translation from the Company Law (1965).

2.4.3.3.1.2 Shareholders' Rights

The company Law gives shareholders who hold twenty shares or more the right to attend the company's AGM, which concerns itself with all issues related to the company, and must take place at least once per year. The Law affirms to shareholders all their rights related to their shares, so they have the right to obtain their proportion of the company's distributed profits, and to obtain their proportion upon the company's dissolution; in addition, they have the right to participate in conversations about the company and vote on the decisions, to dispose of shares and to look into the company archives. Moreover, Article 109 of the Company Law states that shareholders who hold at least 5% of the company's capital have the right to ask the Companies Settlement Authority to inspect the company if they have any doubt about the behaviour of the board of directors or the external auditors.

2.4.3.3.1.3 The Company's Internal Control

With regard to internal control, the Higher Economics Council approved the recommendations of the ministerial committee which was created by the Royal Decree No. 3151 in 2001 to study the situation of listed companies. The committee recommended that steps be taken (The Ministry of Commerce and Industry, 2007c):

1. To highlight the importance of supporting (and boosting) the role of companies' internal controls and the enlightenment of shareholders about their responsible role in monitoring their companies' performance to reach their targets.
2. To ensure the sufficiency of information which appears in the company financial statements in order to enable investors to value a company's performance and to assist them to make the right decisions about company's status and thus to protect their investments.

2.4.3.3.2 The Saudi Corporate Governance Code

The Saudi corporate governance code (Corporate Governance Regulations in the Kingdom of Saudi Arabia) was issued in November 2006 by the Capital Market Authority. The code aims to ensure that Saudi listed companies comply with best governance practices that would ensure the protection of shareholders and stakeholders' rights. Although the code is a guideline and is not mandatory, companies are required to disclose in the board's report the provisions that are implemented and those not implemented and explain the reasons for non-compliance. The code contains three major topics: rights of shareholders and the General Assembly; disclosure and transparency; and board of directors. The full English version of the Saudi corporate governance code can be seen in Appendix I.

2.4.3.3.3 Audit Committee

A few years ago, audit committees were the only committees which emanate from boards of directors in Saudi companies, since no other committees, such as remuneration committees, nomination committees or risk committees, exist in these companies (Al-Moataz, 2003). As part of its efforts to develop the accounting and auditing profession, in 2003 SOCPA created a committee to evaluate audit committees in listed companies and made the following major findings (SOCPA, 2007c):

1. There is a lack of clarity concerning the tasks and field of action of audit committees;
2. Some board members and committee members are unaware of the audit committee's purpose;
3. The concept of the independence of members of the audit committee is not well known;
4. The professional and academic qualifications of some committees members are insufficient;

5. There is a lack of sufficient control mechanisms to monitor committee practices.

However, the SOCPA's committee provided a project on the basis of which to organise the performance of audit committees in listed companies.

2.4.3.3.4 Disclosure and Transparency

Article 45 of the Capital Market Law (2004) issued by the Capital Market Authority states that:

a. Every issuer offering securities to the public or whose securities are traded on the exchange must submit to the authority quarterly and annual reports. Annual reports must be audited as required by the rules of the authority. These reports shall contain the following:

1. The balance sheet;
2. The profit and loss account;
3. The cash flow statement; and
4. Any other information as required by the rules of the authority.

b. In addition to the information required in paragraph (a) of this article, the annual report must contain the following:

1. An adequate description of the issuing company, the nature of its business and its activities, as required under the rules of the Authority;
2. Information regarding the members of its board of directors, executive officers, senior staff and major investors or shareholders[4], as required under the rules of the Authority;
3. An evaluation of issuing company management of current and future developments and any future possibilities that may have significant effects on

[4] This is a literal translation from the Capital Market Law (2004). In addition the Saudi listed companies are required now to disclose the names of shareholders who own 5% percent or more of the company's shares.

the business results or financial position of the company, as required under the rules of the Authority;

4. Any other information as may be required by the rules of the Authority as it deems necessary to assist investors and their advisers in making a decision to invest in the issuer's securities.

2.4.3.3.4 Previous Research on Corporate Governance in Saudi Arabia

A limited number of research publications in respect of corporate governance in Saudi Arabia have been found by the researcher as this topic does not seem to have attracted much researcher interest. However, this subsection highlights the results of the little research that has looked at corporate governance in Saudi Arabia.

One of the main and primary studies to have considered corporate governance in Saudi Arabia was Al-Harkan (2005) which investigated the perceptions of four stakeholder groups namely: financial managers and internal auditors; academics; external auditors; and government officials about corporate governance in Saudi Arabia. The findings indicate that most large Saudi companies especially in the bank, communication, and industry sectors apply corporate governance systems and that they benefit from these systems. It also found it beneficial in adopting the two main recommendations made by the Cadbury Report: that a board of directors should consist of at least three non-executive directors, two of whom should be independent; and the separation of chairman and CEO roles.

The results show that the main factors influencing the process of appointing non-executive directors in Saudi companies are relevant business skills and experience and professional qualifications. With regard to the factors that inhibit the practice of good corporate governance the study identified two major factors being the lack of systems and procedures that govern company activates and the lack of emphasis on values and key principles. The study also suggests that there is a need for better disclosure and transparency by Saudi companies.

Al-Ajlan (2005) examined the roles and responsibilities of the boards of directors in Saudi banks. Interviews and surveys of banks' directors indicate that boards of directors in Saudi banks play a significant role in strategic planning. The results revealed that, in relation to strategic planning, the board of directors in Saudi banks appeared to fulfill the roles of: setting the plans; guiding top management; approving strategy; defining the main goals and discussing the strategy submitted by the top management. However, regarding the role of boards in monitoring and controlling top management, the results indicated that there was a mix of views among the participants in relation to whether boards of directors in Saudi banks were actually monitoring and controlling the performance of top management in their banks. The banks major shareholders played a main role in monitoring and controlling these banks as most of them were board members or had a representative on the board. The study also shows that there are three popular committees in Saudi banks: the executive; audit; and *Sharia* committees.

Al-Twaijry et al. (2002) examined the role of audit committees in Saudi Arabia and found that audit committees in Saudi Arabia suffered the following shortcomings: inadequate terms of reference and restrictions on their scope of work; a lack of independence; poor working relationships with external and internal auditors; and a lack of expertise. There appeared to be an expectation gap between what audit committees were expected to do and what they actually did. Audit committees in Saudi Arabian joint stock companies do not have the power to control boards of directors, enhance the position of external and internal auditors or protect shareholders. The researchers note that audit committees are new to the Saudi corporate sector, which has developed within its own particular commercial and cultural framework, and has thus been relatively slow to embrace Western notions of corporate governance and accountability.

Another study by Al-Moataz (2003), also studies the role of audit committees in Saudi Arabia and evaluates them regarding the best practices according to the academic and professional literature. The major findings showed that there was a major concern about: audit committees' conduct in relation to their responsibilities; audit committees' lack of non-executive directors; and the lack of sufficient professional qualifications held by audit committee members.

These appear to be the few studies about corporate governance in Saudi Arabia. In addition, these studies were conducted before the significant and dramatic change in the Saudi stock market and also before the issuance of the corporate governance code. The studies suggest that Saudi companies, especially major companies, are practicing some aspects of corporate governance but that there are some obstacles facing good corporate governance practice in relation to regulations. Furthermore, audit committees in Saudi companies, as one of the aspects of corporate governance, are considered as inefficient in fulfilling their roles and suffer from lack of independent and qualified members.

2.5 Summary

The literature related to corporate governance has been reviewed in this chapter. Many aspects of corporate governance have been discussed such as corporate governance concepts and models, and matters related to boards of directors and ownership structure. Also, issues related to the practice of corporate governance in emerging markets have been examined, such as the importance of corporate governance in emerging markets, boards of directors, ownership structure, legal systems and corruption. A brief background about Saudi Arabia was also provided: the politics, social and economic environment were introduced. In addition, the auditing and accounting profession in the Kingdom, the corporate governance regulators and code were also highlighted. The next chapter outlines the theoretical framework that is used to interpret the studies' results.

Chapter 3

Theoretical Framework

Chapter 3

Theoretical Framework

3.1 Introduction

The previous chapter reviewed the literature in relation to corporate governance in general and corporate governance in emerging markets in particular; in addition to that it provided a background about Saudi Arabia and the corporate governance framework in the Kingdom. This chapter outlines the theoretical framework that is adopted to interpret the research results. Both accountability and the Islamic notion of accountability are be discussed in the following subsections.

3.2 Accountability Theoretical Framework

The concept of accountability has been known to human beings since ancient times (Gray and Jenkins, 1993). For instance, legal documents have been found showing that Hammurabi, King of Babylonia around 2000 BC, was concerned about the accountability of those working on behalf of others (Bird, 1973).

Nowadays, as a result of the complexities of the world of business with its interwoven relationships, in addition to the general trend of separation of ownership and control, agency theory has been developed to explain the relationship whereby one party, the owner or principal, delegates authority to another party, the management or agent (Gray and Jenkins, 1993; Williamson, 1985). In such cases, the latter should operate the organisation's resources in a way that accomplishes the former's interests. Hence, managers are accountable to their organisations' owners. Furthermore, the organisation operates in the real world, so it has an impact on the society and community in which it works. The stakeholders, such as society itself, the government, the environment, employees, creditors, suppliers, customers and others, are affected by the firm's decisions and performance, although the effect may differ from one to another; the management should be accountable to all stakeholders and have the responsibility of providing them with an appropriate vision of the firm's status.

Gray and Jenkins (1993) define accountability as:

> "An obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities." (p. 55).

An alternative definition is provided by Gray et al. (1996):

> "The duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible." (p. 38).

The formulation offered by Knell (2006) is that accountability is:

> "The requirement of those in authority, and exercising responsibility, to justify and explain their actions to those on whose behalf they act." (p.32).

It is clear that a theoretical framework for accountability must be concerned with such questions as: 1) who is accountable? 2) to whom? 3) how? 4) for what? (Perks, 1993). The above definitions agree that the general meaning of accountability requires the responsible party to provide an account to interested parties, so accountability is simply the obligation to give an account (Perks, 1993). In the business context, this account should explain and justify the actions which have been taken to serve the interests of shareholders and other stakeholders. This indicates that there are two parties to the accountability relationship, the accountee, who represents the principal (e.g. the board of directors, shareholders, other stakeholders) and who entrusts or delegates a task to the accountor, who is responsible for informing the accountee of the status quo of the mission of accountability in order to discharge that accountability. These parties to an accountability relationship could be individuals, organisations or groups. In some cases an accountee may also be an a ccountor and vice versa, a ccording to the nature of the relationship; for example, management is accountable to employees to provide them with a good and safe working environment, whereas employees are accountable to managers to fulfil their assignments satisfactorily (Gray et al., 1996).

As mentioned above, a company should report to both shareholders and stakeholders about the condition of the work in the company. Given that the required information is likely to differ according to the needs of these different accountees, the accountability outcomes may take a variety of forms pursuant to the report's purpose and the beneficiary. Financial statements, corporate social reports, environmental reports and sustainability reports are obvious illustrations of accountability products. Such reports and others aim to meet shareholder and stakeholder requirements (Solomon, 2007 and Carnaghan, et al., 1996). Undoubtedly, they may play a crucial role in any company's communication processes; hence, reports provide appropriate reassurance to parties who deal with the company, concerning matters of interest to them. For instance, the board of directors will want to ensure that the company's performance has improved and need to know the extent to which its goals have been achieved, while from their side it is very important for the owners to ensure the efficient use of resources and maximise profitability; shareholders and investors wish to find signs indicating a raised share price; the financial situation of the company and its ability to discharge its debts will concern creditors and suppliers; employees will take account of the strength of the company and its ability to provide them with a safe working environment and financial security; the local community will look to the services offered to it by the company and how far the company recognises and cares about the social aspects of its operations; and environmental bodies will want to ensure that the company is taking environmental issues into account. Any, or all, of these reports could be exploited by the company to establish a good reputation instead of giving accountees a full and true picture of the company. Gray and Bebbington (2000) argue that a company has the right to use its communication channels (e.g. reports) to assist its own ends, while the receiver also has the right to disbelieve its conclusions.

The accountability relationship can be seen as a bond linking a party who accounts and is held to account to one who holds him to account; whether such parties are persons or institutions, it is essential for the bond to be clearly defined, in order to produce a disciplined accountability relationship (Stewart, 1984). Stewart goes on to state that:

> "A bond of accountability is for a field of accountability, that is, activities for which the account is given and which have bases that can be set out on a ladder of accountability according to the purposes for which the bond is constituted."

This bond of accountability constitutes a relationship of power, under which only the person to whom the account is given has the power to hold to account the person who gives the account. Stewart (1984) points out that although this framework has been constructed for the analysis of public accountability, it can be used for all forms, including managerial and commercial accountability. This may be expressed in terms of 'fields', in this context Stewart (1984) argues that:

> "To define a bond of accountability it is not sufficient to define the person or institution which accounts and the person or institution which holds to account; the activities covered by the bond of accountability, which we will call the 'field of accountability', must also be defined. A person who accounts may be subject to different bonds for different activities."

Stewart further distinguishes between the bond of accountability and 'links of account', which are relationships that fall short of the bond of accountability in involving no power to hold to account; although such links of account are not considered as constituting bonds of accountability, they do play a significant role in supporting accountability.

Accountability is arguably not a company choice; it is an obligation by a company to meet its responsibility towards the society in which it does business. Accountability can be seen as a contract between the company and interested parties, enforced by rule systems including civil law, company law, regulations, professional standards, internal rules (constitution, contracts, etc), ethical codes, conventions and customs. Monks and Minow (2004) specify two sets of laws regulating the relationship between a company and interested groups: the first is the public law, which is imposed by the legislature and provides minimum standards, permitting maximum flexibility to arrange relationships between the company and interested parties, while private law emerges from the agreements between the company and others. Gray and Jenkins (1993) distinguish between two codes of accountability: while internal codes are formulated to deal with a specific relationship, external codes have already been established for general categories of relationship and are imported into specific relationships; therefore, external codes tend to appear as implicit, whereas internal codes are more explicit.

Monks and Minow (2004) call for the creation of a widely understood comprehensible standard to ensure corporate accountability, since there is no acceptable language of accountability within the company constituencies, and a deficiency in conceiving acceptable quantifiable standards. The authors argue that it is essential for corporations to design effective systems to ensure accountability to some independent, competent and motivated representative, in order to preserve each company's legitimacy and credibility.

Accountability aims to ensure that there is no misuse of, or profiteering from, the resources of an organisation, in addition to preventing maladministration which could harm others' interests (Stewart, 1984). In order to attract global capital, it is necessary for both countries and companies to meet the demands of transparency and accountability (Monks and Minow, 2004). Furthermore, a stronger focus on company accountability and transparency could be a good mechanism to restore current investors' confidence (Colley, 2003). In addition to that, it is better for companies to develop their own accountability in ways that satisfy all interested parties in order to avoid the need for external interventions, especially under the increasing availability of a body of expertise among those who wish to do it for them (Gray and Bebbington, 2000). On the other hand, a company and its stakeholders could face grievous losses as a result of defective corporate accountability (Keasey et al., 1997).

Gray and Bebbington (2000) claim that despite that the fact a corporation's main concern with respect to accountability is with issues related to economic activities which in turn concern finance providers, there are other stakeholders who have rights to information going beyond the corporation's financial affairs; consequently, reports on many other matters, such as social and environmental impacts, may appear and may have reciprocal importance.

Voluntary initiatives are also significant in the operation of corporate accountability and have accomplished notable advances, but given that accountability deals with some very complex matters such as environmental and social issues, there is bound to be the need for accountability legislation; from their side, companies should not be reluctant to accept and adhere by such regulations as instruments assisting them to discharge their accountability requirements (Gray and Bebbington, 2000).

Beetham (1994) claims that accountability depends upon public knowledge of what a government or a company is up to. To a great extent, such perspectives may win a greater awareness within a democratic society where all parties' rights are protected. Therefore, he state that:

> "Democracy as the 'power' of the people has to be attenuated to the 'rule' of the people or to some rather weaker term which captures the elements we associate with modernity–institutionalized popular influence, procedures of accountability."

Keasey et al. (1997) affirm that some informed commentators argue that:

> "Despite the greatly increased financial reporting regulations and/or the supposed 'independence' of the auditors of financial statements, the system is able to prevent effectively a determined board of executives from adopting reporting practices which greatly hinder accountability." (p. 55).

The attitude towards increasing accountability is dependent on the side of the agency relationship. Thus, those who represent principals would be in favour of increasing accountability in ways that could make agents more accountable to them, while agents' representatives would prefer less accountability, since accountability tends to restrict their freedom and increase their responsibility to others (Perks, 1993).

According to Robinson (1971), there are three bases of accountability, the first of which is programme accountability, concerned "with the work carried on and whether or not it has met the goals set for it"; next is process accountability, which examines "whether the procedures used to perform the research were adequate, say in terms of the item and effort spent on the work and whether experiments were carried out as promised"; finally, the role of fiscal accountability is to establish "whether the funds were expended as stated and whether items purchased were used for the project". Stewart (1984) suggests that these bases can be set out as a 'ladder of accountability', which leads from accountability by standards to accountability by judgment, its rungs being: accountability for probity and legality; process accountability; performance accountability; programme accountability and policy accountability.

3.3 The Islamic Accountability Framework

The Islamic religion is based upon accountability relationships and offers a programme of life for the individual Muslim and the community (*Ummah*) and is concerned with organizing the relationship between humans and Allah (an Arabic word meaning 'God' which cannot be pluralised). Islamic law is known as *Sharia* and pays particular attention to organising the relationships among human beings and their communities. *Sharia* is concerned with two sides of human life: worship; and 'transactions'. The former, called *Ibadat*, defines the deeds that Muslims are required to perform as a part of worshipping their creator, such as: *Iman* (faith); *Salah* (prayer); *Zakah* (paying charity); *Saum* Ramadan (fasting); and *Hajj* (pilgrimage). On the other side, the *Moa'amalat* (transactions) are concerned with structuring all of people's dealings with each other and with their environment (Bahjat, 1994; Al-Qaradawi, 1995;Al-Qahtani, 2002) . An Islamic adage states that 'religion is treatment'. These 'treatments' involve all relationships, such as family, neighbourhood, society, environment, ethics, business, economics, politics and other issues which face any human society. These transactions have won great recognition within *Sharia,* which defines and monitors these relationships and specifies the rights and duties of the participants. All Muslims should follow the regulations of both *Ibadat* and *Moa'amalat* to maintain their obligation under *Sharia,* for which they are answerable. Failure in either of the two aspects of *Sharia* may lead to deviancy from the road that Allah has ordained for man's welfare during both their worldly existence and the afterlife (Al-Qaradawi, 1973). Furthermore, any attempt to separate religion and treatments is inconceivable, because *Sharia* requires Muslims to adopt Islamic instructions in all aspects of their lives and dealings, a nd these regulations are enforced by God, who created humanity and all aspects of nature. As a result, *Sharia* is taken to cover all the main principles that set out the way that the different treatments should be conducted in the light of the framework of Islamic rules (Al-Qaradawi, 1973):

> "This day have I perfected your religion for you, completed My favour upon you, and have chosen for you Islam as your religion" (Quran: 5/3).

The Islamic religion rests on certain principles which Muslims must follow. There are six basic elements of Islamic belief:

1) Belief in god: Allah is the masterful creator and dominator of the universe. Everything is under his control and subject to his authority, and humans have been created to worship Allah alone; he has no partner and Muslims must not associate others with him.
2) Belief in the angels: Muslims believe in the existence of angels and that God has created them and assigned them to undertake particular missions and tasks.
3) Belief in god's revealed books: Muslims believe in all God's books which have been revealed to prophets and messengers, such as the Torah, the Bible, the Psalter and the Quran.

4) Belief in the prophets and messengers of God: Muslims believe that all prophets and messengers have been sent by God to teach humans and to remind them to worship Allah alone. This was the main function of all prophets and messengers, from Adam through Abraham, Israel, Moses and Jesus to the last prophet, Mohammed (PBUH).
5) Belief in the Day of Judgment: Muslims believe that there will be a day when Allah will hold humans to account for what they have done in their lives, rewarding them with Paradise or punishing them in Hell according to their recorded actions.
6) Belief in *Al-Qadar*: Ibrahim (1997) explains that:

> "Muslims believe in *Al-Qadar*, which is Divine Predestination, but this belief in Divine Predestination does not mean that human beings do not have free will. Rather, Muslims believe that God has given human beings free will. This means that they can choose right or wrong and that they are responsible for their choices" (p. 48).

Islamic legislation relies on some basic sources which are considered as reference for regulations and rules that govern the Islamic community. There are four main sources: the Quran, the *Sunna, Al-Ejma'a* and *Al-Qeas*. The Quran is Allah's direct words given to the prophet Mohammad (PBUH); it is the major source of Islamic legislation, and all regulations applying to the Islamic community must be consistent with its teachings. However, if any matter is not dealt with in the Quran, then it can be sought in other legislative sources. The *Sunna* is the sayings and deeds of the prophet Mohammed (PBUH) as reported by his companions. It is recorded in tomes called *Hadith*, which include many of the prophet's speeches and actions. *Al-Ejma'a* (unanimity) is a source of legislation used in cases where there is no particular evidence found in the Quran or *Sunna*. In such situations the group of scholars or experts are allowed to legislate new rules or standards in any field, on condition that there is no conflict with Islamic *Sharia*. *Al-Qeas* means 'measurement'. In some cases there is a need to issue a new regulation which has not been mentioned in other sources of legislation; in such cases the regulator can adopt a method of measurement based on similar previous matters to issue a new regulation (Al-Qaradawi, 1995). Bin Hj and Ibrahim (2000) state that:

> "Allah or God, the creator and benefactor of mankind, has absolute sovereignty to make laws for his creation. He has given his Will and Laws in the Scriptures through the Messengers and Prophets throughout the ages, culminating in the final messenger, Muhammad (PBUH). The final Scripture, the Qur'an and the sayings and actions of the Prophet (the *Sunnah*) constituting the practical application of and a commentary to the Qur'an, contains the principles and code of life which humans have to follow until the day of judgement when all human beings have to render accounts of their actions before his Lord."

One of the main Islamic theoretical frameworks upon which *Sharia* principles are based is accountability, which is considered as a crucial concept in Islamic regulations. According to the Islamic traditional perspective of *Istekhlaf* (trust), humans are considered to be vicegerents entrusted with the stewardship of the earth. For example in the holy Quran Allah says: "I will create a vicegerent on earth" (Quran, 2:30). The *Istekhlaf* concept has three parts. The entrustor is Allah, who owns everything: "To Allah belongeth all that is in the heavens and on earth" (Quran, 2:284). Allah entrusts the earth to the entrustees, human beings; the third element is what is entrusted, the earth and everything on it, including nature, resources and relationships. Thus, the concept of *Istekhlaf* indicates that the relationship between God and humanity rests on a relation of delegation, since God (the owner) delegates the operation of the earth to humans, who are therefore responsible for populating and building the earth in the way that God requires (Al-Jirari, 1996). Consequently, man is in reality not the owner of what is under his hand; he is only a vicegerent appointed by God in all things, including his family, property, resources, wealth, business and relationships. *Istekhlaf* requires humans to take care of all that they have been entrusted with and use them beneficially to achieve their goals and at the same time not damage themselves, society or the environment. In addition, man is accountable for that with which he is entrusted and he will be answerable for what he has done about what is delegated to him: "But stop them, for they must be asked" (Quran, 37:24). "Therefore, by the Lord, We will, of a surety, call them to account for all their deeds" (Quran, 15:92;93).

Accountability is a general basis of the Islamic system, so all of Muslims lives and their dealings are based on accountability, both in relationships with God and in that with the community; all relationships within Islamic society must be conducted in the light of the concept of accountability (Al-Jirari, 1996). The prophet (PBUH) explained that accountability was the basic standard for the relationships conducted within Islamic society by saying:

> "You are all custodians, and you all will be questioned about the things under your custody. The Imam (leader) is a custodian and he shall be questioned about his custody. The man is a custodian of his family and he shall be questioned about his custody. The woman is a custodian in her husband's home and she will be questioned about her custody. The employee is a custodian of the property of his employer and he shall be questioned about his custody" (Albukhari: 844).

Accountability in Islam considers two sides of the relationship, the 'accountee' and the 'accountor'. The former could be Allah, the government, the community, investors, shareholders or other stakeholders, who delegate tasks to others to do on their behalf. The accountor could be an individual human, a board of directors, a manager or any party who accepts a delegation on behalf of another. Thus, accountors ought to look after the work delegated to them and protect their delegator's interests. The accountors are required to discharge their accountability; for example, within the accountability relationship between Allah and humans, the latter, as accountors, are required to discharge their accountability, so that they are accountable for their creation to their creator and therefore ought to worship their creator in order to discharge their accountability. In the same way, managers are accountable for their actions and performance to their stakeholders and they have to accomplish what they are charged to do. In addition, they have to report to their accountees about the actions that they have taken in order to discharge their accountability (Al-Jirari, 1996). Lewis (2006) claims that companies (or managers) (the accountors) could use financial reporting as an obli gation for full accountability to the *Ummah.* However, Muslim managers (accountors) believe that they are held answerable to their stakeholders in addition to their answerability to God in the afterlife; therefore, they ought to do what is necessary to discharge their accountability. In this context, Baydoun and Willett (2000) argue that Islamic regulations require companies to make full disclosure in order to discharge their accountability:

> "Private accountability and limited disclosure are insufficient criteria to reflect the ethical precepts of Islamic law. Consistency of disclosure practices with Islamic law requires application of the more all-embracing criteria of social accountability and full disclosure" (p.81).

Thus, it appears that the ownership right in Islam is not an unlimited authority which gives the right to humans to domineer in order to satisfy their desires, but is rather a trust and a function that humans exercise pursuant to Islamic regulations (Al-Sudes, 2002). Therefore, any Muslims who are entrusted with any mission, regardless of size or importance, whether individually or collectively, are accountable to whoever delegated it to them for their actions and performance. The obligation originates from this accountability, requiring the accountees to maintain the property and the resources under their responsibility and use them efficiently, honestly and with integrity to serve the accountor's interests, to ensure that there is no maladministration and to desist from going beyond the interests of the accountor and the community (Al-Sudes, 2002).

According to *Sharia*, there are some characteristics the accountors should have in order to assist them to perform in an appropriate way the work with which they are charged. In addition to being available to hold the responsibility and ready to be accountable, the most important characteristics are: *Amana* (honesty), *Nazaha* (integrity), *Adil* (justice), *Qudra* (ability) and *Itqan* (proficiency). There are many Quranic verses mentioning these characteristics, of which these are examples:

> "The best of men for thee to employ is the (man) who is strong and trusty". (Quran, 28:26)
>
> "O ye who believe! fulfil (all) obligations". (Quran, 5:1)
>
> "For Allah loveth not one given to perfidy and crime". (Quran, 4:107)
>
> "To those weak of understanding Make not over your property". (Quran, 4:5)

These characteristics provide acceptable justification to make the persons who are entrusted to do business on behalf of others accountable for their actions and the decisions they have made. For instance, honesty requires that the accountors should safeguard that for which they are responsible and avoid any misuse or negligence (Bin Hj and Ibrahim, 2000). According to *Sharia* rules, the accountors are accountable for all their actions and can be questioned if there is any negligence or depravation (Al-Jirari, 1996).

From the above it is clear that *Sharia* requires the agents (e.g. managers) to ensure that all their actions and performances are in favour of the different parties who are affected by their business. In order to activate the mechanisms of accountability within Islamic society, *Sharia* adopts two significant concepts, *Shura* (consultation) and *Hisba* (verification), which provide a legal framework to monitor and hold to account the agent.

Shura is a governance system within Islam ensuring that there is no solitary management and that the procedures for making decisions rest on the participation principle, which gives all interested parties the opportunity to be part of the process. "...who (conduct) their affairs by mutual Consultation". (Quran, 42:38) "...and consult them in affairs" (Quran, 3:159).

The concept of *Shura* assumes that each firm will establish a consultation board whose function is to advise, supervise, monitor, control and account. Such a system provides a broader basis for corporate governance, strengthens a firm's decisions and increases its objectivity, upholding the accountability principle and ensuring the protection of all stakeholders, since all a firm's actions and activities are to be subjected to consultation and review by the consultation board. This board should represent different stakeholders (including shareholders, owners, employees, the government and the community) and ensure that all their interests are taken into account in all of a firm's actions, in addition to their role in holding to account (questioning) managers. Lewis (2006) states that:

> "Shuratic decision-making procedures provide a vehicle for ensuring that corporate activities and strategies are fully discussed and that a consensus-seeking consultative process is applied within the firm and across shareholders, employees, suppliers, customers and other interested parties" (p.8).

Hence, *Shura* is an important aspect of Islamic management which all organisations and institutions within Islamic society should adopt. In addition, it is considered as an obligatory ordinance which all Muslims should implement in all their business dealings. *Shura*, from the Islamic perspective, is regarded as a humanistic, social and ethical principle, since it ensures for the community (*Ummah*) the rights of participation, choice and decision-making, allowing people to shoulder their responsibility to ensure that the concept of accountability is put into practice (Azraq, 2004; Abdulkhalik, 2008)

Sharia also stipulates that consultants should have certain skills and features: they should be honest, capable, qualified and expert, in addition to undertaking their responsibility to perform their functions in an appropriate way in order to discharge their duties. The prophet Mohammed said: "the consultant is entrusted" (Mosnad Ahmed, 1995: 21983).

Sharia gives each society the right to choose the style and configuration of the *Shura* system in a way that fits in with its evolution and requirements, so there is no certain form of *Shura* suitable for all societies and all times; rather, *Sharia* defines and highlights the general framework and standards of the *Shura* system and lets each society design its own system of *Shura*, relying on its development and degree of civilisation. Therefore, the employment of professional standards and modern control and supervision methods within the *Shura* system does not conflict with *Sharia*; indeed, such acts represent a clear understanding of the purposes of *Sharia*.

Hisba is another Islamic concept which offers a legal framework to monitor community actions, ensuring that they are consistent with *Sharia* and take into consideration the public interest. *Hisba* is a necessary adherence which Islamic society rests on to carry out the concept of accountability within the social organisations. Allah said: "Let there arise out of you a band of people inviting to all that is good, enjoining what is right, and forbidding what is wrong: They are the ones to attain felicity" (Quran, 3:104).

According to *Sharia*, the Islamic community should implement *Hisba* because it is a mandatory duty by celestial decree, and it is impossible to imagine Islamic society without the concept of *Hisba* (Alhawal, 2007). Allah describes the members of Islamic society as: "enjoining what is right, forbidding what is wrong" (Quran, 3:110). In another place He says: "The Believers, men and women, are protectors one of another: they enjoin what is just, and forbid what is evil" (Quran, 9:71).

Hisba can be executed individually, or by organisations or professional bodies, to ensure that firms respect their obligations under *Sharia* and the other regulations and standards. Furthermore, such organisational systems would be able to introduce directly appropriate mechanisms to control and account for each firm's actions and behaviour, to ensure their submission to professional regulations and standards and that all stakeholders' interests are protected. Consequently, *Hisba* confers on individuals and the *Ummah* the right to hold to account all those in positions of responsibility, and to be confident that their individual and communal rights are inviolable. Therefore, *Hisba* in the Islamic management system provides a developed accountability environment which allows all stakeholders to oversee their interests and subjugate those who hold power to be accountable for their actions. Lewis (2006) states:

> "The institution of *Hisba* offers a framework of social ethics, relevant to monitor the corporation, with the objective to obligate the correct ethical behaviour in the wider social context. It also empowers individual Muslims to act as 'private prosecutors' in the case of better governance by giving them a platform for social action" (p.8).

As noted above in respect of *Shura*, the concept of *Hisba* can be developed in the light of the latest developments of regulations and standards in the way that corresponds most closely with the state of social progress at any period of human evolution, on condition that there is neither any deviation from the concept of *Hisba* nor a conflict with *Sharia.*

3.4 Summary

It is very clear from the previous that accountability requires the accountor who is doing business on behalf of the accountee to give an account about the accountability mission in order to discharge the accountability relationship. The concept of accountability in Islam also leads to the same meaning and extends the accountability relationship to include Allah in addition to accountee.

This research adopts an accountability theoretical framework to study corporate governance in Saudi Arabia by investigating the perception of wider stakeholders in the local business. As a result, the current study aims to explore accountability and the extent of its practice by Saudi companies in regard to corporate governance issues in the light of the Islamic accountability concept and the regulation requirements as they appear in the Company Law. The next chapter will identify the research methodology and methods.

Chapter 4

Research Methodology and Methods

Chapter 4

Research Methodology and Methods

4.1 Introduction

After reviewing the literature in relation to the study in Chapter 2, and outlining the research theoretical framework in Chapter 3, this chapter addresses the methodology used in this thesis and the methods of collecting the primary research data. Regarding the research methodology approach, section 4.2 identifies the assumptions about the nature of social science, assumptions about the nature of society and the research paradigms. Both the qualitative and quantitative research methods of semi-structured interviews and questionnaire survey that are employed in this thesis will be clarified in section 4.3. Section 4.4 concludes the chapter.

4.2 Research Methodology

The next section highlights the Burrell and Morgan (1979) assumptions about the nature of social science and their different philosophical positions. It is also concerned about the assumptions in relation to the nature of society and discusses their different approaches. The four paradigms of Burrell and Morgan (1979) will also be considered and the paradigm that is used in this thesis will be presented.

4.2.1 Assumptions about the Nature of Social Science

Burrell and Morgan (1979) identify four assumptions relating to the nature of social science: ontology; epistemology; human nature; and methodology. Each of these assumptions represents two philosophical positions regarding their subjective-objective dimension. The subjective dimension contains the nominalist, anti-positivist, voluntarist and ideographic perspectives, whereas the objective subsumes realism, positivism, determinism and the nomothetic approach (See Figure 4.1). This subsection explores these assumptions and specifies their current academic status.

4.2.1.1 The Subjective-Objective Dimension

Objectivism reflects the perspective whereby social entities exist in a reality external to social actors (Saunders et al, 2007). Bryman (2004) clarifies this meaning by stating that:

> "Objectivism is an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors. It implies that social phenomena and the categories that we use in everyday discourse have an existence that is independent or separate from actors" (p. 16).

By contrast, according to subjectivism (also constructionism), social phenomena are nothing other than the results of social actors' actions and they are in a constant state of revision (Saunders et al., 2007). The subjectivist believes in free will: people are free to make decisions that alter the course of their lives (May, 2005). Objectivists look at social entities as objective entities having a reality external to social actors, while the subjectivists see them as social constructions built up from the social actors' perceptions and actions (Bryman, 2004).

Ontology can be defined, according to Maedche (2002) as "a philosophical discipline, a branch of philosophy that deals with the nature and the organization of being" (p. 11). Ontology is concerned with researchers' assumptions about the world, its operation and the commitments leading to such views (Saunders et al., 2007). In order to distinguish between ontology and epistemology, ontology concentrates on understanding 'what is', while epistemology seeks an understanding of 'what it means to know'; furthermore, it assists in the process of choosing "what kinds of knowledge are legitimate and adequate" (Gray, 2004). Ontology raises the question of whether social phenomena are things in their own right or representations of things (Corbetta, 2003). Accordingly, ontology can be divided into two positions, realism and nominalism.

Figure 4.1 Assumptions about the Nature of Social Science

The Subjective Approach		The Objective Approach
Nominalism	← Ontology →	*Realism*
Anti-Positivism	← Epistemology →	*Positivism*
Voluntarism	← Human Nature →	*Determinism*
Ideographic	← Methodology →	*Nomothetic*

Source: Burrell and Morgan (1979) (p. 3).

Realism is the ontological position that what the senses show us as reality is the truth; furthermore, objects have an existence independent of the human mind (Saunders et al., 2007). Realism appears to be similar to positivism in two respects: a) adopting a scientific approach to developing knowledge that underpins the collection and understanding of data (Bryman, 2004; Saunders et al, 2007); b) both realism and positivism hold that there is an external reality to which scientists address their attention (Bryman, 2004). Realism has two types: direct (empirical) realism and critical realism. Direct realism can be described as 'what you see is what you get'; in other words, the experience of the senses reproduces the world accurately, whereas experiences are mere sensations within critical realism: what we see is not everything because we see just that which our senses can provide us (Saunders et al., 2007). Critical realists point to two important steps to experience the world: the first is the thing itself and the sensations it conveys, while the mental processing which goes on after the sensation to meet the senses is the second step. In the view of direct realists, the first step is enough (Saunders et al., 2007). Applying these basic concepts and distinctions to the business context, Saunders et al. (2007) state that:

> "The first relates to the capacity of research to change the world which it studies. The direct realist perspective would suggest that the world is relatively unchanging: that it operates, in the business context, at one level (the individual, the group or the organization). The critical realist, on the other hand, would recognize the importance of multi-level study (for example, at the level of the individual, the group and the organization). Each of these levels has the capacity to change the researcher's understanding of that which is being studied. This would be the consequence of the existence of a greater variety of structures, procedures and the capacity that these structures and procedures have to interact with one another." (p. 105).

On the other hand, the nominalist perspective presupposes that the social world is unreal and has no real structure; it is nothing more than names, concepts and labels which are used to structure reality, because what is known about reality is generated from individual consciousness and cognition (Burrell and Morgan 1979).

This study assumes that the business world in Saudi Arabia is real, so that corporate governance in Saudi Arabia, which is an aspect of the business environment, is operating within the real world, since it deals with real regulators, regulations, companies and people, all of whom have an existence independent of the human mind.

Epistemological assumptions are correlated to knowledge. Epistemology is especially concerned with identifying the constituents of knowledge (Saunders et al., 2007) and asking what is or what should be known (Bryman, 2004). It is also concerned with the ways of collecting and obtaining knowledge. Thus, Ryan et al. (2002) have defined epistemology as justified true belief or the study of the nature of belief, the basis of truth and the problem of justification. Epistemology's aims are:

a) understanding such concepts as belief, memory, certainty, doubt, justification, evidence and knowledge;
b) enquiring into the criteria for the application of such terms and so, in particular, the criteria for identifying "the scope and limits" of human knowledge (Cooper, 1999).

Further, Cooper (1999) argues that:

> "Many people have the impression that epistemology is the most central area of philosophy, or even that philosophy should really be identified with epistemology. Certainly there is a popular image of philosophers as people obsessively and almost solely concerned with determining whether we really know the things we ordinarily think we do." (p. 3).

Positivism reflects the philosophical stance of the natural scientist dealing with the observation of social reality, whose final product can be law-like generalisations similar to the products of the physical and natural sciences (Saunders et al., 2007). Bryman (2004) defines positivism as "an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond" (p. 11). A true belief in the positivist perspective is dependent on our perception, which is a result of a value-free, independent reality (Ryan et al., 2002).

From an anti-positivist perspective, the social world is relativistic and the only way for individuals to understand it is to be involved in the activities that are to be studied (Burrell and Morgan, 1979). Kuhn (1962) argues that a study of the social world cannot be a science, as sociologists do not agree on one accepted paradigm. Furthermore, anti-positivist researchers are not looking for laws or underlying regularities of social affairs as in science (Burrell and Morgan, 1979). While positivism typically uses methods such as experiments, anti-positivism typically adopts other methods, such as participant observation and interviews. A questionnaire survey of perceptions is used in this research but arguably such a survey and its analysis is not inconsistent with an anti-positivist approach. The current work does not aim to produce law-like generalisations or predict what happens in the social world; nor is it searching for regularities or causal relationships between the constituent elements of the social world. As a result, this study adopts an anti-positivist approach which rejects the standpoint of the observer for understanding human activities and occupies instead the frame of reference of the participant in action to understand them from inside rather than outside.

The third assumption about the nature of social science concerns human nature, which considers the relationship between human beings and their environment. It is necessary for a social science that aims to understand human activities to be predicated upon an assumption about human nature, given the fact that human life is essentially the subject and object of enquiry (Burrell and Morgan, 1979). There are two extreme perspectives concerning the role of human beings in social life: determinism and voluntarism. From the determinist perspective, human beings and their experiences are products of the environment conditioned by their external circumstances. In contrast, voluntarism claims that man is completely autonomous and free-willed (Burrell and Morgan, 1979). This thesis aims to investigate the stakeholders' perceptions of the current practice of corporate governance within the Saudi business environment; these stakeholders are a part of the business environment and are undoubtedly influenced by this environment and by their experiences and activities, but not to the extent that they are completely determined, as determinists might view them. At the same time, they are not completely autonomous and free-willed. Consequently, this study will reject the extreme positions of determinism and voluntarism and adopt a moderate standpoint between the two human nature perspectives. According to Burrell and Morgan (1979), this will allow consideration of the influence of both situational and voluntary factors in accounting for the activities of human beings.

Methodology is a term used to refer to the way of conducting and undertaking research, including its theoretical and philosophical assumptions and their implications for the research methods (Saunders et al., 2007). The standpoints considered above on ontology, epistemology and human nature have a direct impact on the research methodology, since they affect the ways of investigating and obtaining knowledge within the social world (Burrell and Morgan, 1979).

Ideographic methodology rests on the belief that the social world can only be understood by obtaining first-hand knowledge of the subject under investigation, while nomothetic methodology means conducting research based upon systematic protocols and techniques. The ideographic approach utilizes the analysis of subjective accounts by 'getting inside' situations and involving oneself in the everyday flow of life; in contrast, the nomothetic approach adopts canons of scientific rigour to test research hypotheses and uses quantitative techniques of data analysis to achieve its goals. This research follows an ideographic methodology. In order to understand corporate governance in Saudi Arabia this study investigates the current practice within Saudi firms by examining a spects of corporate governance in the Saudi business environment and exploring the perceptions of the participant parties concerning the status quo.

4.2.2 Assumptions about the Nature of Society

Dahrendorf (1959) and Lockwood (1956) distinguish between two types of approach to sociology, the first of which concentrates upon explaining the nature of social order and equilibrium, while the other approach is more concerned with problems of change, conflict and coercion in social structures. This distinction has been called the 'order-conflict debate' and is illustrated as Burrell and Morgan (1979) depict it in Table 4.1.

Table 4.1 The Order-Conflict Theories

The 'order' or 'integrationist' view of society emphasises:	The 'conflict' or 'coercion' view of society emphasises:
Stability	Change
Integration	Conflict
Functional co-ordination	Disintegration
Consensus	Coercion

Source: Burrell and Morgan (1979) (p. 13)

However, Cohen (1968) criticises the order-conflict distinction, arguing that it is a mistake to treat order and conflict as being entirely separate. Cohen suggests that theories should involve elements of order and conflict in their models and that one need not necessarily incline to one or the other. In addition, the subjectivist movements (e.g. phenomenology, ethnomethodology and action theory) became much more attractive; consequently, the order-conflict debate has subsided under the influence of issues relating to the philosophy and methods of social science (Burrell and Morgan, 1979).

Thus, Burrell and Morgan (1979) argue that the order-conflict distinction is a problematic one and suggest 'regulation' and 'radical change' as replacement notions. The regulation-radical change model (see Table 4.2) has two dimensions. The sociology of regulation is concerned with the explanations of a society that emphasise its underlying unity and cohesiveness. Burrell and Morgan (1979) state that:

> "[Sociology of regulation] is a sociology which is essentially concerned with the need for regulation in human affairs; the basic questions which it asks tend to focus upon the need to understand why society is maintained as an entity. It attempts to explain why society tends to hold together rather than fall apart." (p. 17).

Table 4.2The Regulation-Radical Change Dimension

The sociology of REGULATION is concerned with:	*The sociology of RADICAL CHANGE is concerned with:*
(a) The status quo	(a) Radical change
(b) Social order	(b) Structural conflict
(c) Consensus	(c) Modes of domination
(d) Social integration and cohesion	(d) contradiction
(e) Solidarity	(e) Emancipation
(f) Need satisfaction	(f) Deprivation
(g) Actuality	(g) Potentiality

Source: Burrell and Morgan (1979) (p. 18).

The sociology of radical change, on the other hand, looks for explanations for radical change, deep-seated structural conflict, modes of domination and structural contradiction. Burrell and Morgan (1979) define it as:

> "...a sociology which is essentially concerned with man's emancipation from the structures which limit and stunt his potential for development. The basic questions which it asks focus upon the deprivation of man, both material and psychic." (p. 17).

4.2.3 Research Paradigms

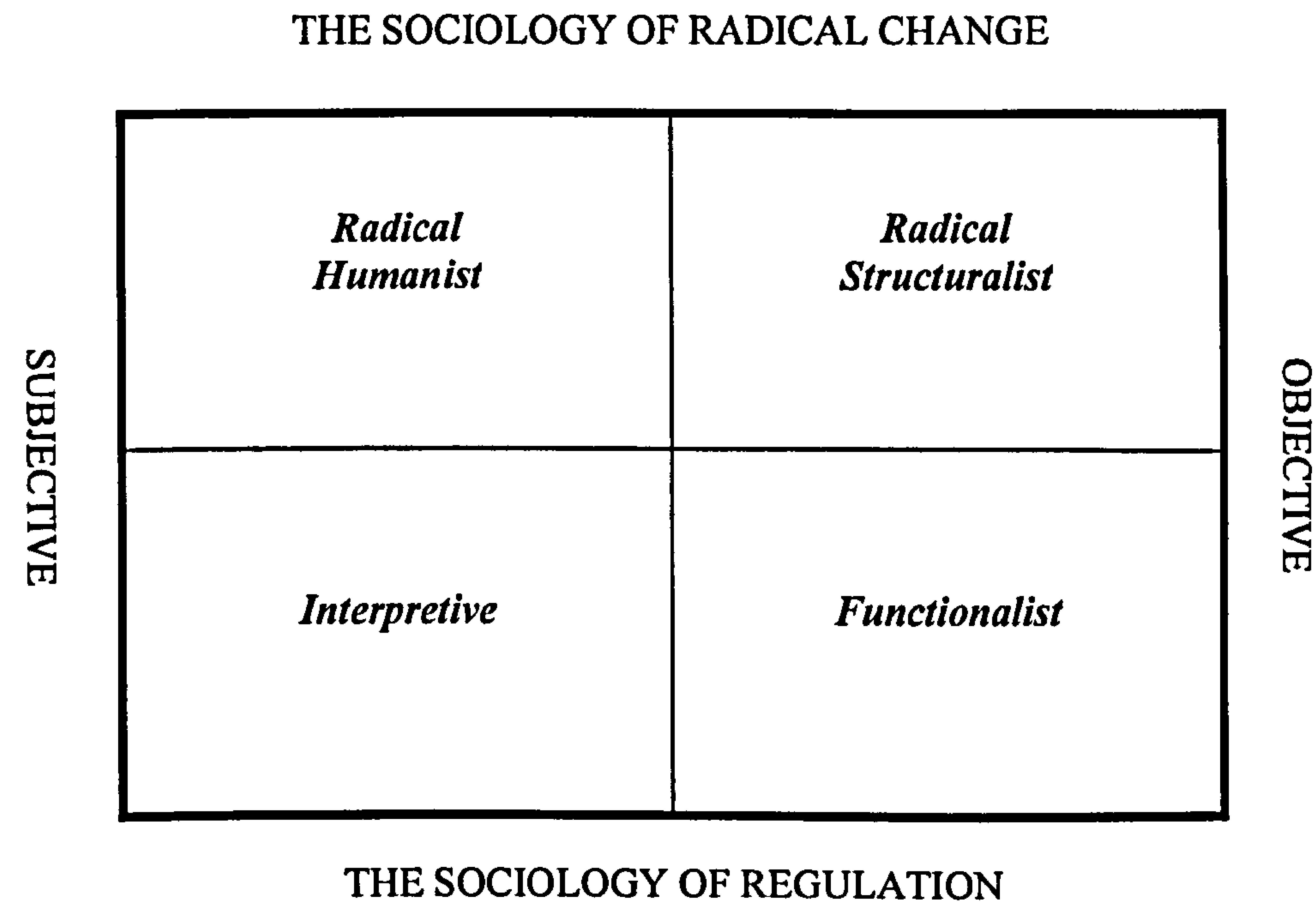
The term 'paradigm' has been used in social sciences since the 1960s and refers to the perspective adopted by researchers to inspire and direct a given science (Corbetta, 2003). Saunders et al. (2007) give this definition: "A paradigm is a way of examining social phenomena from which a particular understanding of these phenomena can be gained and explanations attempted.". Corbetta (2003) emphasizes the importance of paradigms for the sciences and that any science without a paradigm lacks orientation and criteria of choice, so that all problems, methods and techniques are equally legitimate.

There is no doubt that Burrell and Morgan (1979) have made a significant contribution to social science research by providing their four paradigms model (Jackson and Carter, 1991). Their book, *Sociological Paradigms and Organisational Analysis*, was a considerable instrumental guide in summarising and clarifying the epistemological and ontological positions (Saunders et al., 2007). Burrell and Morgan (1979) affirm that a paradigm serves to help in clarifying the research assumptions regarding researchers' views of the nature of science and society; to provide a good understanding of how other researchers approach their work; to help in designing and planning the research in order to assist researchers to be aware of where they stand and to map out further directions in relation to their attitudes and conceptions.

Bryman (1988) states that a paradigm is "a cluster of beliefs and dictates which for scientists in a particular discipline influence what should be studied, how research should be done, [and] how results should be interpreted."

For Burrell and Morgan, paradigms have four dimensions (see Figure 4.2): radical change and regulation (vertical axis), subjectivist and objectivist (horizontal axis). The radical change perspective concerns critical attitudes when studying an organisation; radical change is concerned to give an opinion about the procedures that should be undertaken in the organisation's affairs and provides suggestions to make a significant change to the usual situation. In contrast, the regulation position is intended to describe current practice and how an organisation's affairs are regulated and then provide suggestions for improvement consonant with the present situation. It is clear that the radical change stance is much more judgmental and critical than the regulation position (Saunders et al, 2007).

Figure 4.2 Social Research Paradigms



Source: Burrell and Morgan (1979) (p. 22).

As a result of Burrell and Morgan's (1979) division, there are four paradigms: radical humanist, radical structuralist, functionalist and interpretive. The subjectivist and radical change dimensions represent the radical humanist paradigm, which has the radical change perspective; it seeks to change, emancipate and potentiate the status quo and to overcome all barriers facing this emancipation (such as ideology, power, psychological compulsions and social constraints). This includes awareness of the roles which different social and organizational forces play in understanding the change (Goles and Hirschheim, 2000).

The radical structuralist paradigm takes a different ontological position: it is objectivist, it aims to achieve fundamental change, it focuses on organisational structure and it analyses organisational phenomena as power relationships and patterns of conflict (Saunders et al, 2007).

The other objectivist dimension is functionalism, which adopts the regulation perspective. The functionalist paradigm provides an explanation of why a particular organisational problem occurs and develops recommendations set within the current structure of the organisational situation (Saunders et al., 2007). The explanation reflects the interaction of individual elements of the social system to form an integrated whole (Goles and Hirschheim, 2000). The interpretive paradigm represents the subjectivist and regulation dimensions. In order to achieve its objectives, this thesis will adopt the interpretive approach, which seeks to explain and understand the fundamental meanings of the social world. Burrell and Morgan state that

> "The interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action." (p. 28).

Pursuant to interpretivism, the researcher should understand the differences between human beings in their roles as social actors. This emphasises the differences between studying people and objects; the researchers not only interprets their own social roles in accordance with the meanings they give to these roles, but also interpret the social roles of others in accordance with their own set of meanings (Saunders et al., 2007).

Interpretivism arose from two intellectual traditions, the first being phenomenology, which is defined by Bryman (2004) as "a philosophy that is concerned with the question of how individuals make sense of the world around them and how in particular the philosopher should bracket out preconceptions in his or her grasp of that world". The second intellectual tradition is symbolic interactionism; Saunders et al. (2007) state that this involves "a continual process of interpreting the social world around us in that we interpret the actions of others with whom we interact and this interpretation leads to adjustment of our own meaning and actions". Saunders et al. (2007) explain that an interpretivist researcher has to adopt an empathetic stance, adding that the researcher will face serious challenges entering the social world of the research subjects, in addition to understanding this world from their perspective.

Although Burrell and Morgan's framework has won general acceptance among social science researchers, there has been some criticism. For instance, Chua (1986) suggests that a drawback of Burrell and Morgan's framework arises from their use of mutually exclusive dichotomies; their misreading of Kuhn as advocating irrational paradigm choice; the latent relativism of truth and reason which their framework encourages; and the dubious nature of differences between the radical structuralist and humanist paradigms.

4.3 Methods

In order to achieve the research objectives and in the light of the research methodology standpoint this research adopts the qualitative method of semi-structured interviews and a more quantitative method of a questionnaire survey as the methods of collecting the primary research data. This section highlights the different issues in relation to the research methods.

4.3.1 Semi-Structured Interviews

The first research method employed in this research is a semi-structured interview, which is one type of interview method in social sciences research; other interview methods are structured, unstructured and focus group interviews. Interviews are considered to be useful methods to enable interviewers to obtain a rich insight into interviewees' biographies, experiences, opinions, values, aspirations, attitudes, and feelings (May, 2005). The differences between structured and semi-structured types of interviews are noted by May (2005):

> "In moving from the structured interview to the unstructured interview, researchers shift from a situation in which they attempt to control the interview through predetermining questions and thus 'teach' the respondent to reply in accordance with the interview schedule (standardization), to one in which the respondent is encouraged to answer a question in their own terms". (p. 121).

Bryman (2004) describe the process of semi-structured interview as:

> "The researcher has a list of questions or fairly specific topics to be covered, often referred to as an interview guide, but the interviewee has a great deal of leeway in how to reply. Questions may not follow on exactly in the way outlined on schedule. Questions that are not include in the guide may be asked as the interviewer picks up on things said by interviewees. But, by and large, all of the questions will be asked and a similar wording will be used from interviewee to interviewee." (p. 321).

A semi-structured interview is the most appropriate method consistent with the purpose of this study. One of the main reasons for choosing a semi-structured interview as the primary method in gathering data in this research is the flexibility of this method. The interview's flexibility depends on the extent of freedom that the interviewer has to raise questions that are generated from the issues being investigated through the interview, whereas the interview can be inflexible if the interviewer strictly has to follow ordered questions (Kumar, 2005). Furthermore, such style of interview allows the interviewees to respond to the questions more on their own terms than a standardized interview permits, but at the same time it maintains a structure which allows the possibility of analysing and comparing interviews (May, 2005). In a semi-structured interview there are a number of predetermined questions and specific topics, and all of the interviewees are asked all questions systematically and in a consistent order, but they have the freedom to digress (Berg, 2007). A semi-structured interview allows the interviewer to ask new questions which arise through the interview and allow the interviewee to digress, giving the interviewees an opportunity to freely express their knowledge, experience, and opinions in specific interest areas and provide the opportunity to the interviewer to discover uncovered issues in prearranged questions or to gain rich information in a particular field.

Semi-structured interviews can be both flexible and comparable, in addition to which using such a method does not lead to a loss of concentration on the main objective of the interview since the interviewer can make sure that all the questions are being covered, consequently a semi-structured interview is the most popular method for qualitative research when looking for flexible, rich, detailed answers (Bryman, 2004) and at the same time comparable data.

Accordingly, the research adopts a semi-structured interview method in order to study the corporate governance issues within Saudi companies by interviewing different stakeholders since this method is expected to allow those stakeholders to freely express their experiences, opinions, and attitudes in regards to different topics and questions in the interview guide in addition to any others issues that they want to be considered. For the purpose of the study the researcher has developed an interview guide which contains a list of topics followed by some questions (see Appendix II) that need to be covered during the interviews. The topics and questions are mainly generated from the literature on corporate governance in general and corporate governance in developing countries as well as the literature of the Saudi business environment and Islamic *Sharia* as an attempt to cover the most significant issues related to corporate governance practices in Saudi since there is a lack of resources in this field both in the published literature and in official reports. The interview guide has six main topics and covers some important aspects of corporate governance; the definition of corporate governance; board structure, responsibility, disclosure and transparency; stakeholders, accountability and accountability in Islam; and regulatory bodies and the legal system. Four interview guides were designed according to the interviewees' roles (User; Companies; Regulators; and Auditors) these guides are in the same topic orders but the questions are slightly different consistent with the interviewees' backgrounds and knowledge.

After piloting the interview guide with some staff and PhD students in the School of Accounting & Finance at the University of Dundee for both English and Arabic versions, a cross-section of stakeholders in the Saudi business environment were interviewed, and except for one interviewee who preferred to speak in English, all other interviews were conducted in Arabic, and all the interviewees are Saudi Arabian. Twenty two face-to-face interviews were conducted between May 2007 and July 2007 in four major cities in Saudi Arabia. Table 4.3 shows that the majority of interviews occurred in the capital of Riyadh, the largest Saudi city and where the government and business institutions and supervision and regulatory bodies are concentrated. Seven interviews were in Jeddah whereas only one interview took place in each of Mecca and Dammam. Since Saudi Arabia is a country with a vast area the researcher had to travel from one city to another many times, sometimes twice a week, it was time consuming and expensive since the only way to travel was to fly.

The interview sample was chosen to cover regulators such as: Consultancy Board, Ministry of Commerce, Capital Market Authority, Saudi Arabian Monetary Agency, SOCPA, and Chambers of Commerce, and in relation to government institutional investor, the Public Investment Fund in Ministry of Finance, the General Organization for Social Insurance, and the Public Pension Agency. Each was faxed, telephoned or personally visited as there are only these three government institutional investors. The other parties for interview were picked using a method of picking one and then leaving two by setting the sample in Excel sheet in alphabetical order. These parties include: companies, audit partners, fund managers, financial consultants and academics. The sources of information were different, the companies information was obtained from *Tadawul* (Saudi Stock Exchange) and Ministry of Commerce, and other information was obtained from the different parties official internet websites.

Seven groups of stakeholders of regulators, companies, audit partners, government institutional investors, fund managers, financial consultants, and academics were interviewed and they represent the significant sectors of stakeholders. However, there were a huge number of stakeholders who refused to be interviewed as they did not have time or they were not familiar with the subject of corporate governance.

Two of the interviewees preferred to meet in their houses and another two decided to be interviewed in public coffee shops, these four interviews were more comfortable, less formal, and lasted longer. Further, these interviews were more in depth and detailed. The other interviews took place in the interviewees business' offices. The duration of all interviews ranged from between one and two hours, there was only one which took up three hours. Twenty of the interviews were recorded as two government institutional investors refused to have their interviews recorded.

Table 4.3 Categories of Interviewees

No	Code	Role	City
	Regulators		
1	R1	Member of Consultancy Board Chairman of listed Company Boards member of three listed companies	Riyadh
2	R2	Board member of the Capital Market Authority	Riyadh
3	R3	General Secretary of SOCPA	Riyadh
	Companies		
4	C1	Administrative Consultant & responsible of corporate governance development in a listed company	Riyadh
5	C2	Boards member at some listed companies	Jeddah
6	C3	Boards member at some listed companies	Jeddah
7	C4	Boards member at some listed companies	Riyadh
8	C5	Group corporate Governance Manager in a listed company	Jeddah
9	C6	CEO of unlisted company	Riyadh
10	C7	Chairman of unlisted company	Riyadh
	Audit Partners		
11	A1	Audit Partner Ex-chairman of listed company	Riyadh
12	A2	Audit Partner Board member of SOCPA	Jeddah
	Government Institutional Investors		
13	I1	Economic counsellor & vice-secretary general of Public Investment Fund	Riyadh
14	I2	Director General of Financial Investment Department General Organization For Social Insurance	Riyadh
15	I3	Director General of financial investment Department of Public Pension Agency	Riyadh
	Fund Mangers		
16	FM1	Senior Vice President Head of Asset Management	Riyadh
17	FM2	Fund manager	Dammam
	Financial Consultants		
18	FC1	CEO of Financial Consultants Firm	Jeddah
19	FC2	Chairman of Financial Consultants Firm	Riyadh
20	FC3	A well-known financial commentator	Jeddah
	Academics		
21	AC1	Academic Member of Quality Review Programme Committee at SOCPA	Jeddah
22	AC2	Academic	Mecca

Note: The Table shows the seven categories of interviewees and their roles and the cities where interviews conducted.

4.3.2 Questionnaire Survey

Distributing a questionnaire survey was the second method of collecting the primary data. A questionnaire survey is one of the most popular research tools for gathering information. This meth od is inexpensive compared with other methods such as an interviews, and questionnaires can provide a wide geographical coverage for the research sample. In addition, the anonymity helps the respondents to feel free to express their opinion without concern about their identity. There are three types of questionnaire, a self-completion questionnaire that enables respondents to answer the questions by themselves, a telephone questionnaire survey where respondents have to give their answers over the telephone, and a face-to-face questionnaire where the researcher has to be with the respondents when completing the questionnaire to provide any assistance or explanation about the questions. For the purpose of this study, a self-completing questionnaire has been adopted. This type of questionnaire has many advantages, it is cheaper than other questionnaire methods, and the anonymity helps to encourage respondents to complete the questionnaire and increase the response rate; it is easer to distribute it over different cities, and easier for respondents to complete it in since they only need to tick the right answers; it is more convenient for them since they can do it at their preferred time and send it back when they have finished. Furthermore, the absence of the interviewer eliminates the interviewer impact. However, using this method has some disadvantages. Sometimes respondents do not understand how to answer the questions or may not be sure about the meaning of some questions as a result of their literacy level or they are not familiar with the questionnaire topic. In these where cases the absence of the interviewer might mean that the respondents would either not complete the questionnaire or answer it incorrectly and in some cases they may leave some questions unanswered. A questionnaire also does not allow respondents to elaborate on the topics that draw their attention. Moreover, the subject is sometimes not interested which reduces the possibility of response. The respondents have the right to read the whole questionnaire before they start answering questions and this to some extent will affect the independence of questions and the answers. It is also very difficult to ask a lot of questions and to go into more depth in questionnaires since the respondents will not answer if it is a very long questionnaire. In addition to this, there is no way of knowing if the right person has answered the questionnaire or not. Finally, the response rate in self-completion questionnaires may be low which could result in a biased sample (Bryman, 2004 and May, 2005).

In order to avoid some difficulties that are related to open-ended questions the questionnaire in this thesis uses almost all closed-ended questions. Kumar (2005) considered the advantages and disadvantages of using closed-ended questions, and mentions that close-ended questions enable the researcher to obtain needed information since the respondents answer particular questions; in addition to the easiness of analysis as the information has already been categorized. The disadvantage of this method is that the gathered information lacks depth and variety, the findings may reflect the research bias by just focusing on the result that the researcher is interested in, the respondents' answers may not reflect their opinions since they follow particular choices by ticking answers that may lead to the respondents ticking categories without thinking about the issues.

After analysing the interviews in chapter 5, and in conjunction with the literature review and in the light of research questions, the most important issues related to corporate governance in Saudi Arabia were included in a self-completion questionnaire survey. Two questionnaires were developed to be appropriate for two different groups of respondents: one for companies and another one for other stakeholders. Although both of them are similar the company questionnaire has more questions since the companies' respondents were asked about the actual practices of these issues in their own companies (see the questionnaires in both languages in Appendices III, IV, V and VI). All the questions used a five point Likert scale and the respondents expressed the extent of their agreement by ticking the appropriate answers as 1= not at all and 5= to a great extent. However, a few open-ended questions were asked, and there was also free space at the end of the questionnaire for those who wanted to add any information that they thought was related to practices of corporate governance in Saudi Arabia. One of the main obstacles facing self-completion of the questionnaire as mentioned previously is the low response rate where lower response rates mean a greater risk of biased findings (Bryman, 2004). To avoid such a problem, the researcher adopted some procedures to improve the questionnaire and increase the response rate in order to achieve the research objectives. One of the major steps was to ensure that the questionnaire was well written and easy for respondents to go through and answer it; clear instruction and attractive layout improves the response rate (Dillman, 1983). The questionnaire was piloted with some academic staff and PhD students in the School of Accounting & Finance at the University of Dundee in both English and Arabic. The questionnaire included a covering letter introducing the researcher and his school, outlining the objective of the research, ensuring the confidentiality when dealing with the information that was given in the questionnaire, explaining the method of answering the questions, providing the contact numbers of the researcher and highlighting the methods for returning the completed questionnaire. At the end the researcher's appreciation for the respondents' participation was noted. The questionnaire was professionally printed in a booklet with a glossy cover and accompanied by a prepaid addressed envelope. Although it was an additional cost, the researcher recognised that the respondents admired it and mentioned this as the first time that they had seen such an attractive questionnaire including the free-post envelope; the researcher believes that this appreciation encouraged the respondents to reply to the questionnaire.

The samples were chosen using various sources of information in order to cover as many different stakeholder groups as possible. For example, data of prospective research candidates was collected form sources such as Tadawul (Saudi Stock Exchange) and the Ministry of Commerce and Industry, for companies and stock brokers data. Other information was obtained from the different parties' official internet websites and from the experience that the researcher had from the interviews. Different methods were adopted to choose the samples, so if there were a variety of choices, an Excel sheet was used to list the data in order and use the method of picking one and leaving the next two. In the cases of a limited choice of respondents the researcher considered all the parties such as the government institutional investors where everyone was communicated with. Different methods were also used for board members and private investors since it was very difficult to contact them due to the fact that there is no specific place to find them, especially if they are non-executives who do not have offices in the companies; also, the investors who can be a large number of disparate people to try and contact. The researcher, therefore, decided to attend the companies' AGMs which provided a good opportunity for the researcher to meet managers, board members, investors and different groups of stakeholders and in addition to acquaint himself with what happens at companies' AGMs. As only twenty shares of a company are required to attend a company's AGM, shares were purchased and then many questionnaires were distributed at AGMs. In addition to the excellent chance to be aware of what actually happens at

AGMs, the participation with different parties of corporate governance over related issues at the AGMs significantly contributed to understanding the specialties of different parties and their concerns and interest matters and the nature of the relationships between them. Interestingly, at one of these AGMs that the researcher attended, the number of attendance was very small and this was the second time for the AGM so it has to convene regardless of the number of attendance. The board members had chosen a company employee to be the convener of the AGM which make the researcher protest as he was not independent. The AGM then decided to chose the researcher himself to be the convener of the AGM. This opportunity was a really good experience for the researcher to be aware of how AGMs were administered and the process of making and calculating the votes on the decisions.

The other method for investors was to distribute the questionnaires in exchange halls at banks where investors come to buy and sell their shares. As they are popular in Saudi, the researcher can wait while the respondent completes in the questionnaire and can assist some of them to understand and answer the questions. Almost all prospective respondents who were met at AGMs and exchange halls agreed to take the questionnaire and completed it then returned it by hand. As approximately 95% of the questionnaires were distributed by hand this meant a lot of time and cost was spent. Nevertheless this situation provides a lot of opportunities for the researcher to meet face to face with large groups of stakeholders since two to five minutes were spent with the respondents when delivering the questionnaire.

Table 4.4 Categories of Questionnaire Respondents

No	Stakeholder	Distributed Questionnaires	Returned Questionnaires	Response Rate	Group Response
	Other Stakeholders (O)				
1	Academic	47	13	27%	
2	Private Investor	112	26	23%	54 (27%)
3	Company Employee	39	15	38%	
	Regulators (R)				
4	Auditors	55	15	27%	26 (26%)
5	Regulators	43	11	25%	
	Institutional Stakeholders (I)				
6	Government Institutional Investors	45	17	37%	
7	Fund Managers	48	14	29%	58 (32%)
8	Consultant	32	12	37%	
9	Stock Broker	58	15	25%	
	Non- Executive Directors (N)				
10	Non-Executive Company Chairman	22	6	27%	
11	Non-Executive Director	45	8	17%	19 (19%)
12	Independent Non-Executive Director	31	5	16%	
	Management (M)				
13	Chief Executive officer	16	5	31%	
14	Executive Director	46	6	13%	19 (20%)
15	Company Manager	32	8	25%	
	Other*	89	0	0%	0
	Total	760	176	23%	

Note: The Table shows the five categories of questionnaire respondents, the sub-categories respondents, the number of distributed questionnaires, number of returned questionnaires and the response rate.
* The other questionnaires were sent to companies and the researcher is not sure which stakeholders within the companies were asked to complete them.

All the respondents were asked to choose the preferred method to return the completed questionnaire; surprisingly the majority of the sample preferred that the researcher came back to pick the questionnaire by himself rather than post, although it had a free-post envelope. About two thirds of the completed questionnaires were collected by the researcher, others were received by mail, fax, and Email. It was very important to remind the respondents to respond within two weeks in order to encourage them to answer the questionnaire. Many of respondents expressed their interest in the research topic and provided their support; they expressed admiration about the layout of the questionnaire. However, some prospective respondents mentioned that they lacked knowledge regarding corporate governance issues and there were some complaints about the length of the questionnaire which took a long time to complete.

Seven hundred and sixty questionnaires were distributed to different stakeholders groups[1] between April and June 2008 in the two major cities of Saudi Arabia: Riyadh and Jeddah. As can be seen in Table 4.4, there were 15 groups who responded to the questionnaire and the total response rate was 23% (176 out of 760). And these were grouped into five sets of stakeholders.

4.4 Summary

Different philosophical standpoints in relation to the assumptions about the nature of social science and the assumptions about the nature of society according to Burrell and Morgan (1979) have been outlined in this chapter. In addition, the research paradigms were discussed and the interpretive paradigm adopted by the current study was identified. The chapter also focuses on the two research methods that have been chosen to conduct the study. Semi-structured interviews and a questionnaire survey are discussed. The next two chapters contain the empirical work of the study.

[1] The questionnaires were not sent to those who participated in the interviews.

Chapter 5

Semi-Structured Interviews

Chapter 5
Semi-Structured Interviews

5.1 Introduction

As described in the previous chapter, the first research method adopted by this thesis to collect the primary data is semi-structured interviews. This method seeks to investigate different stakeholder groups about corporate governance issues in Saudi Arabia. This chapter will present the results and highlight the main issues generated from the twenty two interviews that were conducted with Saudi stakeholders between May 2007 and July 2007 regarding understanding of corporate governance; the current practices; the legal system; the accountability framework and other factors influencing corporate governance in Saudi Arabia.

5.2 The Understanding of the Concept of Corporate Governance in Saudi Arabia

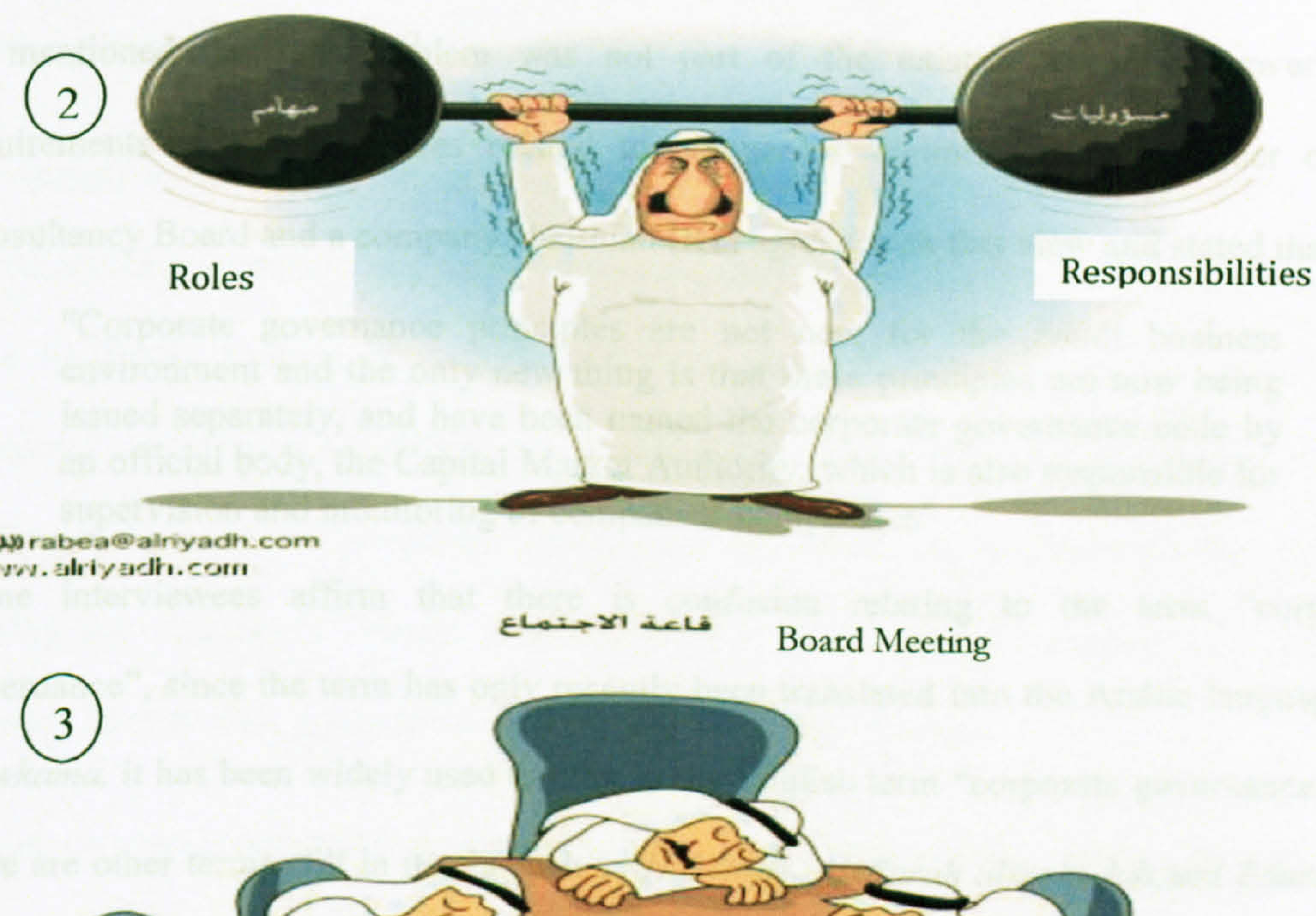
In order to examine the Saudi stakeholders' understanding of corporate governance the interviewees were asked to outline their definition of corporate governance and how important they regarded the topic of corporate governance; the following sections present the Saudi stakeholders' responses to these questions.

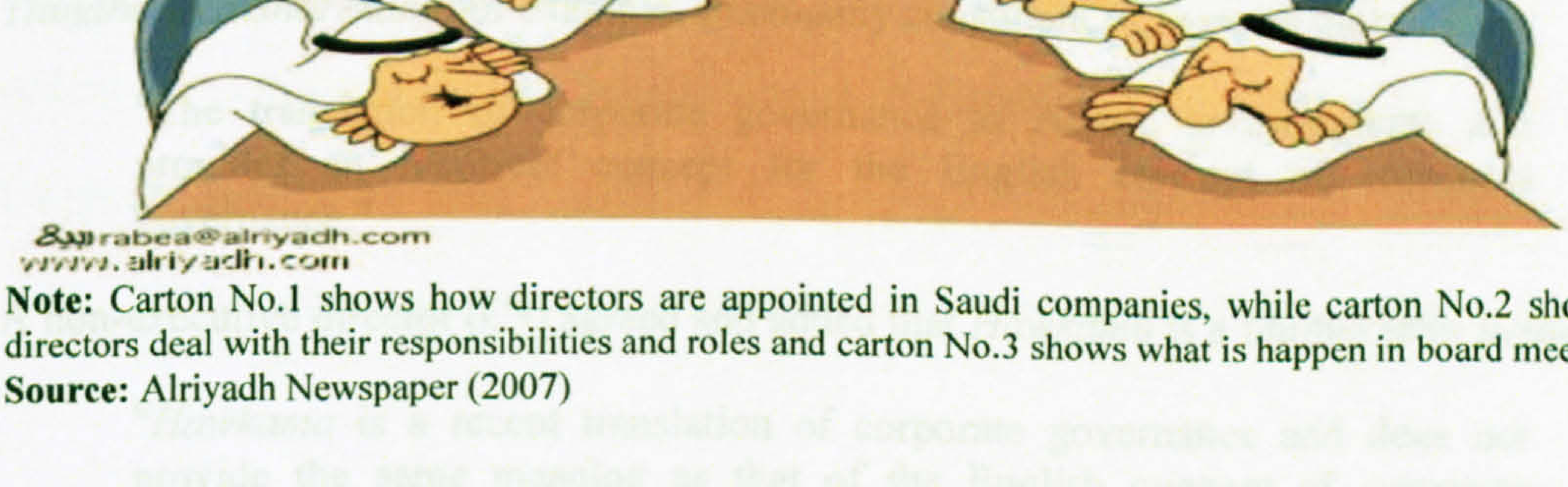
5.2.1 Definition of Corporate Governance

Many of the interviewees stated that corporate governance was a new concept within the Saudi business environment and it had only recently been used. A few years ago, there had been no mention of corporate governance. It has been suggested that serious debate about corporate governance had not been in evidence before the Saudi stock market collapse[1] in February 2006. Before the crash, there had been a lack of interest in companies' corporate governance. Furthermore, there was a lack of awareness about the importance of corporate governance for the environment since there was a general feeling that the national economy was strong, and that companies were performing efficiently and had a high level of productivity. People thought that companies were in a good condition and well managed, isolated from scandals, frauds and corruption which were suffered by companies in other countries. Despite the fact that many companies were experiencing difficulties and had been making losses for several years, the increase in share prices for all companies, regardless of their financial position, led to a situation in which investors passed over these facts. However, a significant change happened after the Saudi stock market crash in February 2006, which encouraged all those who dealt with companies to review, revise and re-valuate companies and their boards. The crash was considered to be a turning point in the awareness of the issues which had arisen and now attracted attention, especially, areas such as corporate governance and company accountability. It is very clear that there was an enhanced recognition of corporate governance issues within the Saudi business environment, as many conferences and seminars were convened, and several articles were written in the national newspapers defining corporate governance and clarifying its importance and the need for corporate governance in Saudi companies, both to protect companies and the national economy (see Figure 5.1). The CMA started to play a significant role in increasing corporate governance awareness in the business environment.

[1] The stock market index had risen from approximately 4,000 in February 2002 to over 21,000 in January 2006 before falling to almost 6,000 in February 2006.

Figure 5.1 Cartons in Relation to Practice of Corporate Governance in Saudi Arabia





Note: Carton No.1 shows how directors are appointed in Saudi companies, while carton No.2 shows how directors deal with their responsibilities and roles and carton No.3 shows what is happen in board meeting.
Source: Alriyadh Newspaper (2007)

However, other interviewees claimed that corporate governance is not new in Saudi companies but that they practised corporate governance in different ways. An audit partner and company ex-chairman (A1) states that company law, which was published in 1965, comprises 80% of the latest corporate governance requirements. He gave two instances to support his viewpoint. First, the law has required the separation between the roles of chairman and the CEO. The second requirement is that the external auditor is prevented from combining audit services and consultation services with the same clients. The interviewee regarded both of them as pointing to a high level of corporate governance, but he mentioned that the problem was not part of the existing corporate governance requirements as far as it was related to companies' compliance. A Member of the Consultancy Board and a company chairman (R1) agreed with this view and stated that:

> "Corporate governance principles are not new for the Saudi business environment and the only new thing is that these principles are now being issued separately, and have been named the corporate governance code by an official body, the Capital Market Authority, which is also responsible for supervision and monitoring of companies' compliance"

Some interviewees affirm that there is confusion relating to the term "corporate governance", since the term has only recently been translated into the Arabic language, as *Hawkama,* it has been widely used to refer to the English term "corporate governance", but there are other terms still in use in such as *Hakemea, Aledarah alrashedah,* and *Edarat wa Ttandheem Alsharekah.* For example, a company consultant (C1) states that:

> "The translation of corporate governance to Arabic is inadequate and provides an incorrect concept for the English concept of corporate governance."

A non-executive director (C3) agreed and added that *Hawkama* is a limited term in that:

> "*Hawkama* is a recent translation of corporate governance and does not provide the same meaning as that of the English concept of corporate governance."

Those who raised the issue relating to the Arabic term of corporate governance appeared dissatisfied with the translation and mentioned that using the term *Hawkama* caused a kind of vagueness which led to a misunderstanding of the original concept. Furthermore, the interviewees argued that, in addition to the fact that the conception of corporate governance was new within the business environment, the translation of the term had led to a more ambiguous and indefinite perception of the corporate governance concept, as the translation failed to explain and interpret the English concept. One of the main misunderstandings that is caused by using the term *Hawkama* is that, in the public sector, it means "nationalization" and more government restrictions and control among companies.

A company ex-chairman (A1) also said that they had used a different term as a translation for corporate governance when they had established and set the first corporate governance code for Saudi Arabian companies, and they named it "Directing and controlling the company", translated as *Edarat wa Ttandheem Alsharekah*, which corresponds with Cadbury's definition of corporate governance. However, the researcher mentioned t hat visiting the company's website in April 2009, it shows that the company has recently changed its corporate governance code translation to use *Hawkama*.

The interviewees suggested various definitions for the concept of corporate governance. A regulator (R2), who is a board member of CMA, the major body responsible for regulating and supervising corporate governance in Saudi, defined corporate governance according to a wide stakeholder's perspective when he stated that:

> "Corporate governance is concerned with setting the best practice of directing companies in the way that ensures the protection of stakeholder's rights."

From his side, a regulator and company chairman (R1) considered corporate governance from an agent-principal and legitimacy standpoint, when he defined corporate governance as:

> "The group of rules, principles and values which should control the behaviours and ethics of a company, its board and its employees by an official body such as the CMA."

A non-executive director (C3) had a narrow view of corporate governance and believed that corporate governance came from inside the company as an internal function, defining it thus:

> "Corporate governance is what the board agrees how to conduct business among themselves."

However, the interviewees considered several aspects of the definition of corporate governance, as illustrated by Table 5.1, which shows all those factors mentioned by the interviewees. The two most important aspects mentioned by the interviewees (55%) were directing the company, and appointing authorities and responsibilities, which reflects the narrow viewpoint on corporate governance of Saudi stakeholders. The stakeholder perspective came latterly, as protecting stakeholder rights came third (41% of the interviewees), while promoting disclosure and transparency and protecting shareholders' rights including minorities, came fourth and fifth scoring 27% and 23% respectively. The breakdown of the interviewees regarding these corporate governance concepts by categories in the Table 5.1 shows that regulators, fund managers, financial consultants and auditors consider corporate governance from both an agency and stakeholder perspective.

Table 5.1 Factors of Corporate Governance Definition

	Factors	R	C	A	I	F	FC	AC	n	%
	Number in each category	3	7	2	3	2	3	2	22	
1	Directing the company	3	2	2	1	1	1	2	12	55%
2	Appointing authorities and responsibilities	2	5	0	1	1	3	0	12	55%
3	Protecting stakeholder rights	2	1	2	0	1	3	0	9	41%
4	Promoting disclosure and transparency	0	1	0	2	0	2	1	6	27%
5	Protecting shareholders right including minorities	1	3	0	0	1	0	0	5	23%
6	Protecting company from corruption, fraud, inside trading and conflict of interests	0	2	1	0	0	0	1	4	18%
7	Promoting fairness and objectivism	0	0	2	0	0	1	0	4	18%
8	Controlling company	1	2	0	0	0	0	0	3	14%
9	Implementing company targets	1	0	0	0	0	1	2	4	18%
10	Accountability	0	1	0	0	0	1	1	3	14%
11	Social responsibility	1	1	1	0	0	0	0	3	14%
12	Organising and setting ethics for company's members	1	1	0	0	0	0	0	2	9%
13	Compliance with laws and requirements	0	0	1	0	0	0	1	2	9%
14	Decreasing risk	0	0	0	1	0	0	0	1	5%

Note: This Table shows factors of corporate governance definition that mentioned by the categories of interviewees. R= Regulators, C= Companies, A= Audit Partners, I= Government Institutional Investors, F= Fund Managers, FC= Financial Consultants and AC= Academics.

Auditors seemed to have the most coordinated definition of corporate governance, as they all agreed that corporate governance was about directing the company, protecting stakeholder' rights and promoting fairness and objectivism. The company interviewees' standpoints were based on an agency perspective and to some extent considered the shareholders' perspective; the academics adopted an agency perspective, with a financially-oriented definition was considered by institutional investors; finally, financial consultants saw corporate governance as promoting disclosure and transparency. According to the interviewees' definitions of corporate governance, Saudi stakeholders, see a limited accountability relationship; it is an internal relationship from a narrow agency perspective, although there are some considerations of a wider perspective of accountability relationships which include wider groups of company stakeholders.

5.2.2 The Importance of Corporate Governance

All the groups of stakeholders interviewed in this study agreed about the importance of corporate governance for Saudi companies, and that it was essential for all companies, regardless of their nature and nationality. This was a surprising finding, since many voices have been heard in the media against implementing corporate governance among Saudi companies, claiming that there is no need for more regulations to restrict companies, that company law is adequate and that all companies comply with it. An audit partner and a company ex-chairman (A1) explained that the attitudes of some companies' officers indicate that they are unaware of corporate governance. The interviewee, who led the first initiative for a corporate governance code in Saudi companies[2] , stressed the importance of corporate governance and stated that:

> "Due to the separation of ownership and management, there are a lot of issues and matters overlapping with shareholders and even among board members sometimes, since the lack of bases which can be considered as reliable tools to assess the extent that board members are fulfilling their duties and responsibilities. Consequently this depends upon personal evaluation and for that reason problems are raised, on account of that corporate governance is one of the most important factors that could assist in evaluating board members and discharging their responsibilities. The experience has proved that the lack of generally accepted, viable and measurable principles such as corporate governance principles lead to an uncontrolled situation. The clear example for this is the scandals and collapse in the business world such as Enron and other companies"

An interviewee (C3) argued that:

> "The importance of corporate governance is to find the roles of everybody in terms of the legal rights of all stakeholders. As well as in putting fairness in the whole system so everyone who owns share or wants to own shares has an equal understanding of the company and equal access to the news"

[2] When he was the chairman of Saudi Telecom Company (STC)

Table 5.2 The Importance of Corporate Governance

No	Reasons	n	%
1	Appointing authorities and responsibilities	8	36%
2	Protecting shareholders rights including minorities	6	27%
3	Protecting company and increasing its trustworthy	6	27%
4	Increasing company's sufficiency	6	27%
5	Strengthening the national economy	5	23%
6	Protecting stakeholder rights	4	18%
7	Equitable treatment of all shareholders	4	18%
8	Improve discloser and transparency	4	18%
9	Protecting company from corruption and inside trading	4	18%
10	Setting bases for accountability	2	9%
11	Assist company to implement the best practices	2	9%
12	Align the relationships between owners, board members and managers	2	9%
13	Assist company to adhere to laws and standards	1	5%
14	Implementing company's targets	1	5%
15	Discharge board responsibility	1	5%
16	Decrease risk	1	5%

Note: This Table shows the number and percentage of interviewees who mentioned each reason for the importance of corporate governance

However, some reasons were mentioned by the interviewees that make corporate governance important. Table 5.2 presents these reasons and reflects the fact that, although stakeholders have indicated the significance of corporate governance for Saudi companies, there is no clear unanimity about these reasons. The most common reason was the role of corporate governance in appointing authorities and responsibilities (36% of the interviewees). Next, 27% of stakeholders state that the importance of corporate governance is to: protect shareholders rights including minorities; protect a company and increase its trustworthiness; and improve the company's efficiency. The interviewees collectively agreed about the crucial importance of corporate governance, Saudi companies as company manager (C5) asserted:

> "Corporate governance is very important for our companies; its role to prevent any economic crisis could be the result of weak corporate governance, especially if this happened in large companies which would have a direct impact on the national economy. Therefore, it protects the company and its stakeholder's interests, in addition to preventing any fraud, cheating and benefiting from inside information to serve personal interests.

Corporate governance presents equitable treatment and fairness for all parties which promote public trust on the company"

However, the interviewees indicate that Saudi stakeholders mainly consider the importance of corporate governance from narrow agency perspective which limits the accountability relationship internally, and to shareholders, but not to other stakeholders.

5.3 The Current Practice of Corporate Governance in Saudi Arabia

This section focuses on the interviewees' thoughts about existing corporate governance practices in the Saudi business environment, and the extent to which Saudi companies implement good corporate governance principles; in addition it examines their opinions about the developments that have happened in this field.

There was general agreement among the interviewees that no single Saudi company had adopted and complied with all the corporate governance principles. An ex-non executive director (C4) claims that although the CMA requires listed companies to issue their own corporate governance code[3], a large proportion of companies have not yet even issued their codes, let alone carried them out and complied with them. Further, an audit partner (A2) argues that Saudi companies are still in the early stages of compliance with corporate governance, and that many things need to be done. An institutional investor interviewee (I3) believes that companies are delaying their compliance with corporate governance. A financial consultant (FC2) observes that companies have started to comply with corporate governance, but that they are still in their "honeymoon" period, so they implement what

[3] An explanation for that might be the CMA wants to encourage companies to issue their own code according to their circumstances and do not require all companies to adopt one particular code

they like and ignore what they dislike. Another financial consultant (FC3) agrees with the observation and confirms that some companies have made good progress by way of compliance with corporate governance, whereas others have done nothing and are still far from any corporate governance implementation.

Thus, the corporate governance situation differs from one company to another, where some companies appear to be concerned about the application of corporate governance, and have set up preparations to adopt corporate governance principles, even before becoming mandatory by the CMA, and other companies have not even started to think about corporate governance (a company NED (C3)). The regulator from the CMA (R1) adds that some companies have set up their own initiatives to establish a corporate governance code, before the CMA issued its code, which reflects the intention of these companies to invest in developing corporate governance within their companies and implementing best practice. Nevertheless, an interviewee from SOCPA (R3), who is also an independent member of an audit committee in a listed company, states that, based on his experience in one of these "initiative" companies:

> "Even for those companies who began to set a corporate governance code, there is no application for these codes, and if there were any, it is limited or only narrow in places. Some companies introduced good codes but have not implemented them, which makes them useless, because of the unwillingness of company officers to put more restrictions and control over them, in addition to the lack of mechanisms that ensure and monitor the company's adherence with corporate governance".

An audit partner interviewee (A2) agrees with the above and argues that:

> "Since there is a lack of implementation measurements, the board's report is no more than a shining report. A company may mention that it complies with some aspects. But who will make sure of that compliance?"

From their side, the company representatives mentioned that they were concerned with corporate governance issues before the CMA released its code project in June 2006 and revised in November 2006. A company consultant (C1) added that his company's code includes issues which the CMA code does not include, such as appointing authorities and responsibilities and functional succession.The chairman of a listed company (R1) stressed that his company had implemented 80% of the corporate governance code requirements even before code was released. In addition his company is looking forward to improving its corporate governance. Regarding other company attitudes towards corporate governance, a company manager (C5) states that:

> "We started caring about corporate governance in the company in 2003. As a result of that, we have designed and implemented our own code, which has been updated to conform to the CMA code and international developments in this field. Our purpose is to adopt international best practice standards and systems, and go beyond the local framework, in view of the company's worldwide business and its continuous desire to branch out and enlarge overseas, as well as ensuring that we can strengthen and improve the company's reputation and plant the trust among shareholders. Also, the company believes that its role as a distinct and successful leader company is to adopt such an initiative and transfer it to the local environment and assist other companies with their implementation".

A company consultant (C1) states that:

> "Our company was a state-owned company before it was privatised. The government still holds 70% of the company's shares. The existence of corporate governance has helped the company deal with this huge government inheritance, and in particular, to change the company culture from a state-owned company to a private one. In addition to that, corporate governance gives the company a competitive feature, especially in the case of international transactions, for example, mergers or takeovers"

However, the companies' interviewees admit that some principles still need implementing and that there are some difficulties which are preventing the implementation of some principles. For example, a company chairman interviewee (R1) points out that his company does not comply with the policy on independent NEDs, as they are still unconvinced about the role of independent NEDs in his company.

According to the interviews, there are some factors which could have a direct affect on the existence and implementation of corporate governance in Saudi companies. For instance, a company non-executive director (C3) notes that the extent of a company chairman's awareness and conviction about the need for corporate governance, and a wide experience of company boards, will help corporate governance to be implemented. He suggests that it will take a long time for those people who do not understand and are not aware of the essence of corporate governance to understand and appreciate the value of corporate governance and to change from existing practices to new practices. It may also depend on the maturity of a company and how early it started to deal with corporate governance.

A company consultant and a company manager (Cl and C5) both give an example of what happened in their companies. In both companies the initiative to adopt corporate governance arose from the chairman's personal desire. Cl notes that the chairman's satisfaction with corporate governance has been a major factor in the adoption of corporate governance, because of the chairman's power to control and influence the company, and as a key part of the culture of the company.

Ex-company chairman (A1) argues that this could be a dangerous situation, if the board has the decision whether to adopt and to supervise a company's corporate governance, as it is in a strong position, compared with the weak role of shareholders at the AGM, where a board discharges its responsibility to shareholders; the only way to encourage a board to accept corporate governance is to make it aware of the benefits of corporate governance.

Interestingly, company non-executive director (C2) raised the question of whether corporate governance controlled the company or whether the company controls corporate governance. If the latter, companies may issue only nominal corporate governance codes and will not really implement them. The interviewee stresses that for good implementation of corporate governance there should be a strong belief within the culture of the company, of the importance of corporate governance originating from inside the company. However, a regulator interviewee (R2) states that:

> "For a good corporate governance implementation environment, the desire for corporate governance should originate from the companies' owners, not from directors, nor the regulator. Consequently, the owners should play their role to encourage and enforce companies in which they invest to adopt good corporate governance and ensure that companies, boards of directors, and executive directors are holding their responsibilities in an appropriate way. Unfortunately, such a role is missing in the domestic environment"

The interviewees mentioned other factors that could affect the implementation of companies' corporate governance, such as the level of board members' knowledge and a company's size. They also point out that there is an increasing pressure on companies from the CMA and at AGMs to adopt corporate governance principles. There is a general belief that the CMA at some stage will force companies to adopt a corporate governance code. Shareholders also seek to play a significant role in AGMs, especially during the current period, since in a limited number of cases they have refused to discharge their boards' responsibilities and it has been considered as a turning point in shareholders' behaviour. Some hold the view that implementing corporate governance is a matter of time for Saudi companies. A financial consultant (FC3) claims that most companies are heading towards carrying out corporate governance principles and that some of them have already received help from consultants and expert offices.

However, although the interviewees from the unlisted companies (C6 and C7) appeared to have respect for corporate governance principles and showed an awareness of its importance, they thought it would be more suitable and necessary for listed companies where the ownership is distributed and there is the possibility of conflicts of interest.

Thus, these results show that, although some Saudi companies have started seriously to deal with corporate governance, the interviewees generally think that Saudi companies are not discharging their accountability by practicing good corporate governance.

5.3.1 Corporate Governance Improvements

Although corporate governance practices are new within Saudi companies, some of the interviewees have noticed changes recently in companies' practices. The following are the most important improvements mentioned by the interviewees in companies.

According to the interviews the majority of companies have started to implement corporate governance principles and to deal with corporate governance as an internal commitment. This can be seen in the companies' published annual reports, and those other companies which have not yet started are in the process of removing the obstacles which impede their compliance with corporate governance principles, since there is no longer any choice for companies other than to adopt corporate governance to meet the CMA requirements and satisfy their stakeholders.

Moreover, the interviewees indicated that some companies have established an internal corporate governance code as required by the CMA, but the majority of companies are still in the process of establishing their codes. The interviewees also mentioned improvements relating to companies' boards. For example, board members are now much more concerned about corporate governance issues and support corporate governance. Further, the number of executive directors on boards has been reduced, while there has been an increase of independent NEDs. Indeed, there has been a remarkable phenomenon in board members' resignations, which are explained by some of the interviewees as a corrective action as a consequence of corporate governance. In addition to that, there are now definitions of board members and managers' authorities and responsibilities. The most significant improvements in companies' corporate governance practices has been companies' disclosure and transparency. Companies are now paying more attention to promoting disclosure and transparency practices, with more specific disclosure policies. Furthermore, the annual reports are more in-depth and more detailed, as companies begin to disclose more information about the company, regulations, board members, ownership in other companies, independent NEDs, in addition to disclosing what has been implemented in relation to corporate governance. Thus, accountability in this area appears to be improving.

5.3.2 Board Members

This section focuses on the interviewees' perceptions on the current practices of appointing board members in Saudi companies. The interviewees identified three factors that they considered played significant roles in influencing the process of selection of board members in Saudi companies: ownership; personal relationships; and favouritism.

There was wide spread agreement among the interviewees that ownership was the most important factor influencing board selection, since it is very common in Saudi companies that ownership of a certain proportion of shares entitles someone to sit on the board, or to have a representative on it. However, the interviewees also stated that the selection of board members at AGMs was no more than a nominal legal procedure, since the majority of shareholders had already agreed on the choice of board members. Thus, alliances of shareholders as a matter of fact have the power to select board members, regardless of the extent of the posed board members' personal qualifications or suitability to hold these positions. The interviewees explained that the method of voting which is now in use gives majority shareholders the opportunity to dominate the board, and some shareholders go so far as to establish coalitions which enable them to extend this control by participating with like-minded owners to ensure that they select whom they want and to block the candidature of strangers by interchanging their votes. One interviewee, is an owner board chairman (R1) stated:

> "Ownership is regarded as the key factor in selected board members. As a result, many companies have their boards dominated by major shareholders or their representatives, regardless of their qualifications, abilities and capabilities. What's more, it is difficult for any supervisory or monitoring body to rule that any member is ineligible."

Some interviewees think that companies benefit from the existence of these major owners on the board as they have the experience; one of them (F2) was of the opinion that:

> "In many cases owner board members have huge experience and are well qualified, especially in large companies. Some of them are people who established a private company and then turned it into a public company, and have wide awareness of all issues relating to the company and its industry. Such members are beneficial for the company."

However; the interviewees emphasised another crucial impact on the process of nomination and appointment of board members that of the influence of relationships and favouritism. They agreed that such practices are widespread in the Saudi business environment, because of the strong family-ties and social relationships that characterise wider society, in addition to the dominance of a favouritism culture. One of the interviewees (AC2) expressed this position thus:

> "The nature of thought in Saudi society is dominated by a culture of favouritism and tribalism, which affect the methods of selection of board members in companies. The owners play a significant role by appointing board members from among their relatives and friends. However, for some of these people, there is no reasonable justification for joining the board. Worse than this, when they are appointed to board subcommittees which are responsible for monitoring the company, this is a real risk for the company."

Some interviewees mentioned that board membership is regarded as a measure of prestige for some directors and so is very important for them. One interviewee (C4) raised another problem related to favouritism, which is that some board members cannot be dismissed, but maintain their positions for life. The important question of nepotism was also mentioned by one participant:

> "An owner will often have many businesses and not enough time to give to each company, so when he wants to have a representative on the board, he will simply appoint his brother or son as a director."

However, the interviewees distinguished between three types of company in Saudi Arabia in respect of their ownership structure which impact the methods of selection of board members in these companies. In companies where a majority of shares are held by the government, selection decisions are made by the government and so depend upon the government's viewpoint and plans, which might, for instance, be in favour of developing the community, reducing unemployment or supporting the company. Such decisions usually rely on relationships and favouritism. In companies whose ownerships are entirely within, or dominated by, one family, selection depends upon family relationships; consequently, it is often the case that one board will contain five or six brothers, or a father and his sons. One of the interviewees went so far as to state that in one sector there is a particular family which has at least one member on the board of every company in the sector. Finally, in companies with distributed ownership, the selection of directors depends on coalitions of shareholders. Such boards are usually inefficient and lack expert members. They are also likely to take a short-term view of investment because of the frequent changes in board membership, which leads to the companies concerned suffering many difficulties.

The interviews indicated that the methods and standards of appointing executive directors and managers are not different from other directors, but they stated that these methods differ from one company to another, depending on factors such as the composition of the board of directors and the company's size. The board of director level of experience and qualification plays a significant role in the appointment of executive directors, with specific characteristics coordinated with their positions. Some interviewees also observed that the size of the company is an important factor, since larger and more successful companies tend to appoint more professional and better qualified executive directors. However, one of the interviewees (FC2) argued that:

> "In some companies the appointment of executives is reliant on ability and qualifications, whereas in others it relies on relationships. The problem is that in some companies the executives are more qualified and more committed than the other board members."

Many interviewees indicated that although some board members have useful experience and a high level of qualifications, there are others who do not deserve to be in their positions, but are there because of their wealth or relationships, as noted above. Companies often appear not to consider it important to appoint independent, qualified and expert directors. A former director of a number of companies (C4) criticised the poor qualifications of many directors:

> "The boards lack integration and variety. They should contain a group of experts and specialists in different fields related to the company's business. Unfortunately, there are some board members in many companies who lack efficiency and qualifications. Consequently, they are unable to read the financial statements. In addition, minority shareholders are not represented on the board, so even if someone is an expert and qualified, he cannot join the board without support from the majority shareholders. However, it is worth mentioning that it is difficult for companies to find appropriate experts and qualified people in the specific areas that they need to add value to their boards."

The interview results clearly indicate that the process of selection of board members in Saudi companies still falls far short of modern corporate governance requirements, since the selection decisions are effectively taken by the majority shareholders in companies having all types of ownership structure. The selection methods depend on the wishes of the majority of shareholders and on their judgment of the extent of a candidate's appropriateness or otherwise, since there is a lack of requirements which a company should observe in the nomination and appointment of board members.

Even in those companies which have a corporate governance code, the practices in this area do not appear to follow modern standards. It is notable that this applies in the case mentioned by an interviewee of a company with defined nomination standards which are put into practice.

This is evidenced by my personal attendance at a general meeting of this company, which was held in order to form a new board of directors. All successful candidates received at least 97% of votes, in line with the expectations of the nominators, who were very confident and did not appear in any way concerned about the results. Furthermore, for their part, the minority shareholders also appeared unconcerned about the election, because they knew that they would be unable to make any changes. Thus, instead of discussing the nominations, they asked whether there was to be any new profit distribution; surprisingly, the board of directors announced that the company had decided to distribute profits resulting from capital sales. The shareholders then enjoyed a lovely meal in a five-star hotel. This is an example of how board members are appointed in Saudi companies.

When asked about the proportion of executives in Saudi boardrooms, the interviewees stated that companies' boards usually do not contain executive directors, other than the CEO, as boards are commonly composed of NEDs. This result indicates that Saudi companies' adhere with Saudi corporate governance which recommends that the majority of directors on the board should be NEDs.

Having discussed the current practice of the selection of board members in Saudi companies, the interviewees were asked to give their opinions about the requirements that board members should have, and for their suggestions to improve the process of the selection board members. The interviewees suggested the following requirements that should be considered by Saudi companies when appointing board members:

- Having experience in the company's field;
- Being a specialist or having a background in economics, management, finance or auditing;
- Being qualified;
- Contributing to the variety of board members;
- Having a good reputation;
- Having enough time to give to the company.

The interviewees distinguished between large and small companies, considering the former to be much more concerned about appointing appropriate members than the latter. This may be related to the desire of larger companies to succeed, in addition to their ability to pay for such members, whereas it would be more difficult for smaller companies to pay directors large fees.

In relation to their suggestions to improve the process of selecting board members, the interviewees made some recommendations in response to this question. Some contributors stressed that the supervisory and regulatory bodies should play a much stronger role in setting defined standards for board nomination and enforce compliance with these standards. They should encourage each company to appoint a nomination committee that should play an active role in monitoring their companies' compliance. A NED of several companies (C2) stated that accumulative voting[4] had become a necessary counterweight to the domination of boards by majority shareholder coalitions. He added that companies should be obligated to adopt such methods to improve the selection of board members and to give the minority the opportunity to participate, which would provide a greater likelihood of independent members being appointed.

Another issue raised by the interviewees in relation to improving selection methods was that of compensation for board members. Some of the interviewees argued that directors' compensation was considered inappropriate and that companies should increase it to suit the duties, responsibilities and the accountability of each position, in addition to

[4] The Saudi corporate governance code defines an accumulative voting system as a method of voting for electing directors, which gives each shareholder a voting rights equivalent to the number of shares he/she holds. He/she has the right to use them all for one nominee or to divide them between his/her selected nominees without any duplication of these votes. This method increases the chances of the minority shareholders to appoint their representatives in the board through the right to accumulate votes for one nominee (p.4). The current voting system allows shareholders to use their share percentages to nominate a set of board members according to their share percentages. For example, shareholder A who owns 60% of the company is able to give all his vote to a separate set of nominated directors a, b, c, d and f, so that each one of these nominations has 60% of the votes. i.e. a 300% vote is used for directors instead of allocating the 60% to a, b, c, d and e, such as a= 10%, b= 20%, c= 5%, d=15% and e=10%.

encouraging the appointment of expert and qualified members to the board. It has been suggested by one of the interviewee (A1) that the small remuneration had discouraged young and successful managers from looking for positions on boards; therefore, the regulators should consider reversing this decision.

Some of the interviewees drew attention to what, in their opinion, would be an important method to improve the performance of board members, by training them. To this end, the interviewees suggested establishing a body equivalent to the Institute of Directors in the UK and other countries, to shoulder the responsibility of training board members, regularly providing them with updated knowledge of corporate governance best practices around the world, and assisting them to deal with and adopt these practices. Another issue raised was the need for defined procedures to evaluate board members, which was considered a very important criterion to ensure an improvement in the performance of boards. One of the interviewees stressed the importance of such evaluation and hinted at the difficulties faced in this area:

> "The evaluation of board members is a silent issue in our local environment. I have heard some board members boasting that no one would dare to evaluate them, since they are government ministers and billionaires."

5.3.3 Independent Non-Executive Directors

In relation to the importance and appearance of independent NEDs on company boards, the interviewees indicated that this was a critical point and there were many obstacles facing companies in adopting one of the most important aspects of corporate governance principles, which is the existence of independent NEDs.

A regulator interviewee (R2) gave this account of their importance:

> "According to best practices, independent NEDs perform free from pressures exerted by owners and executive management. In addition, their role is to represent the minority shareholders. For instance, an independent NED has complete independence when he/she participates in an audit committee to audit and review the executive management's performance. Furthermore, the independent NEDs create a balance on the board, besides contributing new ideas to the board from an independent perspective."

There was general agreement among the interviewees on the importance of independent NEDs and their crucial role on the board. One interviewee (C3) stated that the importance of an independent NED is felt particularly in cases of making important decisions which serve the majority of shareholders. Here, the appearance of independent NEDs is considered to ensure that such decisions are taken in consideration of the interests of the minority shareholders and that the majority do not use the board to fulfil their personal or sectional interests.

The interviewees agreed that there were independent NEDs in some companies, but some expressed doubts about the extent of their real independence in Saudi companies. They questioned the appointment of these allegedly independent NEDs to the boards, since minority shareholders do not have any power to influence the voting process. It was felt that the appointment of independent NEDs in Saudi companies was in fact made by the majority shareholders according to their relationships and favouritism. One of the interviewees (AC2) expressed a commonly held view:

> "The idea of an independent NED is important, but when a company states that this or that member is independent without any mention of his/her CV and experience and why he/she is considered independent, this is not enough, nor is the judgment of the company itself on the question of independence good enough on its own. Unfortunately, the culture of favouritism and relationship is the major factor in the appointment of independent NEDs, and the company should provide an explanation that the independent NEDs do not have any relationship or interests with the company, its board members and its directors."

Other issues were also raised in relation to the independent NEDs. Some interviewees argued that the legal requirements of independent NEDs were weak and should be more specific to ensure their real independence in practice and to guarantee the benefits of the existence of a truly independent NED. One of the interviewees (FM1) conceded that it was difficult for companies to find independent and qualified directors; in general, if directors are qualified, they are likely to work for competitors or to have an interest in the company, since the country as a whole has a shortage of experts and qualified directors. The same interviewee suggested that companies should therefore use foreign experts.

However, some interviewees argued that companies were unaware of the purpose and value of independent NEDs, and believed that their presence would affect their domination of the board; in respect to this point, a company chairman (R1) stated that:

> "The independent NED in Saudi companies is a complimentary member as a result of the culture of favouritism which affects companies; therefore, I have doubts about the possibility of implementing the principles of the independent NED practically and effectively in Saudi companies, which will appoint independent NEDs according to relationships."

5.3.4 Board Duties

Regarding the subject of directors' authority and responsibility, there was an obvious division in the viewpoints expressed, since some of the interviewees argued that these conditions are defined in the companies' regulations and in their practices. However, the majority of interviewees claimed that companies were suffering from a failure to clearly define the authority and responsibilities of the board and its committees.

The interviewees mentioned some matters related to the authority and responsibilities of directors in the Saudi business environment. One of them (C3) noted that although these conditions are defined in the regulations, board members needed time to understand them and put them into practice, since they had no experience of them. Another issue raised by an interviewee (A1) was that the balance of power within a board could affect the definition of duties, authority and responsibilities, since some members had positions of wealth or power which made it difficult for others to oppose their opinions. Indeed, (FC2) claimed that:

> "Half of board members are not aware of their authorities and responsibilities. They also lack the ability, suitable qualifications and enough background to even read a balance sheet."

Although some interviewees claimed that some boards do indeed discharge their responsibilities and duties perfectly, especially those of large and successful companies, there was also wide agreement among the interviewees that many boards are far from doing so. Some interviewees stated that boards of directors tend to be dominated by company chairmen, who usually own the majority of shares and have the right to exercise control over the other directors, whose role is limited to endorsing the chairman's decisions. As a result, according to one interviewee (A2):

> "Many boards of directors are not practicing their roles in planning, directing, controlling and analysing. Board membership is honorary and there are many directors who attend the board meetings without bothering to read the agenda."

A company chairman and member of a number of boards of directors (R1) claimed that some board members do not give enough time and effort to the board's duties:

> "The majority of directors of Saudi companies, especially the government representatives, just read the meeting agenda on their way to the board meeting."

Thus, the interviews indicate that the extent to which the board of directors fulfils its responsibilities in Saudi companies depends on certain factors, the most important of which are the chairman, and the size of the company. Also, the existence of the CMA was mentioned too, since there has been increasing concern among boards to discharge their responsibilities since the appearance of the CMA as an active supervisory body.

In relation to the question whether boards of directors monitor the performance of a company's executive managers, two different viewpoints were expressed by the interviewees. A small group argued that boards accomplish their role of monitoring and evaluating the performance of executive managers and ensure they follow the relevant plans and targets. They considered this as one of the main roles that any board should aim to fulfil. However, the majority of the interviewees argued that boards of directors were not fulfilling their responsibilities in regard to monitoring executive managers because board members did not have enough time, enough information or the ability to exercise control over executive management's performance and actions, as a result of being busy and having other engagements. A former chairman (A1) expressed it thus:

> "This is a very important issue which I personally faced in many places. Ability is not an issue of legal authority, but it is a practical issue, since the fact is that the board lacks efficient resources of ability, understanding and information which would enable it to monitor the executives."

Another interviewee (FC2) declared:

> "The role of the board of directors in monitoring the executive management is weak, because board members are engaged with other businesses, and they delegate the company's work to the executive management. But this delegation does not include any monitoring procedures, nor balancing between authority and responsibilities."

With regard to obtaining information, there was a general agreement among the interviewees that the board of directors has the right to obtain the information it needs, on a timely based, to assist the board to monitor the company and that this right is legally protected. However, the interviewees stressed that there were problems in obtaining such information and some board members had no desire to seek further information, but were content with whatever reports were provided by the executive management. As a result, they spend little time or effort in exploring, studying and discussing issues, due to their other commitments. In addition, the engagements of executive management may sometimes prevent or delay the provision of adequate information to board members. A further reason might be the executive management's discontent with board members' requests, or simply that there is a long period of time between meetings, so that directors may forget previous concerns.

Board members have the legal right to obtain adequate and timely information as a tool to assist them in discharging their functions; however, the exercise of this right varies among companies and their board members. While there are some directors who in reality practice their rights professionally to obtain and use information to fulfil their duties, there are others who fail to do so, for their own reasons or those of executive management. Either, or both, of these parties may have limited time because of other engagements or simply be uninterested in asking for, or providing, such information.

With reference to board meetings, the company interviewees were asked about their own companies' board of directors meetings. The majority of company interviewees stated that their boards convened six times per year, while a company consultant, surprisingly, claimed that the board of his company convened thirteen times annually, and that the board had convened thirty three[5] times one year.

Thus, according to the interviews, boards of directors in Saudi companies are not seen as discharging their accountability relationships by fulfilling their responsibilities and roles possibly because of their lack of abilities, experience, qualifications and time, or due tothe fact that they are unable to obtain the needed information to assist them to make their decisions, even though they have this right.

5.3.5 Board of Directors Sub-Committees

The interviewees emphasised the fundamental role that subcommittees can play if they fulfil the functions for which they have been established. In respect of their assessment of the role of these subcommittees within Saudi companies, the interviewees generally indicated that they were dissatisfied with their performance and raised a number of issues. One of the interviewees (AC2) opined that companies should give more attention to developing such committees since they are the most important monitoring tools, assisting the board of directors and shareholders to control the company. The interviewees were asked which board subcommittees existed in Saudi companies and they stated that the most common subcommittee was the audit committee, followed by the executive committee, and then the nomination and remuneration committees; very few companies have corporate governance, investment, social responsibility, or *Sharia* committees. Indeed, the Saudi

[5] The interviewee mentioned that the board of directors convened this huge number of meetings because the company was recently privatized and the board of directors found it very difficult to deal with the significant changes in the company.

corporate governance code recommends that companies set up audit, nomination and remuneration committees.

Interviewees mentioned that the method of selection of subcommittee members is not very different from those used in selecting the members of the board itself; ownership, personal relationships and favouritism again exert a strong influence on the process. An auditing committee member (R3) claimed that:

> "The companies begin to appoint specialists to the board's subcommittees, for instance, specialists in accounting and finance to the audit committee, not because they are satisfied with their role, but as a way to discharge the regulation requirements, since the companies are unwilling to reveal their secrets to outsiders."

Furthermore, some interviewees mentioned that some subcommittee members were executive directors, which they considered likely to diminish the expected role of these committees. In addition, no justification is given by companies when appointing committees members; even when they state that a member is a specialist, they do not provide any details.

However, other interviewees, especially those representing companies, disagreed with the above and indicated that there are in fact different levels of board subcommittees in Saudi companies. They stated that their companies were careful to appoint experts and specialists onto board subcommittees and that the majority of their board subcommittees were comprised of NEDs.

Regarding the number of subcommittee meetings convened each year in Saudi companies, the interview data shows that there is no particular pattern of committee meetings, but that the situation varies from one committee to another and from company to company. Also it appears that committee meetings are related to board meetings, since in Saudi companies the two usually occur at the same time. Thus, when the companies were asked about numbers of meetings held by their board subcommittees, their answers varied, since committees in some companies were said to meet monthly and others every six months. However, if the responses of the interviewees represent the average position, it can be taken that the majority of Saudi companies convene between two and seven meetings yearly for each board subcommittee.

Some of the company interviewees stated that subcommittee authority and responsibilities were clearly defined and that members were aware of these and practised them according to the internal company codes and regulations. In particular, it appears that the definition of the authority and responsibilities of subcommittees are defined in such a way as to avoid any conflict with either the board or the executive management. On the other hand, some of the interviewees claimed that the extent of the committees' authority and responsibilities depends on the whim of the board of directors, since the board itself delegates decision-making to the committees. While committees will normally defer to the board, such practices will differ from one company to another, depending on its board. Another viewpoint expressed by the interviewees was that, excluding some cases where the authorities and responsibilities of subcommittees are defined under initiatives by the companies themselves, which may go beyond the requirements of the regulations, in the majority of companies, the committees' authority and responsibilities are undefined.

However, the interviews show that Saudi companies are not discharging their accountability in terms of setting up efficient board sub-committees to fulfil their essential roles of monitoring management. The interviews indicated that many of the problems and obstacles facing the practices of the different committees in the Saudi business environment; the following are the most important, which prevent board subcommittees from fulfilling their roles:

- The weakness of the regulations in relation to defining the committees' composition, roles, authority and responsibilities;
- The lack of monitoring systems providing control over these committees by the supervisory bodies, in addition to the lack of punishment procedures for offending committees;
- The unequal time and effort that the members of these committees dedicate to their duties;
- The lack of a majority of experts and specialists in the relevant fields on committees;
- The fact that the majority of committee members are not independent; and
- The lack of awareness among some board members of the importance of the subcommittees.

5.3.6 Disclosure and Transparency

This section presents the interviewees' responses to questions about their evaluation of the level of disclosure and transparency practices within Saudi companies and the most important developments and obstacles in this field. In addition it explores their attitudes concerning the extent of the required standards of adequacy for disclosure and transparency and the extent of companies' obligations under these requirements.

Although some interviewees mentioned remarkable improvements in companies' disclosure and transparency practices recently, there was unanimous agreement amongst them that the level of disclosure and transparency among Saudi companies remained inadequate and that they were dissatisfied with current practices. The interviewees pointed to particular issues related to disclosure and transparency in Saudi companies, the following being typical observations:

- There is a lack of continuous disclosure of company information and news.
- There is an obvious weakness in companies' transparency, since board members are the only parties who have the right to be informed about the company's important information due to their position.
- Some companies do not have a clear understanding of disclosure and transparency, since there are some which release very important news in the newspapers before it appears in the official exchange stock market website "Tadawal", which indicates their ignorance of the importance of the timing of information.
- There has been no improvement in the quality of disclosure, only a change in the ways of presenting information.
- There is a remarkable divergence in disclosure and transparency practices among companies: while some practice what is considered to be good disclosure and are reasonably transparent, there are others with poor policies in this regard. In many cases, companies of both types are in the same market and sometimes in same sector as well; thus they are subject to identical regulations, which indicates the weakness of monitoring and punishment procedures by the supervisory and monitoring bodies.
- The weakest areas of disclosure and transparency in Saudi companies concern future predictions and their prospective projects and strategy plans. There is also a need for financial reports to be more detailed, especially in relation to operational profits and sectoral sources.

However, there were two different viewpoints among the interviewees about the adequacy of the supervisory bodies in relation to disclosure and transparency. Some claimed that the regulations were adequate, especially the regulations issued by the CMA, while others argued that the existing requirements were inadequate, falling far short of those of developed markets.

However, if there was some disagreement among the interviewees over the adequacy of the disclosure and transparency regulations, there was virtual unanimity concerning the weakness of companies' compliance and application, as well as the deficiency in the monitoring of this compliance and the failure to enforce penalties. The interviews showed that many companies are still far from adopting acceptable disclosure and transparency requirements. Some interviewees pointed out that, although the companies' adherence to disclosure and transparency requirements were inadequate in general, there were some cases of remarkable improvements in compliance. In addition, the role of the CMA was making a positive impact in improving the disclosure and transparency within companies. For his part, a regulator from the CMA expressed this view:

> "I hope that we will have unofficial bodies to assess companies' performance and compliance with disclosure and transparency. Unfortunately, these do not exist at present, so the CMA has shouldered the burden. There is a continuous disclosure committee, which reviews company reports and studies the forms filled in by companies to make sure that they are correct. In cases of noncompliant companies there are legal penalties."

Overall, according to the interviews, Saudi companies generally are not discharging their accountability in relation to disclosure and transparency as the interviewees were dissatisfied with the level of disclosure and transparency made by these companies and that the regulatory and monitoring bodies should make much more effort to ensure that companies comply with the disclosure and transparency requirements.

5.3.7 Stakeholders and Shareholders

This section presents the results from asking the interviewees about the identity of the companies' stakeholders and their representatives on boards, in addition to their role in, and influence on, companies. The interviewees were questioned about how companies protect stakeholders' rights and to what extent stakeholders are satisfied with their current position.

All the interviewees were asked to state who they regarded as company stakeholders. Many of them gave a general answer that everybody dealing with a company were stakeholders and a company should deal with them professionally and not infringe their rights. The interviewees did not define particular parties as company stakeholders, but included all those who dealt with the company at any level. However, half of the interviewees (11 of 22), specified some particular parties whom they regarded as stakeholders. The groups most widely identified as comprising stakeholders were company shareholders and society, both of whom were identified by 9 of the 11 responding interviewees. A second group, whose members were mentioned by between 4 and 7 of the interviewees, comprised the government, employees, creditors, customers and suppliers. The final group of stakeholders consisted of the environment and competitors, each of which were mentioned by only a few interviewees. These results were quite surprising[6], especially, that of considering society as a significant stakeholder. In respect to this, interviewee R1 stated:

> "Society is very important, therefore the company has a significant social role to play, such as paying charity or employing members of society. Its social responsibility is a crucial principle for the company. We are concerned to build on the human values in society and we have taken some initiatives and made donations to educate and train members of society."

Other interviewees agreed with this and stated that companies' concern with society had developed in recent years, as a result of which some companies had begun to take seriously their social responsibility and to participate in social development projects.

The interviewees unanimously agreed that, excluding shareholders, stakeholders did not usually have representatives on companies' boards. They claimed that it was uncommon in Saudi companies to appoint representatives of stakeholders.

The interviewees stated that the most important stakeholders that companies considered when making decisions were their own employees and the government. They pointed out that some stakeholders have the power to protect their interests even though they do not have board representatives. For example, although the government does not have representatives on companies' boards, the government supervisory and monitoring bodies have the ability to ensure that companies adhere to national regulations and systems. Another example was suppliers who also have a significant influence over any company and who can protect their interests.

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[6] Arguably although the Islamic teachings give a significant attention to society (*Ummah*) the current practices within Islamic societies are far away from following these teachings.

However, some interviewees expressed their concerns about the extent of companies' real concern for stakeholders' interests, especially those of stakeholders who are unable to protect their interests and to ensure that company decisions do not threaten their interests. These stakeholders including society as a whole, employees, customers and the environment, who do not have representatives on companies' boards to look after their interests. The interviewees saw these stakeholders' roles and their influence over companies' activities as weak, as a consequence of the weakness of society's awareness of the role of stakeholders, in addition to the weakness of the regulations which explain and define the importance and the role of stakeholders.

The fifteen interviewees who were not from companies were dissatisfied about stakeholders' rights in Saudi companies. In contrast with the company interviewees, these stakeholders indicated an awareness of their rights and a real concern to see them upheld. They expressed their dissatisfaction with a number of issues; for example, not having representatives on companies' boards, not enough information about companies' current situations and future plans, the low level of disclosure and transparency and the deficiencies in regulations being upheld. This confirms that although stakeholders are aware of their rights, Saudi companies seem to limit their accountability relationships to companies shareholders as they do not give appropriate consideration to other stakeholders.

5.3.8 Ownership Structure

This section considers the responses of interviewees to questions about who owns Saudi companies. The results reveal that there are three types of ownership structure in listed Saudi companies: those with concentrated government ownership; those with concentrated family ownership; and those with distributed ownership. The majority of Saudi companies have a high concentration of ownership either by the government or families; only a few have a distributed ownership.

The interview data suggest that most large and successful companies in the Saudi market are largely owned by the government or families, which together own about 70% of companies' shares. Companies are often started and then listed and the family keeps 70% of the shares, after floating 30% in an IPO, so that they have an appropriate proportion to maintain control over their companies. Some of these companies are state-owned companies and have been privatised by the government; others are private family companies which have been transferred to partial public ownership.

The interviewees indicated that this concentration of ownership was widespread in Saudi companies. The government has investments in companies which have recently been privatised, or newly established companies that provide public services. The interviewees stated that government investment existed to support and encourage these companies in such a way as to promote development projects in the country and to provide appropriate funding to empower these companies to cover new kinds of business for the local environment or to introduce services to the community. Consequently, the maximisation of wealth was not a main aim of government investment; rather it aimed to support the national economy. The Public Investment Fund (PIF), in the Ministry of Finance, is charged with managing government investment in these companies. An economic counsellor at PIF (I1) did not wish to specify the amount of government investment in listed companies, but he stated that it ranged between 10% and 70% of a company's capital share, adding that:

> "The system dictates that the government invests in profitable commercial projects; consequently, our investments are based on economic feasibility studies and the advice of expert investment bodies. Nevertheless, the Public Investment Fund has a development role and aims to realise the national economic interest."

The counsellor also sits on company boards as a representative of the government and as an investor, and stressed that there was an inequity in the rights of investors under this strategy, since it could not be represented in proportion to its holdings of companies shares; therefore, as a government investor, he was dissatisfied with the level of representation the PIF had. The government sometimes owned 10% of a company's shares but did not have representatives on the board, while in other cases it might own 70% of a company and yet have only one representative. The same interviewee claimed that the current voting system enabled coalitions of interests in companies to prevent the government from appointing its representatives, especially where it had a lower percentage holding. He suggested that there should be a reappraisal of the current system of voting and that investors should be empowered to appoint board representatives according to their share of ownership. He argued that adopting an accumulative voting system would promote their right to appoint representatives to company boards and protect them from internal coalitions.

Some interviewees, however, praised the government's role as an investor and argued that the government played an important role in maintaining rights and protecting interests, as well as encouraging good corporate governance by using its power as a majority shareholder in companies. However, the interviewees identified some obstacles facing the government investor in shouldering these roles, as follows:

- The method of appointing government representatives were based on favouritism and relationships;
- Most government representatives are state employees who do not have the appropriate knowledge and experience in companies' areas of business;
- The nature of work in a company environment is different from that in the government sector;
- Government representatives give inadequate time and effort to their board assignments and are often silent parties at board meetings;
- The coalitions on boards play a significant role in isolating the government representatives and limiting their influence;
- There is a lot of repetition in the names of government investor representatives on company boards.

The second type of concentrated ownership structure is that of family-owned companies, which the interviewees also stated was widespread in the Saudi economy, where business has traditionally been based on family units. Thus, family ownership sometimes reaches 70% of a company's capital. The interviewees indicate that there are sometimes coalitions between groups of families to concentrate the ownership of some companies and that there are agreements among them about who will direct the companies and about their corporate strategies. Some interviewees revealed that, in reality, there is a group of families among whom company ownership is strongly concentrated. A former board member of such a company (C4) stated that:

> "The ownership of Saudi companies is highly concentrated in a group of families. There are a few names which are repeated again and again. The founders of company A are the same in B and in C, which is a very dangerous situation."

Companies with such a concentration of family ownership are affected directly by this ownership structure, since the families keep a sufficiently high proportion of ownership to enable them to dominate and control the companies. They usually appoint themselves or their representatives to the boards; their voting power and the current voting system allow them to influence the nomination process, so that they have the authority to influence the appointment of other board members. The interviewees also stated that, in these companies, the owner families have the right to appoint and fire the executive directors. In regard to this, an interviewee (FC2) made the following claim:

> "The families affect the appointment of executives. From their side, the executives devote themselves to serving these large owners, not only against the minority of shareholders but also the other board members, because it is common in Saudi companies that families can appoint and fire the executives."

Having the right to structure companies' boards and appoint executive directors indicates the significant role that families are playing in companies, affecting their activities, plans, policies and decisions. Indeed, some interviewees expressed their concerns about the risks that the concentration of family ownership could cause, suggesting that certain families currently dominated some of the most important market sectors due to their concentrated ownerships. Two examples given of such domination were the banking and cement sectors; the concerns expressed at this situation were about the risk of monopoly and the conflict of interests which could threaten the rights of some parties, such as minority shareholders, competitors and customers.

Another risk which faced family-owned companies, according to the interviewees, was the transmission of ownership down the generations of one family, so that a company's strategy might change as its owners changed from generation to generation. In this context, the chairman of a family-owned company (R1) was concerned about the situation of companies with concentrated family ownership:

> "There is always concern about the transition of the ownership in family-owned companies from the founder's generation to the next generation. The family members may be divergent and have differences in culture and interests, in addition to the weakness of relationships between the family members, which would have an impact on the companies".

While the interview evidence indicates that there are some companies with a distributed ownership, these are a small percentage compared to those with concentrated ownership structures. In the majority of distributed ownership companies, moreover, the ownership structure changes rapidly, as a significant proportion of owners are investors with short-term strategies who switch from one company to another according to changes in the share price. Some interviewees stated that companies with widely distributed ownership structures often suffered poor management and instability in their performance. One interviewee gave an example of one such company where a few investors held the majority of the shares and controlled the board; later, another group of investors obtained a majority holding and at the next general meeting tried to change the board of directors; this case indicated how bad the situation could be in distributed companies and that such a situation could lead to frequent changes in the membership of boards of directors.

Thus, the majority of the interviewees argued that companies with a concentrated ownership structure, especially the family-owned ones, were more professional and made better progress. The opinion of one NED interviewee (C2) is typical:

> "In most companies with concentrated ownership, the fundamental owners are their spiritual fathers, whereas distributed ownership companies lack a spiritual father. As a result of that they are lost and unsuccessful."

However, the interviews illustrate that with concentrated ownership structure that enables major shareholders to dominate the companies' board of directors, there is a real concern that Saudi companies are confining their accountability relationship to the major shareholders and do not consider minority of shareholder interests or any other stakeholders.

5.3.9 Institutional Investors

There are four categories of institutional investors in the Saudi market: the government, represented by the Public Investment Fund (PIF) ; the Public Pension Agency (PPA); the General Organisation for Social Insurance (GOSI); and fund managers. The first three are government bodies, whereas fund managers are commercial organisations.

The Ministry of Finance is charged with managing government investments in the market through the PIF, and is regarded as the main shareholder in the Saudi market, as its investments reaches 70% in some large listed companies. According to the interviewees, PIF investment decisions are made by the government and these investments support its investee companies and provide their capital. The PIF has as many as four representatives on the boards of some companies, but none in other cases[7]. These representatives are selected by the government and are sometimes government employees or from PIF, while some are representatives who are not government employees.

[7] The PIF large share percentage in some companies allows them to appoint a large number of board members but in other companies where they own a low percentage of company shares collaboration between other major shareholders prevent them from appointing their representative on the board.

The PPA and GOSI are also government institutional investors, but, according to the interviewees, they are secondary to PIF as institutional investors, since the investments of each of them only reach 10% of the capital of some Saudi companies and although PPA and GOSI should play an important role in influencing companies and protecting their own interests, in practice they often have little impact, for reasons including the following:

- The lack of experts and qualified people that PPA and GOSI appoint as representatives on the boards of companies, as a result of which they sometimes own 10% of a company but do not have any representatives on its board;
- Favouritism and relationships influence the appointment of PPA and GOSI representatives;
- The concentration of family ownership and the current voting system allow other coalitions of shareholders to dominate the boards of companies;
- PPA and GOSI do not have the ability to influence the companies, because they lack the authority to make the decision to exit from them[8].

The general manager of PPA and general director of the Financial Investment Department at GOSI (I2 and I3) stated that they had investments in many Saudi listed companies, ranging between 5% and 10% of the companies' shares. Both interviewees indicated that their organisations adopt a long-term investment strategy and have the flexibility to invest in or exit from companies; these investment decisions are sometimes made by the Council of Ministers, which is a way that the government can support these companies by investing money in important sectors of society. The interviewees reported that they have representatives in almost 50% of the companies in which they invest and are able to

[8] The investment decisions are sometimes made by the Council of Ministers.

monitor what happens inside the companies through these representatives, who discuss any issue of concern to them. But they complained that coalitions on some boards made it very difficult to exert an influence over them, and argued that an accumulative voting system will allow them to participate much more and protect their own interests.

The fourth institutional investor group is the fund management sector of Saudi commercial banks. The two fund managers interviewed drew attention to some important aspects of their role as institutional investors, stressing that they have long-term investment policies, although they also trade a small proportion of their capital in short-term investments. Both of them argued that, according to the regulations, fund managers cannot invest in more than 5% of a company's capital and no more than 10% of the fund's value can be in any one company. Consequently they sometimes hold 5% of a company's shares but the regulations prevent them from appointing representatives to the board. They argued that it might be because of their relation to the banks.

However, a lot of interviewees criticised the fund managers and their role in participation and influence over companies, particularly their failure to encourage improvements in corporate governance. The claim often made was that the fund managers had the ability to use their large resources, their expert and qualified personnel and their flexibility and freedom in making investment decisions to play a significant role as powerful institutions in improving the implementation by companies of good corporate governance but many of the interviewees accused fund managers of failing to make enough effort to become involved in companies' businesses, and preferred to focus on their own interests and used short-term investment strategies.

Generally, the interviewees were not satisfied with the role of government or private institutional investors in Saudi companies. Although collectively they own a large proportion of many companies, the institutional investors do not have adequate representation on the company boards, and even they use favouritism and relationships for appointing their institutional investor representatives, leading to a weakening of the role of these representatives. Other complaints included their representatives' lack of expertise and qualifications, as well as the role of coalitions in company boards. Some interviewees argued that institutional investors do not attempt to put pressure on companies to improve their implementation of good corporate governance practice, and that, despite being long-term investors, they do not seem to have any strategic plans about the companies they invest in. Some institutional investors appear to invest in companies when they are being formed and then trade t hese shares. The decision to enter or exit from companies is complicated by the fact that it is often more than an investment decision, given that the majority of institutional investors are government bodies.

5.3.10 Shareholders' Rights

There was almost unanimous agreement among the interviewees that the legal requirements in respect of the protection of stakeholders' rights are adequate and for shareholders they include all the main rights to enable them to look after their interests in the companies. However, the practice of these rights was a problem. In relation to the companies, the interviewees argued that there is inside trading in some companies, which breaks the rules designed to protect shareholders; there is also a low level of disclosure and transparency on the part of the companies, which leads to an unfair situation, since owner-managers have the ability to obtain company information, whereas other shareholders are denied information about the companies they invest in. This also contravenes the regulations that require companies to treat all shareholders equitably. The interviewees also claimed that any delay by companies in adopting the accumulative voting system will make the situation worse in relation to the protection of shareholders' rights and will allow the vested interests on companies' boards to dominate the other members. In this context, a member of three company boards (C2) complained that:

> "The shareholders' rights are equal in all matters, except voting, which disallows them from forming coalitions to appoint their representatives to the boards."

On the other hand, the interviewees saw the shareholders as partly responsible for the weakness of implementation of their rights and for not ensuring that the relevant regulations were applied in Saudi companies. One of the most common criticisms that the interviewees addressed was that the majority of shareholders, especially private shareholders, were unaware of their rights and responsibilities. Another criticism of shareholders was that very few attended the companies' AGMs, while those that did often did not play a useful role.

However, some interviewees considered the reasons why shareholders might be unable to attend the AGMs and participate effectively. For example, sometimes the small percentage of shares that they owned would lead them to feel that it was not worth the burden of attending the AGM. In addition, the majority of shareholders in the Saudi market are short-term investors. Furthermore, the concentration of ownership in some companies is a major factor which makes it difficult for shareholders to have an opportunity to influence the conduct of the AGM. However, some interviewees suggested that AGMs should take place in different regions at the same time using video conferencing technology[9].

These results indicate that, although the interviewees are satisfied with legal requirements regarding protection of shareholders' rights, they expressed their dissatisfaction with the current practice of Saudi companies which means that Saudi companies do not seem to practice their accountability relationships with their major shareholders or other stakeholders. The next section focuses on the legal system and regulation of corporate governance in Saudi Arabia.

5.4 The Legal System and Regulation of Corporate Governance in SA

The perceptions of stakeholders with regard to the legal system in Saudi Arabia are presented in the following section as well as stakeholders' opinions in relation to corporate governance regulatory and monitoring bodies and their evaluation of these bodies.

5.4.1 The Legal System in Saudi Arabia

The majority of the interviewees appeared dissatisfied with the legal system in Saudi Arabia. A number of issues raised by the interviewees related to the Saudi legal system in general and to the commercial legal system in particular. For example, one of the interviewees (AC1) argued that:

> "There is an undoubted risk around commercial activities and business transactions. It's impossible to speak about an obvious, systematic and clearly defined legal environment where the rights, duties and obligations are determined. We are still far from this status."

[9] The researcher did not see any woman attending the AGMs

Some interviewees stated that the legal system was weak. Some interviewees were concerned about the slow pace of legal procedures and delays in deciding cases; they claimed that some cases take a very long time or even remain unresolved. The inadequate number of judges in the courts was also considered by the interviewees to be an obstacle to the effectiveness of the Saudi legal system. They argued that the courts were suffering a shortage of judges, leading to a backlog of legal cases and lengthening the time taken for litigation, which in turn caused an unwelcome delay for the parties and damaged their interests.

Furthermore, some respondents raised the problematic issue of the lack of adequately qualified specialists among the judiciary. They emphasised the need for well qualified experts in commercial law, who had an appropriate awareness, knowledge and experience of the business environment, as only such judges would be able to make the right decisions and provide an assurance of justice to the various parties concerned. Some of the interviewees also brought up the issue of the weakness of judicial training programmes, especially in relation to commercial matters, arguing that judges should have continuous programmes of training and qualification in order to prepare them for the changing environment and update their knowledge.

Some interviewees even expressed concerns about indiscipline among judges, stating that there were some who were careless and uncommitted, in addition to their lack of appropriate qualifications, which had a direct impact on the legal processes and judicial decisions.

The majority of interviewees (20 out of 22) declared themselves dissatisfied with the Saudi legal system and argued that there was a real desire to develop the legal system in general and the commercial legal system in particular. They claimed that developments in the business environment and the rapid growth in companies, as well as the complexity of relationships and their ramifications, have raised many interrelated problems so that, in response, the commercial legal system should be developed in order to be able to deal with changes in the business environment. They also felt that the commercial courts should be detached and should specialise by examining only commercial matters, which would provide a specialist commercial court system with well trained, well qualified and expert judges, thus reducing the time spent in litigation.

5.4.2 Corporate Governance Regulatory and Monitoring Bodies

The interviewees regarded the CMA and the Ministry of Commerce and Industry as being responsible for regulating and monitoring corporate governance in Saudi companies. The interviewees considered the CMA as the main body charged with the introduction of corporate governance regulations. These interviewees pointed out that there had been little mention of corporate governance in the local environment before the establishment of the CMA, adding, that since its fundamental role is to regulate and develop the stock market, it should be the main body in charge of regulating and monitoring corporate governance for Saudi companies; indeed, the CMA has already assumed this role by issuing the first Saudi code of corporate governance in November 2006.

Unsurprisingly, the Ministry of Commerce and Industry was identified by many respondents as an important regulator and monitor of corporate governance. Companies are obliged to follow its regulations, one of the main ones of which is the Companies Law that covers many aspects of corporate governance.

Other bodies mentioned by the interviewees were the Consultation Board, the Saudi Arabian Monetary Agency (SAMA) and the Saudi Organization of Chartered Public Accountants (SOCPA), which were considered by some interviewees as playing a role in regulating corporate governance.

Some interviewees mentioned that a body such as SAMA had a significant role in regulating and monitoring corporate governance for the banking and insurance sectors. According to some interviewees, the monitoring role of SAMA has an obvious impact in improving the application of corporate governance standards in these sectors. However, it has been argued that other bodies and parties, such as SOCPA, academic researchers and financial analysts, should play a role in monitoring the corporate governance of commercial companies.

However, the majority of respondents referred to discrepancies between the roles of the CMA and the Ministry of Commerce and Industry. One interviewee (R3) argued that:

> "There is a discrepancy between the regulating bodies, since some of corporate governance regulations are combined between them, so it is unclear who should monitor and track the companies' compliance. In addition to that is the question of which form of punishment will be adopted, given that each of them has a different punishment system."

Some interviewees stressed that there should be more coordination between the CMA and the Ministry of Commerce and Industry in order to ensure that this discrepancy in their functions was minimised and to assist in developing their roles in regulating and monitoring companies' compliance with corporate governance standards. However, a CMA regulator countered this opinion with the following claim:

> "There is no discrepancy between the CMA and the Ministry of Commerce and Industry, although there might be more stringency on one side than the other as a result of some circumstances."

The interviewees appeared generally dissatisfied with the regulatory and monitoring roles of the official bodies, with the exception of the CMA; all other bodies are completely failing to fulfil their responsibilities. It was clear that the CMA had won the respect of the majority of the interviewees, who regarded it as a professional body which has contributed to the improvement and development of the stock market in general. It was also seen as the only body concerned with developing and monitoring corporate governance issues among Saudi companies; its flexible authority and strengthened punishment procedures were perceived as having made its role particularly effective, despite its relatively recent establishment. In respect of this, a CMA regulator (R2) stated:

> "The CMA has passed some regulations in order to develop the stock market to the level of a trusted market and these have been adopted stringently, which has sent a new message to the business environment that the CMA is serious in relation to setting and adopting such regulations. Consequently, the issuing of the Corporate Governance Code by the CMA gave the code much strength, although some of its articles were already in the Companies Law."

Some interviewees expressed the view that other regulatory and monitoring bodies were far from having accomplished their roles, because of a lack of professionalism, which is a general characteristic of government bodies, in addition to the lack of qualified employees to do these jobs and many other tasks with which these bodies are charged.

Nevertheless, while they showed their admiration of the CMA, some interviewees also made some criticisms of its performance, arguing that although the CMA is considered a professional body with a significant role and influence over companies, it also suffers a lack of adequately qualified specialists to fulfil its responsibilities. As a result, it has been suggested that the CMA, which has very considerable resources, should attract highly qualified specialists as employees and should have more ambitious plans to train its staff, in addition to employing foreign experts when necessary.

Thus, there remains much work to be done by the CMA; it should pay more attention to education and increase the general awareness of the importance of corporate governance, provide appropriate explanations and justifications of the regulations and the benefits to companies and their stakeholders of compliance. There was also a feeling that the CMA should support and encourage companies to implement good corporate governance principles by providing appropriate inducements, so that those companies with good corporate governance would be identified and rewarded. The CMA should also support companies in their internal corporate governance initiatives and assist them to develop their corporate governance codes. It should develop its own performance continually, especially in relation to its company monitoring function; required resources should be in place to ensure that it is able to fulfil this role; and its internal controls also should be developed to prevent companies from gaining unauthorised access to information from inside the CMA.

The interviewees further suggested that there was a need to establish an independent organisation to be charged with corporate governance issues in Saudi Arabia. This organisation should be responsible directly to the Council of Ministers, in view of the major importance of corporate governance in protecting the commercial sector and avoiding any crises, collapses and scandals which might otherwise damage the economy.

Thus, the interviewees point to a weak legal system in relation to the business environment in Saudi Arabia that has a negative impact over the practice of corporate accountability regarding corporate governance. Furthermore, the regulatory and monitoring function were also considered to have a negative impact over accountability although there was some appreciation for the role of the CMA as a more active body in improving accountability.

5.4.3 The Saudi Corporate Governance Code

The majority of interviewees reported that they had looked at the Saudi Corporate Governance Code, issued by the CMA; nineteen out of 22 interviewees stated that they were aware of its contents. Two of those who had not read the code were a company chairman and the CEO of another company, both of unlisted companies[10], who claimed that the code was only relevant for listed companies. Almost half of the interviewees stated that they are concerned about the development of corporate governance around the world, whereas the other interviewees appeared uninterested in the implementation of international corporate governance standards.

On the whole, however, the interviewees emphasised the importance of the issuance of the corporate governance code by the CMA in February 2006; they considered it a significant step in developing corporate governance within Saudi companies. Although there was some debate, the interviewees in general were satisfied with the code and appreciated the value of this step taken by the recently formed body. Some of the respondents stated that the local code reflects worldwide best practice of corporate governance. This was perceived as allowing companies the leeway to design their individual corporate governance codes and to set different policies and requirements according to each company's situation, and that the code was seen as very flexible in its appreciation of the differences between companies such as: ownership structure; board structure; reputation; size; and economic sector. It was

[10] Only two directors were from unlisted companies and all the other five were directors of listed companies

considered reasonable that some companies would adopt all of the code requirements or would add more requirements, whereas others would face difficulties in adopting all of its recommendations.

However, while opinions varied among the interviewees as to some aspects of corporate governance covered by the code, the majority identified the accumulative voting system as its most important contribution. This was considered as a very active mechanism, playing a crucial role in reducing the impact of coalitions inside companies and their control over boards, thus giving minority shareholders an opportunity to select representatives on boards and increase the chance of appointing more independent NEDs.

Although some admired, and were pleased, about the release of the first national corporate governance code, some interviewees criticised it and claimed that it could have been better designed and implemented. They indicated their disappointment that the code appeared weaker than they had expected, suggesting that the CMA should have requested assistance from international bodies specialising in corporate governance and from foreign expert consultants in the field, in order to start from a baseline of best international practice.

Many interviewees argued that the code should be more specific. Despite their importance, they felt that issues such as the independence of NEDs, the authority and responsibilities of the board of directors, board accountability, board nomination requirements, board evaluation standards, methods of informing against corruption, and questions of disclosure and transparency were not clearly defined in the code. These interviewees argued that the code should be worded more explicitly and that such important questions of corporate governance should not be allowed to remain ambiguous, providing opportunities to companies which did not choose to comply with corporate governance standards to profit from such gaps and boost their image by stating that they had adopted good corporate governance standards, whereas in reality they had not. In addition, the vague code would make it very difficult for the public, and monitoring bodies, to be able to judge companies' compliance since the code explanations could be loosely interpreted.

One interviewee (AC2) raised an issue related to the independence of NEDs; one of the independence requirements of the code is that a board member will be considered as independent unless there is a relationship at the first level (e.g. father, mother, son, daughter, brother or sister), this condition was illogical in a society characterised by a great depth of family and tribal relationships.

It was also argued that the CMA should establish a system of punishment for non-compliance with the code and that the code should distinguish between large and small companies in the implementation of corporate governance; there should be a differentiation between companies with huge resources and a wide spectrum of shareholders, and small companies, since the assumptions of professionalism and resources are not the same. An interviewee (C5) from a large company gave an example of such a distinction, citing that there should not be a limitation of the number of board members to eleven, since some very large companies had a number of tasks and committees and they needed more board members. However, such a limitation would be good for smaller companies which had no need for such a large board of directors.

Some respondents mentioned that there were many issues dealt with by the code which were already covered in the Companies Law, arguing that this repetition might weaken the code and give the impression that it was no more than a collection of regulations already in existence.

However, although there are some criticisms directed to the Saudi corporate governance code, the interviewees generally are satisfied with the code and appreciated the step taking by the CMA. As a result, this code will improve the practice of accountability and assist Saudi companies to discharge their accountability by implementing the corporate governance code. The following section highlights the accountability framework in the Kingdom.

5.5 The Accountability Framework in Saudi Arabia

The accountability framework in Saudi Arabia according to the perspective of stakeholders and the Islamic concept of accountability are now outlined in the next sections. The issues related to how Saudi stakeholders consider accountability and the role of *Sharia* in the business environment, in addition to Islamic accountability, will be defined to assist in understanding the accountability framework in the Kingdom.

All the interviewees had a similar perception of the concept of accountability, which they defined as meaning that everyone was given particular tasks in the light of certain authorities and responsibilities and that everyone should be accountable for their actions, individuals and bodies. All the interviewees considered accountability to be very important for the business environment and played a substantial role in protecting companies, preventing any infringements and providing a sound business environment. For example, it was often stated that it was very important that there should be an assurance that the person in charge of any task had the appropriate ability and required skills. However, eighteen out of 22 interviewees, argued that the practice of such accountability was absent from the Saudi business environment, since companies and their directors were far from being held accountable for their decisions and actions. Because the "compliment culture" is dominant in the society in general and in business transactions and relationships, this is a major obstacle to implementing accountability.

According to the interviewees, any company, its board or managers are accountable to all concerned parties, such as the company itself, the board, shareholders, wider stakeholder groups, regulatory and monitoring bodies and the media. They claimed that a company should be accountable to all these parties and was required to discharge its accountability by providing them with appropriate information about the company, such as financial statements, which would enable them to have an overall perception of the company's situation.

The interviewees indicated that some of these parties to whom the company is accountable are able to practise this right, whereas others either cannot or choose not to practise accountability. For instance, the company's managers are accountable to the board, and regulatory and monitoring bodies have the authority to enforce the rules obliging companies to discharge their duties vis-à-vis accountability; on the other hand, while shareholders are allowed to practice accountability at company AGMs, for example, by asking questions, they often find, especially if they are minority shareholders, that either because they do not have an influential holding or because they are not aware of their rights, they do not challenge the domination of the main shareholders, so that there is an inefficient practice of accountability at AGMs.

Overall, the interviewees generally agreed that there was a weakness in the practice of demanding accountability by the companies' stakeholders, except for main shareholders, who already have representatives on boards, and the various government bodies that have the power to hold companies to account. Indeed, even where these two parties are concerned, the fact that they have the ability to practise accountability does not mean that that they actually do so. The interviewees stressed the impact of a dominant culture over the practising of accountability; there was perceived to be an absence of accountability in the wider society. On this subject, an interviewee (A2) expressed the following opinion:

> "The trust culture is predominant and accountability does not exist. We never hear of board members who have been questioned, jailed, fined or made to pay compensation, nor do we ever hear of a minister who has been fired because of corruption or any such problem. Actually, I have never heard of a public accountant being sentenced for any wrongdoing."

Another interviewee (AC2) raised the question of whether the directors of all Saudi companies can be relied upon to maintain a high level of honesty and integrity:

> "We lack methods of discovering fraud as well as punishing them. In addition to that there is the impact of the culture of mercy towards a person whose honour is compromised."

While the respondents unanimously declared that the mechanism for accountability exists in the relevant regulations, especially in the Companies Law, the majority of them nevertheless indicated that, where such regulations mention accountability, they either fail to specify its nature clearly, or they need to be updated. These interviewees stressed the considerable importance of defining accountability and of having stronger regulations so that companies and their stakeholders are aware of the extent of accountability, the parties to whom it applies and the methods of putting it into practice.

All of the interviewees stressed that the concept of accountability required companies to adopt good corporate governance principles, arguing that good corporate governance will provide an appropriate environment for company directors and high-level management to be accountable, since a good corporate governance structure allows the clear definition of authority and responsibilities necessary for accountability to be accomplished.

5.5.1 The Role of *Sharia* in the Business Environment

The interviewees broadly agreed that the influence of *Sharia* on business transactions has been limited to dealing with *Riba* (interest), and while some Saudi companies have established *Sharia* committees to monitor the extent to which their transactions are made according to *Sharia*; it is worth mentioning that the only measures on which the *Sharia* committees are called to judge are those dealing with *Riba*. Thus, a company will be considered as doing business according to *Sharia* if it has no *Riba* loans, even though it may not consider any other *Sharia* principles or concepts. In this context, an interviewee (A2) stated that:

> "The scope of *Sharia* is still restricted in many companies to *Riba*. They do not consider *Sharia* in dealing with other issues, such as deception, fraud, cheating, corruption or damaging the environment. All of these issues should be considered by the companies according to *Sharia*."

Many interviewees reported that strong pressure had been put on companies by society and investors to avoid dealing with *Riba*, since it is forbidden according to *Sharia*. As a result, there has been a remarkable change in the way that companies do business and many have converted their loans to conform with *Sharia*, in addition to adopting the increasingly common practice of establishing *Sharia* committees to report on the extent of the companies' conformance with *Sharia.* A company consultant (C1) conceded the existence of this pressure:

> "Society requires compliance with *Sharia.* As a result we are concerned to conform with *Sharia* and all our loans are transacted according to *Sharia* following this social pressure."

Moreover, the interviews show that Saudi companies have a general framework preventing their activities from contradicting *Sharia.* Consequently, there are some activities in which companies cannot become involved, such as trading in goods forbidden under *Sharia*, including for example alcohol, drugs and pork. However, this does not mean that all Saudi companies are strict in their compliance with *Sharia*, since some use *Riba*, for example, despite its status as a practice banned under Islamic law.

Some interviewees emphasised the importance of accepting all the obligations of *Sharia* in all commercial activities, rather than restricting such compliance to avoidance of *Riba.* They argued that *Sharia*, by its breadth of scope and the comprehensive nature of its regulations concerning the acts and relations of human beings, is able to cover all the transactions and activities of any company.

However, the interviews found that there is a distinction between what people profess to believe in terms of the concepts of *Sharia* on the one hand and their practices with regard to these concepts on the other. According to this view of society, while Muslims accept all regulations and obligations required by *Sharia* and believe that they should cover all their activities, they are nevertheless weak in following the requirements of *Sharia* in all its social aspects. One of these is the business environment, which suffers a reduced level of *Sharia* observance in practice. The interviews indicate that, although companies in general are not run in opposition to *Sharia*, it does not have a significant impact on their activities. The suggestion appeared to be that the absence of a crucial role for *Sharia* in the regulation of business affairs was no more than a reflection of the overall status of respect for *Sharia* in the wider society and of the obvious distinction between people's beliefs and their practices. Moreover, the awareness of *Sharia* depends on the extent of each individual's understanding of its regulations and requirements. It should be noted that one interviewee (C5) gave a good example of how his company had tried to reconcile respect for the *Sharia* regulations and values with successful business practice by integrating them into the company's principles.

5.5.2 Islamic Accountability

All of the interviewees emphasised the importance of the Islamic concept of accountability, whereby *Sharia* considers accountability as one of the underlying principles of the Islamic society. Many phrases from the Holy *Quran* and *Hadith* (the sayings of Prophet Mohammed (PBUH)) were mentioned by the interviewees to signify the existence and importance of accountability in the Islamic context; they argued that according to *Sharia*, a company, its board and managers are accountable for their actions to Allah as well as to all the company's stakeholders. Thus, a board member (C2) declared:

> "I believe I am accountable to Allah first, then to my conscience and to shareholders, to maximise their wealth and comply with regulations."

Some interviewees argued that although accountability is clearly defined in *Sharia*, it seems to be absent from all of society's practices, including the commercial environment. As one interviewee (A2) put it:

> "The Muslim is accountable for all her/his steps and actions. Accountability is more important in Islam than in any other system, but the problem is in the application."

Other interviewees agreed that the current business practice is far from what accountability means in *Sharia*, since there is an imperfect implementation of *Sharia* in society as a whole. In response to a question about the impact on Saudi companies of the Islamic concept of accountability, the interviewees indicated that they perceived no tangible influence on companies' regulations and practices; or if there were any, they would be individually dependent on the extent of each person's beliefs and understanding of *Sharia.* One interviewee (FC1) stated that the extent to which the Islamic view of accountability is adopted depends on the extent of society's compliance with *Sharia* and its beliefs. Some interviewees mentioned that companies are subject to legal requirements and do not tend to adopt other regulations, even those of *Sharia.* Thus, to the extent that companies conform with particular requirements of *Sharia* this does not happen because of a decision to adopt *Sharia* for its own sake, but in reality because these are required by formal state regulations. Examples offered included the situation with respect to the adoption by companies of the Islamic principles of *Shura* and *Hisba,* which the interviews shows not to be applied according to the Islamic perspective among most companies. While some companies have adopted at least some aspects of these Islamic practices, this appears to be either because they happen to be requirements of general legal regulations or as part of the adoption of best practices. For example, some interviewees argued that the process of selecting board members and the making of decisions by the board amount to the practising of *Shura,* while some directors pointed to the frequent recourse by boards to advice from experts and consultants, which is a *Shura* practice; but the interviewees agreed that these practices were not in place as a result of the adoption of *Sharia* and that companies have never claimed that they were adopting such Islamic principles.

Nevertheless, the interviewees unanimously stated that there need be no conflict between *Sharia* regulations and the principles of good corporate governance; quite the contrary, they argued that *Sharia* stands in support of all principles that aim to protect the rights and consider the interests of all parties, so that it provides an appropriate foundation for the application of good corporate governance. A CMA regulator (R2) stated that:

> "There is no conflict between *Sharia* and corporate governance, but we as a society are very far from adopting *Sharia* concepts in all our dealings."

The interviewees expressed a clear consensus that *Sharia* encourages companies to adopt a regulatory system which helps to control and improve their performance and preserve the rights of those who deal with them. This is in line with the purpose of *Sharia*, which does not in general prohibit any effort to serve the public interest, on condition that there is no conflict with any of the regulations or principles of *Sharia*. Moreover, there was general agreement among the interviewees that *Sharia* could play a significant role in improving the implementation of good corporate governance within Saudi companies by linking the principles of corporate governance to *Sharia* concepts, such as consolidation. Establishing the origins of corporate governance principles would enhance the importance of adopting them and increase accountability with Saudi business.

5.6 Other Factors Influencing the Implementation of Corporate Governance

This section highlights other important issues that were considered by the interviewees to have a significant influence over the practicing of corporate governance within Saudi companies; these factors are related to the social and economic environment and appear to have an obvious effect on aspects of corporate governance.

Social factors seem to be the most influential on the exercise of corporate governance. Most of the interviewees agree that society has a clear impact on companies and upon their implementation of corporate governance principles. Socio-cultural factors such as family-ties, tribalism and favouritism directly influence corporate governance. One interviewee (A1) stated that society will often be favourable to people with power who have unlimited authority and who use their position to benefit their tribe and family; such people are highly regarded in Saudi society. However, someone who holds a powerful position but does not behave in the interests of their family and tribe are regarded as a useless member of the family and tribe.

Many interviewees mentioned other influential social factors such as the fact that membership of a board of directors is considered by some within the companies and by members of society at large as a notable achievement and that as a consequence, there is sometimes fierce competition for board membership. Those who see board membership from this perspective, without giving any consideration to its responsibilities and duties, or their suitability for such positions, are perceived to burden the boards and impede the development of corporate governance standards in their companies.

Furthermore, there is a general social culture which has a negative attitude to the legal system and to discipline, with a social tendency to distrust and avoid being monitored, all of which was considered by some interviewees as a challenge to corporate governance practices.

Certain economic factors were identified by the interviewees as exerting an influence on the implementation of corporate governance in the domestic environment. For example, cost was said by some interviewees to interfere with the adoption of a good corporate governance system by some companies, especially small ones. Such costs include obtaining the advice of consultants about the company's existing corporate governance system and the changes required for it to conform to the new requirements of the corporate governance code. Other problems were said to be the paucity of qualified and specialised people in the field of corporate governance and the difficulty of importing foreign professional staff, following the government's imposition of tight restrictions on the employment of foreigners in the light of policies in support of employment for Saudi nationals. This was seen to compromise the implementation by companies of improved corporate governance standards.

In regard to Saudi Arabia joining the WTO, the majority of the interviewees argued that there was no direct relationship between this and the issuing of the corporate governance code, which they nevertheless considered as one of the general steps in re-evaluating and developing the systems and regulations in the Kingdom as a consequence of joining the global trading system. Overall, these factors all appeared to be impediments to the practice of accountability.

5.7 Summary

This chapter reports the results obtained from the twenty two interviews using semi-structured interviews. Face to face, individual, interviews were conducted between May 2007 and July 2007 in four major cities of Saudi Arabia using a sample of stakeholder groups compinsing: regulators; companies' directors; audit partners; institutional investors; fund managers; financial consultants; and academics, in order to explore their opinions about corporate governance issues. The main issues that been covered in these interviews were: the understanding of corporate governance; the current practices of corporate governance; the legal system and regulatory bodies; the accountability framework; Islamic accountability; and other factors influencing corporate governance in Saudi Arabia.

The interviews findings indicate that corporate governance is a new phenomenon in the Saudi business environment and the concern about corporate governance issues only appeared after the Saudi stock market crash in February 2006. Before that period, the situation was very peaceful, and companies shares' prices were going up regardless of the companies' actual performances, so everyone was happy.

The interviews draw attention to that fact that the Arabic translations of the English term of corporate governance might cause misunderstanding or be misleading, and although *Hawkama* is the most acceptable Arabic term to refer to corporate governance in English, it may be understood as nationalisation or more governmental control over a company. The interviewees, who considered corporate governance as very important for Saudi companies, tended to perceive corporate governance from an agent-principal perspective and at a lower level they considered the stakeholder perspective. This indicates the narrow perspective that Saudi stakeholders have in regard to corporate governance as they look at corporate governance as directing a company and appointing authorities and responsibilities more than about protecting stakeholders' rights and practicing accountability.

The interviewees were dissatisfied with the current practices of corporate governance in the Saudi business environment, some companies have not establish their own code, although required by the local code of corporate governance. On the other hand, some companies have done well in establishing, developing and complying with their own corporate governance codes. The level of awareness and conviction of corporate governance that the company chairman and board of directors have, as well as the company experience in dealing with corporate governance, plays a significant role in influencing company practice in corporate governance. The interviewees mentioned some improvements made by Saudi companies in relation to corporate governance such in disclosure and transparency and a decrease in the number of executive directors on boards and an increase in the appearance of independent NEDs.

The interviews show that the processes of selecting board members in Saudi companies are influenced by three factors of ownership, personal relationships and favouritism; Saudi stakeholders strongly believe in the importance of the role of independent NEDs but they doubted the reality of the independence of those directors. There was also agreement that an accumulative voting system would play a significant role in enabling minority shareholders to appoint independent NEDs as their representatives on the board.

The interviewees regarded all those who dealt with the company at any level as company stakeholders and that companies should consider their interests when making decisions. There was a concern about the level of which companies actually consider the interests of stakeholders, especially those who are unable to look after their interests in companies.

The results show that there is a highly concentrated ownership structure in the Saudi companies and the two major shareholders are the government and families. These major shareholders have a direct impact over companies' activities. The interviews agreed that the rights of stakeholders including minority shareholders are not well respected.

The interviews confirm that there is dissatisfaction among the interviewees in relation to the legal system in Saudi Arabia in general and the legal system in the business environment in particular; moreover, there was also dissatisfaction with corporate governance regulatory and monitoring bodies.

However, accountability was thought of as important by the interviewees; everyone gave examples of certain authorities and responsibilities and that everyone should be accountable for their actions. They defined the Islamic conception of accountability as that a company, its board and managers are accountable for their actions to Allah as well as to all the company's stakeholders. However, the interviewees mentioned that accountability and Islamic accountability are both absent from companies' practices. The interviews suggested that socio-cultural factors such as family- ties, tribalism and favouritism as well as economic factors such as the cost of corporate governance and the lack of expert people in corporate governance fields have a direct impact over corporate governance and the lack of accountability in Saudi Arabia.

Overall, the interviews findings suggest that there is a weak accountability framework in the Saudi business environment and accountability does not exist in practice in Saudi companies, which make it very difficult for adopting good corporate governance principles. The next chapter presents the results obtained from the questionnaire survey regarding corporate governance in Saudi Arabia.

Chapter 6
Questionnaire Survey

Chapter 6

Questionnaire Survey

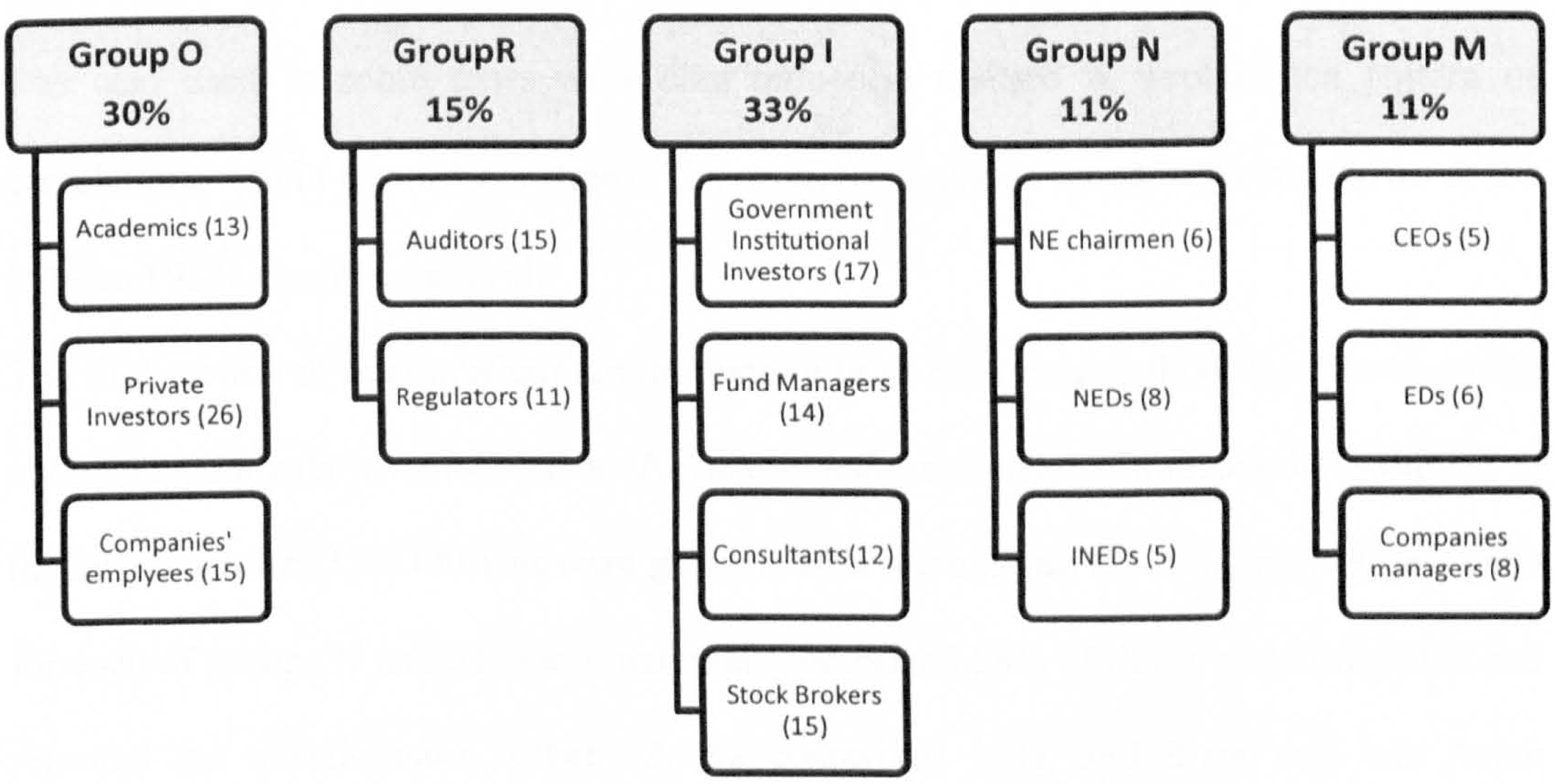
6.1 Introduction

After dealing with the results of the interviews in the previous chapter, this chapter details the results obtained from the second method of data collection, the questionnaire survey, which was distributed among various stakeholders groups in Saudi Arabia between April and June 2008. The questionnaire covered the most significant issues in regard to corporate governance practices in the local Saudi business environment to investigate the perspective of Saudi stakeholders about these issues. The questionnaire contained two sections: the first section covered demographical information of the respondents, and the second section asked the respondents to express the extent of their agreement with a number of statements given in different questions by ticking the appropriate boxes on seven main sections. These sections were split into: definition of corporate governance; board of directors; disclosure and transparency; stakeholders; accountability and accountability in Islam; and the regulatory and legal system and the corporate governance framework.

For analytical purposes, the respondents have been merged into five groups according to their roles and backgrounds (see Figure 6.1). The first group contains academics, private investors and companies' employees, and is named "Other Stakeholders" (group O) as they work individually and have limited access to information compared to other groups so they have in common a limited information set and, although they are concerned about companies, they do not consider themselves as experts about what happens in companies.

The second group is "Regulators" (group R), which includes auditors and respondents from different regulatory bodies. The respondents in this group have the right or ability to monitor and supervise companies. The third group is "Institutional Stakeholders" (group I) and covers government institutional investors, fund managers, consultants and stock brokers as they work institutionally and professionally and have the tools and resources to look after their interests in companies. Company's directors have been divided into two groups according to their position in the companies. The fourth group "Non-Executive Directors" (group N) is made up of independent and non-executive directors, and the last group comprises executive directors and managers "Management" (group M).

Figure 6.1 The Respondents Groups



Note: O= Other stakeholders, R= Regulators, I= Institutional stakeholders, N= NEDs, M= Management. The Figure shows the five main groups that the respondents have been merged into, and the percentages related to each group as well as the number of respondents of each stakeholders parties.

In order to analyse the data obtained from questionnaire survey, Statistical Package for the Social Sciences (SPSS) was used. Since almost the questions were based on a 5 point Likert scale, the descriptive statistical mean is used to measure the responses, and the standard deviation is used to reveal the variance of the responses. In addition, to help to understand the stakeholder attitudes for different questions, the group means have also been used. Since the responses comprised ordinal rather than parametric data, the non parametric tests, Kruskal-Wallis and Mann-Whitney (see appendix VIII) were used. However, in keeping with common practice, means and standard deviations were reported as descriptive statistics due to medians having little information content when comparing differences between different stakeholder groups' responses. The Mann-Whitney is used to test the differences between each pair of groups, The Kruskal-Wallis test is used to test the differences between all five stakeholder groups. Factor analysis was also used in some cases as a data reduction method to explain the pattern of correlations within a set of questions. The confidence levels for all tests are shown at the 99% and 95% confidence level.

The first section of the questionnaire provides a brief background about the questionnaire survey respondents' characteristics. As mentioned previously, 176 respondents replied to the questionnaire; 33% of them were group I, 30% were group O, 15% group R, and 11% for each of groups N and M. Saudi nationals comprised 88% of those who completed and returned the questionnaire, other Arabs comprised 11%, and there was one Asian respondent. Seventy two percent of those who participated are between 31 and 50 years old. The respondents are well educated as 91% of them have at least a first degree, 12% of them are PhD holders and 24% have masters degree. Over half of those surveyed reported that they have only studied in Saudi, while 20% have studied in United States universities and 12% in United Kingdom universities.

6.2 The Understanding of Corporate Governance in Saudi Arabia

The first section on corporate governance covers different issues regarding the understanding of corporate governance in Saudi Arabia such as: definitions; codes; importance; translation difficulties; and practices of corporate governance in the Saudi business environment.

6.2.1 Definition of Corporate Governance

The first question in the survey, Q1, explored the definition of corporate governance among company stakeholders in the Saudi business environment. Table 6.1 presents the five definitions of corporate governance that were given in the questionnaire. The results indicate that there were no significant distinctions among the respondents' answers, since the lowest mean value for all definitions was 3.62 and the highest was 3.91, which shows that the respondents agreed with all of the proposed definitions of corporate governance, although there was some spread of opinion among the respondents as indicated by the standard deviations. The table shows that Cadbury's definition of corporate governance as "the system by which companies are directed and controlled" achieved the highest agreement among the Saudi stakeholders, phrase (b), which refers to the narrow agency perspective by defining corporate governance as "organising the relationship between the company and its shareholders", came second. The definition (c) of corporate governance according to the stakeholders' view as "organising the relationship between the company and all the stakeholders who are affected by, or who affect, the company's decisions and activities" came third. Statements (d) and (e) received mean responses of 3.69 and 3.62 respectively. The former, which is given by Keasey and Wright (1993), defined corporate governance from the perspective of corporate success and provides a wider view than the principal-agent perspective on corporate governance. Group mean values shown in Table 6.1 indicate that there were three groups who preferred Cadbury's definition of corporate governance to any of the others: O, R and M. These groups, who represent 56% of respondents, considered corporate governance to be a matter of directing and controlling the company. On the other hand, group I looked at corporate governance more from an agency perspective as organising the relationship between the agent (the company) and the principal (shareholders). This is not surprising because this group is mainly comprised of institutional shareholders who would naturally consider the principal-agent perspective. Finally, group N took a much wider stakeholder perspective on corporate governance, extending the relationship to include all stakeholders who are affected by, or who affect, a company's decisions and activities. This is interesting because it shows that non-executive directors consider their company's wider stakeholder groups as they are assumed (especially independent NEDs although I did not) to represent them on the board and look after their interests.

Table 6.1 shows that there were obvious differences in the respondents' views in relation to the definition of corporate governance: the P-value of the Kruskal-Wallis (K-W) test is very significant (.00) for (b), which presents a narrow view of the agency perspective, and very significant for (e), which presents a wider agency perspective. In order to specify further the differences between the stakeholders groups, the Mann-Whitney (M-W) test was conducted between each pair of stakeholders, and these results reveal a

Table 6.1 Definition of Corporate Governance

Panel A: Questions

Statement	N	Mean	Std. Deviation
Q1a. The system by which companies are directed and controlled	174	3.91	1.06
Q1b. Organising the relationship between the company and its shareholders	173	3.73	1.04
Q1c. Organising the relationship between the company and all the stakeholders who are affected by, or who affect, the company's decisions and activities	174	3.72	1.05
Q1d. The structures, processes, cultures and systems that engender the successful operation of the organization	174	3.69	1.07
Q1e. Organising the relationships between the owners, the board of directors and the managers	172	3.62	1.07
Q2a. How familiar are you with the Saudi Corporate Governance Code?	176	3.51	1.24
Q2b. How familiar are you with international developments in corporate governance?	175	2.84	1.17

Note: Cronbach's Alpha Test for Q1= 0.73 and for Q2 = 0.68. Panel A of Table 6.1 shows the number of respondents, the means and standards deviations for Q1 and Q2. "It [Cronbach's Alpha] is used to assess the internal consistency reliability of several items or scores that the researcher wants to add together to get a summary or summated scale score." Morgan et al., 2004: p. 122). It does not make any assumptions about the data.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					K-W P-value	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q1a	3.75	4.15	4.03	3.84	3.78	.38	.09	.12	.80	.79	.62	.28	.28	.42	.41	.98
Q1b	3.62	3.80	4.12	3.00	3.52	.00	.39	.00	.01	.74	.25	.01	.35	.00	.02	.07
Q1c	3.52	3.57	3.91	3.94	3.68	.17	.80	.01	.11	.25	.20	.30	.60	.95	.53	.63
Q1d	3.62	3.73	3.85	3.52	3.52	.50	.66	.12	.72	.85	.28	.50	.98	.20	.40	.78
Q1e	3.43	3.88	4.05	2.88	3.21	.00	.05	.00	.04	.63	.29	.00	.09	.00	.01	.33
Q2a	2.68	4.46	3.48	4.36	3.84	.00	.00	.00	.00	.00	.00	.48	.03	.00	.22	.10
Q2b	2.39	3.53	2.81	3.00	3.05	.00	.00	.04	.04	.05	.00	.05	.13	.30	.33	.89

Note: Panel B of Table 6.1 shows the group means, p-values for the K-W and M-W tests for Q1 and Q2. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

remarkable variation between groups I and N, as discussed above, and between groups I and M.

I are more likely to see corporate governance from an agency perspective, while groups N and M agree far less strongly with that view. The results also indicate significant differences between groups N and O and groups N and R. N see corporate governance from a stakeholder standpoint rather than an agency one as mentioned above. Thus, each group of stakeholders considers corporate governance according to their own position and interests.

6.2.2 Familiarity with the Local Corporate Governance Code and International Developments

To investigate the level of awareness of the national corporate governance code and universal developments in corporate governance, respondents were asked in Q2(a) about their familiarity with the Saudi corporate governance code, issued in November 2006 by the CMA. Table 6.1 shows that the overall mean for Q2(a) was 3.51, which suggests that the respondents were familiar to some extent with the Saudi corporate governance code. As was expected, the group mean values in Table 6.1 show that group R were the group of stakeholders most familiar with the Saudi corporate governance code, their high mean value of 4.46 indicates that they were very aware of the code. Group N also appeared to have an appropriate knowledge of the local code, while groups M and I were quite less familiar with the code. The lowest level of awareness, as might have been expected, was among group O with a mean of just 2.68.

Question 2(b) explored the respondents' familiarity with international developments in corporate governance among Saudi stakeholders. The overall mean response to this question (2.84) reflects a weakness amongst Saudi stakeholders in following the global progress in corporate governance. As with results for other questions, group R are the group that appears to be most knowledgeable about international developments, whereas group O were the least aware. As before, the second least interested group was I, with more knowledge shown by groups of M and N. The results obtained from Q2 suggest that not all stakeholders in Saudi Arabia are appropriately informed about either domestic or international codes and developments in regard to corporate governance. The most striking result is that group M, who arguably should be quite knowledgeable about such matters, indicate awareness of the local corporate governance codes but are not so knowledgeable about international developments.

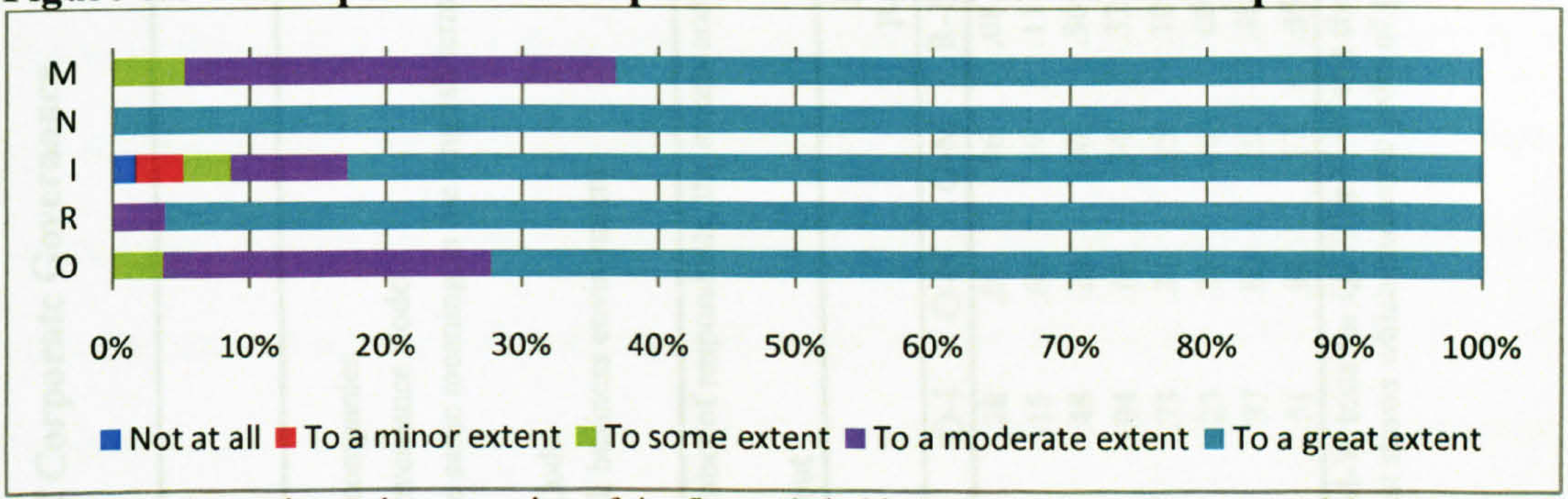
6.2.3 The Importance, Current Practices and Awareness of Corporate Governance

Questions 3(a), 3(h), and 3(g) explored Saudi stakeholders' perceptions of the importance, current practices and awareness of corporate governance systems. The results in Table 6.2 show that stakeholders strongly believe in the importance of corporate governance for Saudi companies, with a mean of 4.74; group N were the group of stakeholders who completely believed in the importance of corporate governance for Saudi companies with a mean of 5.00. Group R expressed the second highest appreciation of the need to adopt corporate governance in the Kingdom (4.96), while groups O and I came next, with means of 4.68 and 4.67 respectively.

The K-W and M-W tests for Q3(a) and Figure 6.2 reveal a dissimilarity between the groups of respondents when they answered this question; with groups R and N having a much stronger belief in the importance of corporate governance than the other three groups. The attitude of some managers and directors can be understood as they may not want to shoulder the responsibility for corporate governance more than they have to do so. What is surprising is the attitude of groups O and I who do not have as strong views as groups R and N. Although an executive director pronounced in the questionnaire that:

> "Practicing of corporate governance in Saudi Arabia is a serious step towards promoting trust and encouraging investment, and protecting the rights of investors which will assist in contributing to the national economy"

Figure 6.2 The Importance of Corporate Governance for Saudi companies



Note: The Figure shows the perception of the five stakeholders groups about the extent of the importance of corporate governance for Saudi companies. In relation to the Other stakeholders (group O) further crosstab analysis indicates that there were not any significant differences between academics, private investors and company employees in regard to this question.

However, respondents were unsatisfied with the actual current practices of corporate governance within Saudi companies; the overall mean for Q3(h) of 2.25 indicates that Saudi companies are not doing enough to adopt good corporate governance standards. All stakeholder groups agree that Saudi companies are not doing enough. Group means shows that group I particularly thought this and group N find the exercise of corporate governance by Saudi corporations to be lacking. Thus the two groups of I and N are least satisfied with corporate governance practice and possibly relates to the importance they attach to their roles. The M-W tests show a difference between groups I and M, managers and directors do not think that their practices are as bad as other groups view them to be.

Table 6.2 The Importance, Current Practices and Awareness of Corporate Governance

Panel A: Questions

Statement	N	Mean	Std. Deviation
Q3a. Corporate governance is important for Saudi companies	176	4.74	.62
Q3b. The Saudi Corporate Governance Code should be mandatory for all listed companies	176	4.47	.79
Q3c. There should be penalties for non-compliance with the Saudi Corporate Governance Code	174	4.37	.81
Q3d. The Arabic translation of the English term "Corporate Governance" has the same meaning as the English term	172	3.16	1.35
Q3e. The Saudi Corporate Governance Code is adequate and effective	174	2.77	1.10
Q3f. Saudi companies generally comply with the Saudi Corporate Governance Code	174	2.45	.90
Q3g. There is an adequate awareness of corporate governance issues in the Saudi business environment	175	2.26	.99
Q3h. Saudi companies' practices of corporate governance are satisfactory	176	2.25	.96

Note: Cronbach's Alpha Test = 0.60 for Q3. Panel A of Table 6.2 shows the number of respondents, the means and standards deviations for Q3

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q3	Groups Means					K-W P-value	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q3a	4.68	4.96	4.67	5.00	4.57	.00	.01	.28	.01	.46	.08	.39	.00	.05	.12	.00
Q3b	4.40	4.69	4.58	4.52	3.94	.02	.01	.15	.60	.19	.11	.07	.00	.58	.02	.15
Q3c	4.48	4.42	4.52	4.26	3.66	.01	.69	.48	.20	.00	.36	.44	.02	.09	.00	.12
Q3d	2.79	3.50	3.30	3.31	3.16	.14	.03	.04	.14	.34	.32	.38	.31	.94	.60	.68
Q3e	2.62	3.15	2.68	2.88	2.84	.35	.06	.73	.31	.35	.10	.48	.46	.46	.46	.94
Q3f	2.31	2.53	2.48	2.16	2.94	.05	.22	.23	.71	.01	.68	.14	.19	.16	.05	.00
Q3g	2.25	2.28	2.22	2.10	2.52	.53	.62	.97	.90	.19	.48	.57	.26	.98	.09	.12
Q3h	2.27	2.38	2.06	2.15	2.63	.17	.45	.51	.94	.17	.05	.31	.39	.50	.01	.11

Note: Panel B of Table 6.2 shows the group means, p-values for the K-W and M-W tests for Q3. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

The responses also confirm that there is an inadequate awareness in the Saudi business environment of issues related to corporate governance. The mean response to Q3(g) was 2.26. The K-W and M-W tests show no differences between the respondent groups, which suggests broad dissatisfaction among the survey sample with the level of awareness of corporate governance in Saudi Arabia. The group means in Table 6.2 show that group M again disagreed the least that there was an adequate awareness of corporate governance matters among local businesses, with a mean of 2.52, while group N, were the most dissatisfied, with a mean just of 2.10. Interestingly, this result may indicate that an inadequate awareness of corporate governance issues has a negative impact over companies' practices of corporate governance since the lack of awareness may decrease the demands of society for companies to improve their practices which leads to poor corporate governance practices by Saudi companies. For example a questionnaire respondent wrote that:

> "Corporate governance practices are new for the Saudi business environment and there is a lack of awareness of its importance. However, by increasing the level of corporate governance awareness, corporate governance practices and the relationships between companies and their shareholders will improve".

6.2.4 The Saudi Corporate Governance Code

This section of the questionnaire also addressed issues related to the Saudi Corporate Governance Code to evaluate the domestic code from the stakeholders' perspectives. The respondents indicated little satisfaction with the adequacy and effectiveness of the Saudi corporate governance code, with a mean of 2.77 for Q3(e). This attitude was generally held among all the stakeholders groups, as can be seen with no differences in the K-W and M-W results. However, group R who represent the bodies charged with standardising and controlling companies were slightly happier with the Saudi corporate governance code as they had the highest mean score among the groups of 3.15. Furthermore, Saudi stakeholders believe that Saudi companies generally do not comply with the Saudi corporate governance code, as indicated by the mean score of 2.45 for Q3(f). Respondent group M were more favourable in their opinion that companies comply with the Saudi Corporate Governance Code; the M-W test P-values show significant differences between the attitudes of group M and those of groups N (.00) and O (.01). The variation in the attitude between groups M and O can possibly be understood as group M may think that they are complying with the code and group O do not, but what is surprising is the attitude of group N as they disagree with group M and think that Saudi companies do not generally follow the Saudi corporate governance code; the opinions of group N gain more significance as they are in a position to allow them to appropriately judge companies' compliance. In response to Q3(b), the respondents agree to a great extent that the Saudi corporate governance code should be mandatory for all listed companies, with a mean of 4.47 and a standard deviation of 0.79. Although group M did not agree as strongly, in general the responses of the stakeholder groups emphasise their strong belief in the necessity of enforcing the Saudi corporate governance code among Saudi companies. The group means in Table 6.2 indicate the strength of conviction of the regulators and auditors on this question which gives an impression that the mandatory nature of the code may now only be a matter of time.

Respondents also agreed strongly with statement 3(c), which suggests that there should be penalties for non-compliance with the Saudi corporate governance code: the overall mean was 4.37 and the standard deviation was 0.81. Insiders (group M), with a mean of 3.66, only seemed to agree to some extent with this proposition, just as they had with the Saudi corporate governance code. K-W and M-W test results for Q3(c) indicate very significant differences between the attitudes of group M and those of three other groups of: O, I and R, which supports the result that some managers and executive directors are not happy with any kind of penalties that they may suffer if they do not comply with corporate governance requirements. One of the questionnaire respondents wrote that:

> "There won't be a real compliance with the corporate governance code if penalties do not exist for non-compliant companies. In contrast the complying companies should be rewarded to encourage the practice of good corporate governance."

Overall, the results obtained from the responses to parts of question 3 suggest that, although there is an adequate awareness among the stakeholders of the importance of corporate governance for the local business environment, there is a low satisfaction with Saudi companies' current practices of corporate governance and think that there is an inadequate awareness of such regulations in the Saudi business environment. Furthermore, the sample of stakeholders are not satisfied with the Saudi corporate governance code and do not consider it as an adequate and effective code, and that Saudi companies are not generally complying with the code. On the other hand, the stakeholders stressed the importance of having a mandatory code for listed companies and that penalties should be used for non-compliance.

5.2.5 The Arabic Translation of the English Term "Corporate Governance"

Question 3(d) was designed to investigate the extent to which stakeholders in Saudi Arabia were happy with the Arabic translation of the English term "corporate governance". They were also asked in Question 4 about their opinions of the Arabic terms most often used to translate the concept. The results in Table 6.2 show that the respondents only agreed to some extent that the Arabic translation of the English term "corporate governance" carries the same meaning as in English, with a mean score of 3.16. This result highlights that there is a potential problem related to the Arabic translation of corporate governance since this translation does not provide the same meaning of the English term which could cause misunderstanding and be misleading. Group O, with a mean of 2.79, were the group that agreed least with the accuracy of the Arabic translation. Thus, stakeholders who are more remote from companies have more of a problem with the Arabic translation.

Table 6.3 reveals that the official Arabic term used by the CMA and the most popular Arabic translation, *Hawkama,* is rated as the most suitable translation, with a mean score of 3.62. Furthermore, the Table shows that all stakeholder groups favour *Hawkama,* except group M, who prefer *Edarat wa Ttawjeh Alshareka,* which is a direct Arabic translation of Cadbury's definition of corporate governance as controlling and directing the company; this translation has been adopted by Saudi Telecom Company STC in its own code[1], which was the first Saudi corporate governance code ever issued in Saudi, even before the official code issued by the CMA. This term was the second most popular among all stakeholders, with an overall mean of 3.11.

The other translations appear to have been broadly rejected by the respondents, since their means were 2.39 for *Edarat wa Tandheem Alshareka,* 2.38 for *Aledarah Alrashedah*

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[1] It has been changed latter to *Hawkama*

and 1.99 for *Hakmea*[2]. Although there was no strong agreement on an appropriate Arabic term to translate the English, there was some acceptance of *Hawkama* to refer to corporate governance. The K-W and M-W test results indicate that there were no significant differences between the groups in their responses to Q4.

Table 6.3 The Arabic Translations of Corporate Governance

Arabic Term	In Arabic	N	Mean	Std. Deviation	Groups Means O	R	I	N	M
a. *Hawkama*	حوكمة	170	3.62	1.24	3.56	3.76	3.58	4.05	3.33
b. *Edarat wa Ttawjeh Alshareka*	إدارة وتوجيه الشركة	168	3.11	1.34	2.90	3.19	3.25	2.76	3.58
c. *Edarat wa Ttandheem Alshareka*	إدارة وتنظيم الشركة	166	2.39	1.21	2.35	2.46	2.61	1.68	2.35
d. *Aledarah Alrashedah*	الإدارة الرشيدة	167	2.38	1.32	2.35	2.46	2.61	1.68	2.35
e. *Hakemea*	حاكمية	165	1.99	1.20	1.92	2.23	2.11	1.50	1.93

Note: Cronbach's Alpha T est =0.61 for Q4. The Table shows the number of respondents, the means, standards deviations and group means for Q4

However, with a mean of 4.05, N seem to be the stakeholder group that agreed most strongly with the use of *Hawkama*, while M agreed the least strongly, with a mean of 3.33. In contrast, M were most likely to choose *Edarat wa Tawjeh Alshareka* as the right translation (mean = 3.58), while N agreed least with this translation. It is interesting, that group M prefer the term of *Edarat wa Tawjeh Alshareka* as this portrays the narrow view of corporate governance, as an internal system to control and direct the company, and accords with Cadbury's definition. Group N have a wider conception of corporate governance from stakeholders perspective and tend to accept *Hawkama* which has a wider meaning of corporate governance than controlling and directing the company. This

[2] All these Arabic terms are different translations to the English term of "Corporate Governance" and can not be explained as they all are attempting to translate the English term.

result indicates the influence of the role of groups M and N over their perception of corporate governance translation.

6.3 Board of Directors

The next section of the questionnaire related to board of directors issues such as: factors influencing selection of executive, non-executive and independent directors; the existence of Independent NEDs in Saudi companies; the maximum number of memberships that a person should have on companies boards; board size; meetings, responsibilities and sub-committees.

6.3.1 Board of Directors Composition

This section focuses on the factors that influence the process of selection of board members in Saudi companies.

6.3.1.1 Factors Influencing the Selection of Executive Directors

Question 5.1 invited respondents to express the extent of their agreement with the influence of certain factors on the process of selecting executive directors (EDs). The results, as shown in Table 6.4, indicate that share ownership and personal relationships were considered to have the most significant roles in the appointment of EDs in Saudi companies, with means of 4.05 and 3.99 respectively. The level of experience and qualifications of the EDs, and their reputation were ranked next by stakeholders as reasons for their appointments, followed by having enough time to spend on company business, favouritism and having knowledge in other specialist areas, which were all considered to have slightly less influence. Surprisingly, the factor judged to have the least impact on the appointment of EDs was having financial knowledge.

Table 6.4 Factors Influencing the Selection Process of Executive Directors

Panel A: Questions

Statement	N	Mean	Std. Deviation
a. Share ownership	176	4.05	1.30
b. Personal relationships	175	3.99	1.22
c. Experience and qualifications	173	3.72	1.01
d. Reputation	176	3.72	1.02
e. Having enough time to spend on company business	175	3.60	1.17
f. Favouritism	175	3.49	1.31
g. Having knowledge in other specialist areas	176	3.49	1.06
h. Having financial knowledge	176	3.27	1.15

Note: Cronbach's Alpha Test = 0.54 for Q5.1. Panel A of Table 6.4 shows the number of respondents, the means and standards deviations for Q5.1.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q5	Group Means					K-W P-value	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q5.1a	4.48	4.00	3.74	4.73	3.21	.00	.43	.00	.33	.00	.22	.18	.01	.00	.06	.00
Q5.1b	4.37	4.00	3.82	4.21	3.21	.00	.38	.02	.27	.00	.41	.93	.01	.40	.03	.00
Q5.1c	3.39	4.00	3.77	3.73	4.11	.07	.02	.09	.28	.02	.29	.38	.74	.94	.17	.25
Q5.1d	3.75	3.80	3.79	3.42	3.63	.62	.58	.93	.20	.64	.56	.12	.40	.22	.68	.51
Q5.1e	3.51	3.80	3.52	3.63	3.78	.74	.26	.99	.97	.40	.32	.33	.91	.90	.43	.48
Q5.1f	4.11	3.23	3.32	3.42	2.73	.00	.01	.00	.02	.00	.83	.75	.22	.85	.08	.08
Q5.1g	3.31	3.53	3.67	3.47	3.42	.65	.44	.15	.69	.86	.76	.67	.59	.44	.34	.75
Q5.1h	3.05	3.61	3.48	3.05	3.05	.16	.05	.10	.95	.90	.50	.07	.13	.17	.19	.91

Note: Panel B of Table 6.4 shows the group means, p-values for the K-W and M-W tests for Q5.1. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

Table 6.4 reveals very significant differences according to the K-W test between the respondents' answers concerning share ownership, personal relationships and favouritism for appointments. The group means for the first two factors indicate that groups O, R, and N strongly believe that share ownership and personal relationships significantly influence the selection of EDs, whereas groups I and M agree less strongly.

Group O strongly believe that favouritism has an impact on the selection of EDs, while groups R, I and N agree to some extent, but group M themselves disagree that favouritism is important, with a mean of 2.73. Groups M and R consider experience and qualifications to be influential in the choice of EDs, whereas other groups place less importance on this factor. The remaining factors 5.1(e) to (h) were accepted to some extent by all stakeholder groups. However, M-W test results indicate that there were very significant differences between certain pairs of respondent groups mainly concerning the factors of: share ownership, personal relationships, and favouritism. However, group M were more likely to consider experience and qualifications, having enough time to spend on company business and reputation, to be influential in their appointments, putting themselves in a favourable light.

6.3.1.2 Factors Influencing the Selection of Non-Executive Directors

In Q5.2, participants were asked to assess the importance of the same factors influencing the process of selecting NEDs as opposed to EDs in Saudi companies. As shown in Table 6.5, factors that respondents considered to have an influence were share ownership and personal relationships. A second group of factors, favouritism, reputation, experience and qualifications and having knowledge in other specialist areas, we re regarded by the respondents as being influential to some extent, whereas having financial knowledge and

Table 6.5 Factors Influencing the Selection of Non-Executive Directors

Panel A: Questions

Statement	N	Mean	Std. Deviation
a. Share ownership	173	4.35	.98
b. Personal relationships	173	4.11	1.10
c. Favouritism	172	3.63	1.26
d. Reputation	174	3.49	.99
e. Experience and qualifications	168	3.36	1.07
f. Having knowledge in other specialist areas	174	3.06	1.01
g. Having financial knowledge	171	2.92	1.02
h. Having enough time to spend on company business	174	2.78	1.02

Note: Cronbach's Alpha Test = 0.67 for Q5.2. Panel A of Table 6.5 shows the number of respondents, the means and standards deviations for Q5.2.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q5	Group Means					K-W P-value	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q5.2a	4.30	4.20	4.33	4.78	4.31	.25	.61	.64	.02	.91	.81	.15	.63	.05	.65	.03
Q5.2b	4.35	4.08	3.98	4.26	3.73	.15	.65	.11	.35	.01	.52	.81	.14	.69	.23	.11
Q5.2c	4.13	3.40	3.37	3.52	3.42	.02	.03	.00	.05	.01	.90	.85	.94	.72	.99	.84
Q5.2d	3.44	3.72	3.59	3.21	3.31	.33	.20	.43	.33	.45	.49	.11	.18	.14	.20	.86
Q5.2e	3.33	3.60	3.27	3.27	3.44	.86	.46	.68	.79	.92	.26	.41	.59	.88	.68	.87
Q5.2f	3.12	2.88	3.12	3.10	2.89	.72	.31	.78	.81	.24	.40	.44	.95	.94	.41	.34
Q5.2g	3.05	2.92	2.87	2.94	2.73	.66	.58	.35	.61	.18	.93	.89	.46	.82	.31	.24
Q5.2h	3.09	2.32	2.82	2.52	2.68	.01	.00	.10	.02	.08	.03	.42	.34	.14	.28	.90

Note: Panel B of Table 6.5 shows the group means, p-values for the K-W and M-W tests for Q5.2. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

having enough time to spend on company business were assessed as not being taken into account when deciding on the appointment of NEDs.

Moreover, although there was strong agreement among all the stakeholder groups concerning the major influence of share ownership on the selection of NEDs, the M-W points to significant differences in responses between group N and groups of O, M, and I as, surprisingly, group N believe that ownership influences their appointment, with a group mean of 4.78. In addition, groups O and N were the most likely to believe in the influence of personal relationships and favouritism in selecting NEDs. This was quite surprising about NEDs views of themselves and provides evidence of the major influences of ownership, relationships and favouritism on the appointment of NEDs on the Saudi companies boards of directors.

6.3.1.3 Factors Influencing the Selection of Independent Non-Executive Directors

Question 5.3 addresses the factors that may influence the process of appointing independent NEDs as opposed to NEDs that may or may not be independent in Saudi companies. Table 6.6 shows the overall mean responses for these factors and indicates that personal relationships were seen to have an essential role in the appointment of independent NEDs, with a mean of 3.93, followed by reputation, favouritism, and experience and qualifications. This is surprising as it they are meant to be independent there should not be any personal relationships.

Respondents considered the knowledge of independent NEDs in other specialist areas and in finance to influence their appointment only to some extent, and appeared to assign only minor importance to the factors of having enough time to spend on company

Table 6.6 Factors Influencing the Selection of Independent Non-Executive Directors

Panel A: Questions

Statement	N	Mean	Std. Deviation
a. Personal relationships	171	3.93	1.17
b. Reputation	172	3.62	.98
c. Favouritism	172	3.54	1.23
d. Experience and qualifications	168	3.47	1.02
e. Having knowledge in other specialist areas	172	3.26	1.03
f. Having financial knowledge	171	3.15	1.06
g. Having enough time to spend on company business	172	2.88	1.02
h. Share ownership	171	2.84	1.51

Note: Cronbach's Alpha Test = 0.59 for Q5.3. Panel A of Table 6.6 shows the number of respondents, the means and standards deviations for Q5.3.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q5	Group Means					K-W P-value	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q5.3a	4.05	3.80	3.82	4.31	3.72	.39	.63	.45	.34	.15	.94	.25	.45	.16	.45	.04
Q5.3b	3.42	4.20	3.80	3.26	3.27	.00	.00	.01	.56	.44	.07	.00	.00	.03	.03	.85
Q5.3c	3.81	3.28	3.39	3.73	3.38	.34	.12	.10	.90	.15	.75	.29	.84	.33	.88	.35
Q5.3d	3.52	3.80	3.25	3.26	3.70	.27	.34	.29	.30	.58	.07	.09	.78	.75	.18	.16
Q5.3e	3.33	3.48	3.14	3.31	3.05	.58	.54	.42	.96	.23	.24	.60	.17	.59	.58	.30
Q5.3f	3.28	3.28	3.07	3.10	3.88	.57	.90	.39	.44	.12	.57	.58	.19	.90	.36	.41
Q5.3g	3.07	2.60	2.89	2.52	3.05	.11	.04	.32	.02	.75	.22	.95	.15	.15	.65	.09
Q5.3h	2.64	2.36	3.28	2.36	3.27	.02	.33	.02	.40	.09	.01	.96	.04	.02	.88	.07

Note: Panel B of Table 6.6 shows the group means, p-values for the K-W and M-W tests for Q5.3. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

business and, unsurprisingly, share ownership. Group means listed in Table 6.6 show that groups O, I and N believe strongly in the impact of personal relationships on the selection of independent NEDs and that group R consider the reputation of independent NEDs to be the most important factor, while group M consider their financial knowledge to be the major issue. The K-W and M-W tests results indicate significant differences between the respondent groups regarding share ownership and reputation as influential factors.

It is somewhat surprising that share ownership is mentioned as influencing the selection of independent NEDs as the assumption is that they are independent and should not have shares in a company. A possible explanation for this might be because company law states that board members, regardless of being independent or not, should own shares in a company. Furthermore, the local code of corporate governance states that the holding of a controlling interest in a company or in any other company within that company's group is considered as an infringement of such independence, without specifying this controlling interest proportion. These two official requirements may explain why share ownership appears to have a small influence over the appointment of independent NEDs in Saudi companies.

The results obtained from questions 5.1, 5.2, and 5.3, which define the factors that could influence the process of appointing board of directors in Saudi companies, indicate that there is consistency on the criteria of selecting executive and non-executive (but not independent) directors in Saudi companies as they are both highly influenced by the percentage of their ownership in a company and their personal relationships with company directors and owners. In contrast, personal relationships are the major influential factor to be considered when looking for independent NEDs. The share ownership factor appears to have a minor influence over the selection of independent NEDs, possibly since those directors are assumed to not have a significant number of shares in the company and are therefore deemed to be independent.

Table 6.7 Factor Analysis for Factors Influencing the Selection of EDs, NEDs, and Independent NEDs

	EDs		NEDs		Independent NEDs	
	Component					
	1	2	1	2	1	2
Eigenvalues ⟶	**3.356**	**1.743**	**3.013**	**1.999**	**2.965**	**1.799**
a. Share ownership	-.401	.638	-.117	.668	-.249	-.364
b. Personal relationships	-.628	.660	-.118	.878	.273	.827
c. Favouritism	-.519	.683	-.147	.842	.334	.856
d. Experience and qualifications	.708	.214	.711	.215	.749	.064
e. Having financial knowledge	.737	.319	.856	.134	.841	-.129
f. Having knowledge in other specialist areas	.786	.371	.883	.051	.842	-.201
g. Reputation	.605	.317	.626	-.068	.604	-.293
h. Having enough time to spend on company business	.709	.217	.745	.048	.613	-.319

Note: The Table shows the results of factors analysis for Q3.1, Q3.2 and Q5.3. The Table indicates the components factors that influence selecting of executive, non-executive and independent non-executive directors. The Table shows the Eigenvalues for each components and values of each factors. All the factors selected in the table were those with Eigenvalues greater than 1.0.

Factor analysis was used to identify an explanation of what influences the process of selection of directors in Saudi companies. The results presented in Table 6.7 show that there are two main factors that can be considered to have an influence over selecting directors in Saudi companies. The first factor can be labeled "Competence" which contains experience and qualifications; having financial knowledge; having knowledge in other specialist areas; reputation; and having enough time to spend on company business.

The second factor labeled "Relationship" and contains share ownership; personal relationships; and favouritism. Consistent with the findings above, share ownership is the only factor that does not appear to influence the process of selecting independent NEDs.

6.3.2 Independent Non-Executive Directors in Saudi Companies

Question 6 concerned the number of independent NEDs that stakeholders considered to be appropriate on the boards of Saudi companies. Table 6.9 presents responses about independent NEDs that boards should have and shows that Saudi stakeholders believe in the importance of the role of independent NEDs on company boards, as 99% of the sample stated that companies should appoint independent NEDs, and a clear majority of respondents (63%) agreed with the Saudi Corporate Governance Code that requires independent NEDs to comprise one third of board membership. However, 29% of the respondents disagreed with this proposition and proposed instead that half of each board should comprise independent NEDs, and 7% of respondents stated that independent NEDs should form a majority, occupying two thirds of board memberships; only one respondent replied that independent NEDs had no place on the boards of Saudi companies.

Table 6.8 indicates that, apart from group N, all stakeholder groups agreed that one third of the board was the appropriate proportion of independent NEDs for Saudi companies; unsurprisingly group R (92%) agreed most strongly with this fraction as stated in the Saudi corporate governance code figure. Interestingly, group N thought the independent NEDs should form half of the board; may be they thought such a proportion would enable them to practice their role and fulfil their responsibilities better, whereas being a minority could make their task much more difficult. As a company chairman interviewee stated:

> "…..they (independent NEDs) cannot influence the board's direction, since one or two independent NEDs will always be in the minority in the boardroom".

The results show that, surprisingly, over half of group M agreed that independent NEDs should form half or two thirds of the board which indicates that there is an adequate awareness and belief among group M on the importance of independent NEDs. For example an Independent NEDs interviewee mentioned that:

> "There i s more of a tendency to invite qualified specialists, even from outside the known circle".

Table 6.8 The Number of Independent Non-Executive Directors that Should be on a Saudi Company Board

	The role of respondents										Total	
	O		R		I		N		M			
One third of the board	39	72%	24	92%	33	57%	7	37%	8	44%	111	63%
Half of the board	12	22%	1	4%	18	31%	12	63%	7	39%	50	29%
Two thirds of the board	2	4%	1	4%	6	10%	0	0%	3	17%	12	7%
None	1	2%	0	0%	0	0%	0	0%	0	0%	1	0.6%
Other	0	0%	0	0%	1	2%	0	0%	0	0%	1	0.6%
Total	54		26		58		19		18		175	

Note: The Table shows the group means for Q6.1.

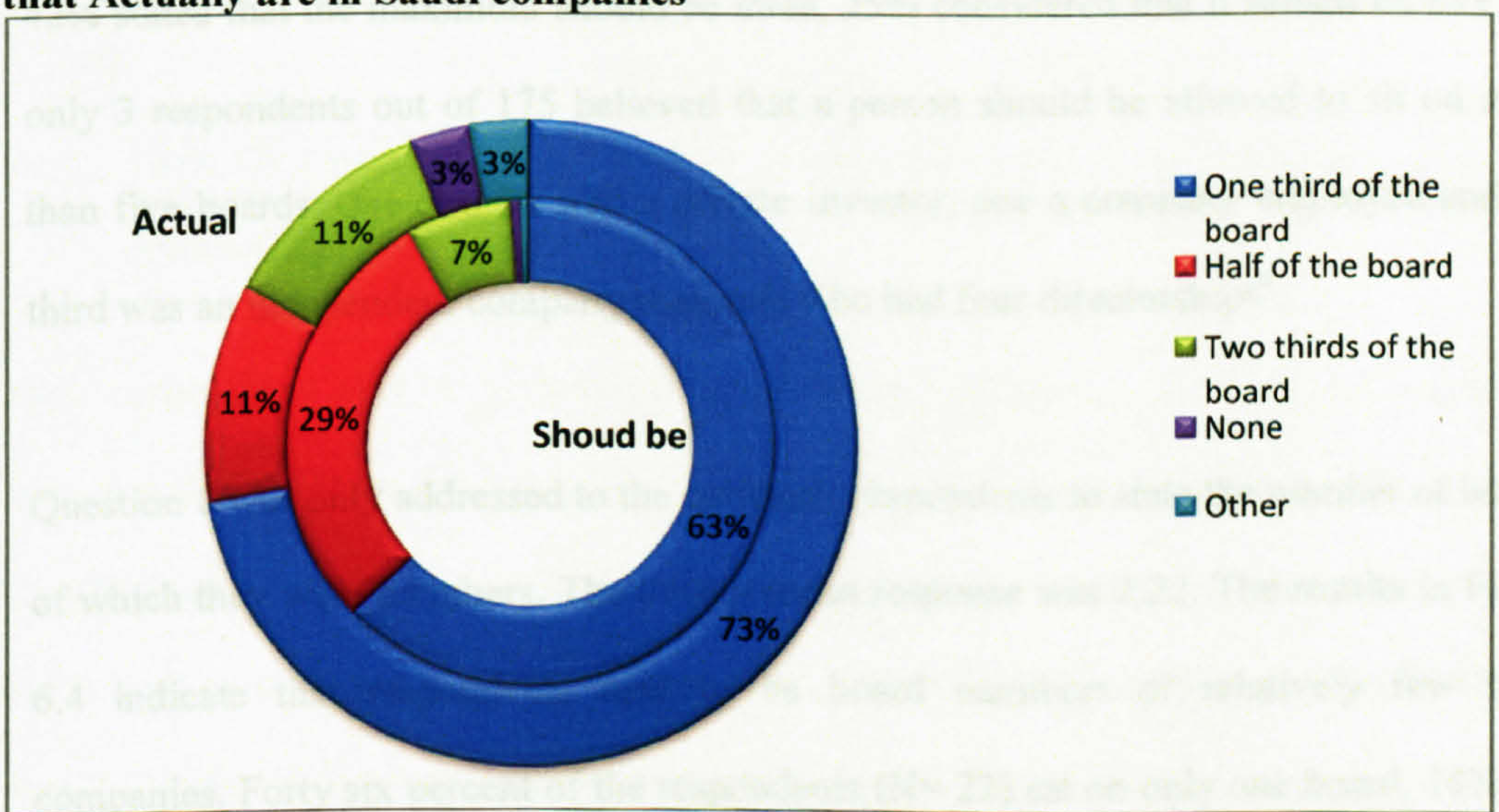
Table 6.9 The Actual Number of Independent Non-Executive Directors in the Companies

	The role of respondents				Total	
	N		M			
One third of the board	16	84%	11	61%	27	73%
Half of the board	1	5%	3	17%	4	11%
Two thirds of the board	0	0%	4	22%	4	11%
None	1	5%	0	0%	1	3%
Other	1	5%	0	0%	1	3%
Total	19		18		37	

Note: The Table shows the group means for Q6.2

In response to a question concerning the actual numbers of independent NEDs on Saudi boards, Table 6.9 shows that 73% of the company respondents asked this question replied that most boards had 'one third'. Thus, the majority of Saudi companies have one third of their board members as independent NEDs as required by the national code; among these respondents, group N (84%) gave this answer more often than group M respondents (61%)[3]. There were also 17% of group M who indicated that their companies had boards of which half of the members were independent NEDs, while 22% claimed that the proportion was two thirds. Only one company respondent stated that there was no independent NEDs in his company.

Figure 6.3 The Number of Independent Non-Executive Directors that Should be and that Actually are in Saudi companies



Note: The Figure shows the perception of the five stakeholders regarding the number of independent NEDs that should be in the Saudi companies' boards and also the actual number of independent NEDs in Saudi companies' boards as given by groups of N and M.

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[3] A possible explanation may be because both group N and M represent different companies

From the previous discussion of the findings it is clear to see that the majority of stakeholders are happy with the proportion of independent NEDs in the local corporate governance code. Moreover, the majority of Saudi companies seem to be in compliance with this requirement and some go beyond the requirements and have appointed a greater proportion of independent directors than one third as shown in Figure 6.3.

6.3.3 The Maximum Number of Board Memberships

Question 7 sought views on the maximum number of listed companies' boards of which a person could be a member at the same time. The cumulative percentage in Figure 6.6 shows that 98% of respondents considered the maximum to be five boards or less, while 42% stated that the maximum should be three, 25% considered that it should be five and only 3 respondents out of 175 believed that a person should be allowed to sit on more than five boards. One of them was a private investor, one a company employee and the third was an independent company chairman who had four directorships[4].

Question 8 was only addressed to the company respondents to state the number of boards of which they were members. The overall mean response was 2.22. The results in Figure 6.4 indicate that respondents tend to be board members of relatively few listed companies. Forty six percent of the respondents (N= 22) sat on only one board, 14% had two board memberships, while 18% sat on three and 18% sat on four boards. One

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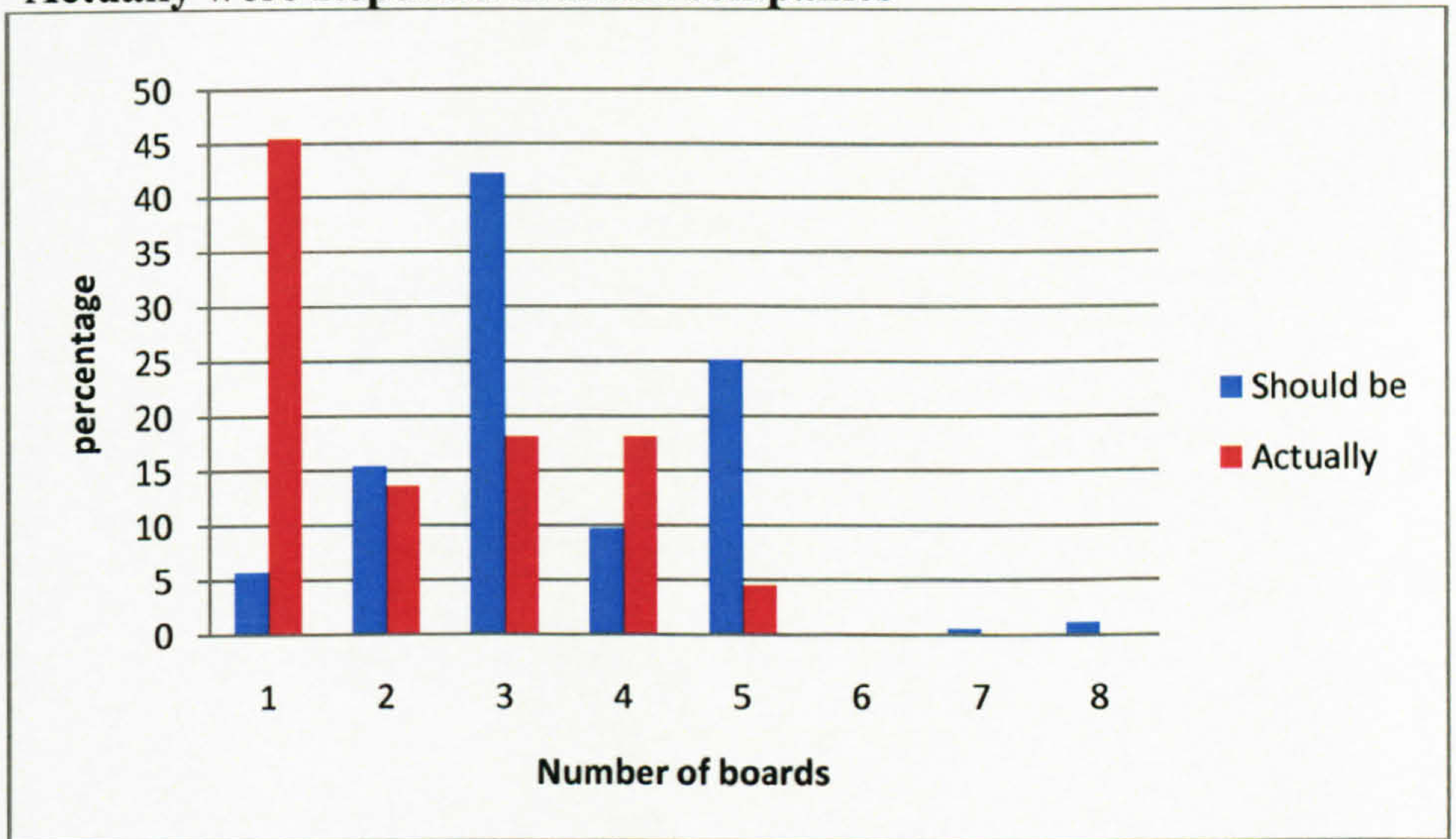
[4] The results for groups' means, K-W and M-W tests indicate that there were no significant differences between the group means in response to Q7; in other words, all responses were close to the overall mean of 3.41.

respondent was a member of five boards and had reached the maximum number of boards memberships recommended by the Saudi corporate governance code.

Figure 6.4 The Number of Directorships that there Should be and that Actually were Reported in Saudi companies



Note: The Figure shows the perceptions of stakeholders regarding the number of boards memberships that a person should has at the same time and the actual number of boards memberships that the groups of N and M have.

This respondent was a non-executive company chairman of a large company. Interestingly, the over 60 age group thought that the maximum number that a person should sit on is five boards. Although group M sit on more boards compared to group N, there were no significant differences between groups N and M according to the K-W test results. Thus, these results suggest that the majority of stakeholders think that a person should sit on no more than five boards at the same time and that Saudi companies seem to comply with the national code in relation to the number of memberships that a person should hold at the same time. The latter was an unexpected result, since there is a general impression that the directors of Saudi companies dominate companies' boards and sit on many of them. A possible explanation for this might be that the limited number of directors who answered this question (only 22) does not portray the general situation. Another possible explanation for this is that directors have reduced the number of their memberships recently in order to comply with the national corporate governance code.

6.3.4 Board of Directors Size

The aim of the next question Q9, was to identify views about the appropriate size of boards for Saudi companies of different sizes. The results in Table 6.10 reveal that the respondents disagreed with the Saudi corporate governance code specification of minimum and maximum numbers for all listed companies; they suggested different sizes of boards for each size of company. Surprisingly, even group R themselves, disagreed with the code.

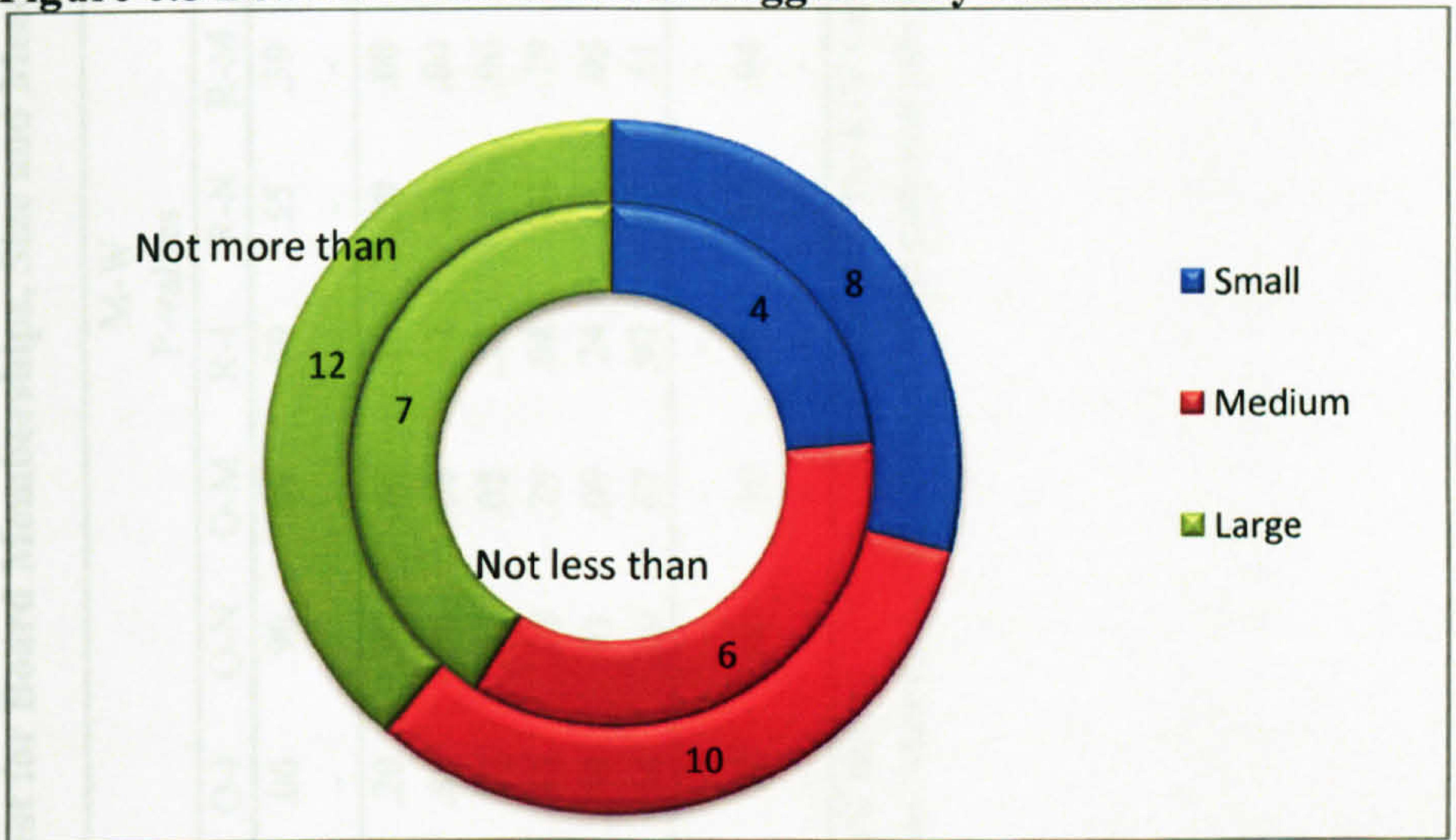
Table 6.10 The Board of Directors Size that Suggested by Stakeholders

Q9	Company Size	Board should be	N	Mean	Std. Deviation
9a	Small	Not less than	176	4.38	1.51
9b		Not more than	176	8.01	1.87
9c	Medium	Not less than	176	5.94	2.01
9d		Not more than	176	9.87	1.87
9e	Large	Not less than	176	7.44	2.60
9f		Not more than	176	11.74	2.15

Note: The Table shows the number of respondents, the means and standards deviations for Q9.

The mean values in Table 6.10 and Figure 6.5 indicate that small companies should have no fewer than 4 and not more than 8 board members, since the overall means were 4.38 and 8.01; for medium-sized companies there should be 6 to 10 members (with means of 5.94 and 9.87), whereas boards of large companies should, in the views of respondents, comprise between 7 and 12 members (with means of 7.44 and 11.74). However, the K-W test indicates very significant differences between the respondent groups regarding the minimum number of board members for small companies. The group means and M-W tests clearly show that for small companies the company respondents (groups M and N) thought that there should be 5 to 6 directors on the board compared with others groups who thought there should only be 4.

Figure 6.5 Board of Directors Size Suggested by Stakeholders



Note: The Figure shows the stakeholders suggestion of the minimum and the maximum numbers of directors that should be on the board of small, medium and large companies' size.

Table 6.11 The Actual Size of Saudi Companies' Boards of Directors

Company Turnover	No of directors on the board										Total
	7		8		9		10		11		
Less than 500m (Small)	2	40%	0	0%	1	20%	1	20%	1	20%	5
Between 501m and 1.5b (Medium)	1	6%	3	19%	7	44%	2	12%	3	19%	16
More than 1.5b (Large)	3	25%	1	8%	2	17%	3	25%	3	25%	12
Total	6	18%	4	12%	10	30%	6	18%	7	22%	33

Note: The Table shows the actually number of directors in the participants companies

Similarly, the M-W test outcomes for large companies indicate significant differences in the maximum numbers of member of large companies' boards. Group N wanted a lower maximum number than other groups and were the only group of stakeholders who agreed that large companies should not appoint more than 11 directors to the board.

Table 6.12 Group Means, Kruskal-Wallis and Mann-Whitney Test for Board Memberships, Size and Meetings.

Q	Group Means					K-W P-value	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q7	3.16	3.46	3.55	3.31	3.27	.21	.35	.06	.90	.09	.59	.55	.39	.13	.47	.12
Q8	-	-	-	2.16	3.40	.22	-	-	-	-	-	-	-	-	-	.22
Q9a	4.05	3.84	4.15	5.42	5.68	.00	.74	.20	.00	.00	.16	.00	.00	.00	.00	.87
Q9b	9.66	8.84	7.74	8.05	7.68	.14	.04	.84	.36	.68	.02	.21	.04	.33	.63	.14
Q9c	5.79	5.38	5.84	6.10	7.31	.05	.47	.71	.35	.02	.23	.10	.00	.40	.02	.13
Q9d	10.25	10.19	9.63	9.31	9.63	.18	.58	.15	.08	.29	.08	.04	.19	.46	.82	.74
Q9e	7.24	6.73	7.50	7.47	8.84	.33	.48	.59	.91	.09	.24	.43	.05	.78	.16	.17
Q9f	12.25	11.53	11.60	10.63	12.10	.03	.15	.14	.00	.67	.97	.02	.51	.05	.55	.03
Q10	-	-	-	9.11	9.13	.92	-	-	-	-	-	-	-	-	-	.92
Q11a	3.72	3.84	3.50	3.05	3.36	.01	.59	.11	.00	.10	.05	.00	.04	.04	.56	.22
Q11b	-	-	-	2.50	2.89	.09	-	-	-	-	-	-	-	-	-	.09

Note: Panel B of Table 6.12 shows the group means, p-values for the K-W and M-W tests for Q7, Q8, Q9, Q10 and Q11. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

The company respondents indicate that the average number of directors actually on Saudi listed companies' boards is nine. Table 6.11 shows that 30% of respondents to this question (N= 33) stated that there were an average of 9 members on their companies' boards.

Eighteen percent stated that there were 7 directors; these were the smallest boards, while the largest had 11 directors as reported by 22% of the respondents. These results suggest that Saudi companies comply with the Saudi corporate governance code in relation to board size, where boards of directors of listed companies should have no fewer than 3 and no more than 11 members. Table 6.11 reveals that, excluding medium-size companies, that to some extent tend to have boards with nine seats (40%), there is not a clear relationships between the size of company and size of board; furthermore, correlation tests do not appear to show any significant correlation between the size of the companies and their board size.

6.3.5 Board of Directors Meetings

In question 11 the respondents were asked how many meetings boards of directors should hold on a yearly basis in order to discharge their responsibilities and the corporate respondents (groups M and N) were asked to state how often their boards actually met.

Table 6.13 and Figure 6.6 show that a small majority of respondents (53%) believe that boards should meet quarterly, 21% and 19% of respondents stated that they should meet every two months or every month. The normative view on what boards should do broadly reflects reality in that company respondents indicate that, in their view, Saudi boards of directors generally meet quarterly (according to 54% of respondents) or three times a year

6.3.6 Board of Directors' Responsibilities

Q13 sought respondents' opinions on the roles that directors should have in order to fulfil their responsibilities. They were asked to state the extent of their agreement with statements referring to ten functions for which board members should be responsible. The results in Table 6.14 reveal that there was a high level of general agreement among the Saudi stakeholders that boards of directors should be responsible for all of these functions. Furthermore, standard deviation values for Q13.1 in Table 6.14 indicate that all respondents generally agreed strongly with these roles, since they all had low standard deviations. The group means in Table 6.14 indicate that group R were the group most strongly in favour of making boards of directors responsible for these ten roles and that N were the second most supportive group, whereas group M seem to be the least enthusiastic for enforcement of the board's responsibilities. The M-W test results indicate that there were major differences between groups R and M with respect to their responses to all statements which make it clear that there is a variation between groups R and M in the way they both look at boards of directors' responsibilities, one is the party that is in charge of regulating and the other party is the one that has to follow those regulations. A possible explanation for this might be that the insider group, M, are not convinced, or are unaware of, the essence of such tasks as board responsibilities, and they do not want to impose upon themselves more roles for which they would be responsible. There were also a number of very significant differences between group R and other groups which may be explained as that, although all stakeholders groups are highly in favour that boards of directors should be responsible for those ten roles, group R have a stronger belief in them.

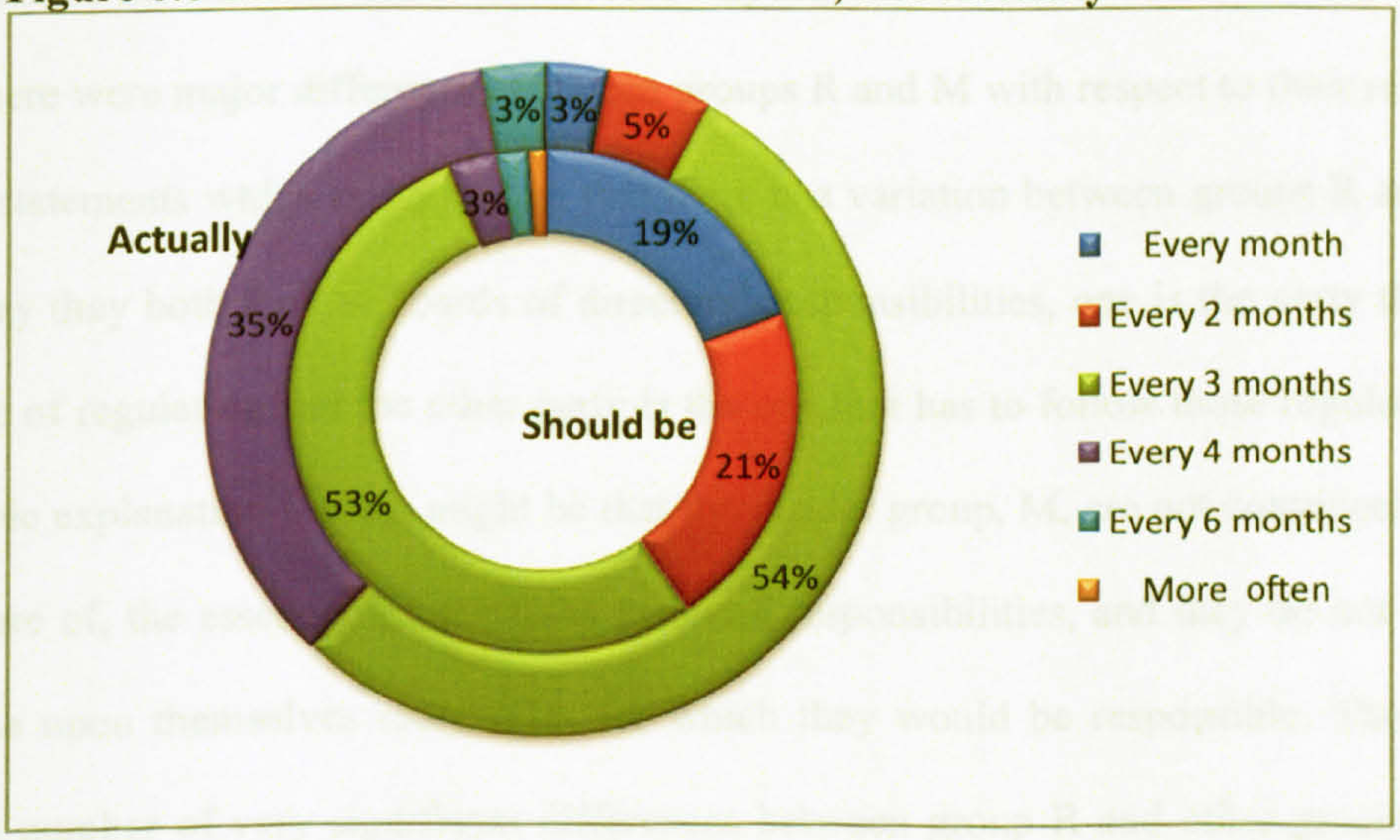
(35%). One manager stated that his board met monthly and another that his convened only every six months.

Table 6.13 The Board of Directors Should and Actually Meetings

	Should		Actually do	
	No	Percent	No	Percent
Every 3 months	93	53%	20	54%
Every 2 months	37	21%	2	5%
Every month	33	19%	1	3%
Every 4 months	6	3%	13	35%
Every 6 months	3	2%	1	3%
More often than monthly	2	1%	0	0%
Total	174	100%	37	100%

Note: The Table shows the number and percentages of respondents answered Q11.

Figure 6.6 The Board of Directors Should, and Actually Do Hold Meetings



Note: The Figure shows the perceptions of stakeholders about how regular should the board of director meet and the actual meetings that hold by companies' boards according to response of groups N and M about their own companies.

Table 6.14 Board Responsibilities

Panel A: Questions

Statement	Board should do Q13.1			Boards actually do Q13.2			My board does Q13.3		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	N	Mean	Std. Deviation
a. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans	175	4.64	.77	173	3.23	.98	37	4.21	.82
b. Ensuring that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control	175	4.61	.80	173	2.78	.97	37	3.81	.84
c. Monitoring and managing potential conflicts of interest of management or board members, including misuse of corporate assets and abuse in transactions with related parties	175	4.60	.76	173	2.73	.98	37	3.83	.86
d. Aligning key executive and board remuneration with the longer-term interests of the company and its shareholders	175	4.56	.81	173	3.15	1.00	37	4.02	.76
e. Ensuring a transparent formal process of nomination and election to the board.	175	4.56	.85	173	2.69	.97	37	3.64	1.03
f. Overseeing the process of disclosure and communication	174	4.54	.76	173	2.71	1.02	37	3.78	.75
g. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.	175	4.53	.80	173	2.93	.97	37	3.97	.76
h. Setting performance objectives	171	4.52	.87	169	3.15	1.00	36	3.88	.97
i. Monitoring the effectiveness of the company's governance practices and making changes as needed.	172	4.52	.78	169	2.69	.97	35	3.85	.84
j. Overseeing major capital expenditure, acquisitions and divestitures.	175	4.46	.82	172	3.16	1.01	37	4.05	.81

Note: Cronbach's Alpha Test for Q13.1 = 0.96, Q13.2 = 0.93 and Q13.3 = 0.96. Panel A of Table 6.14 shows the number of respondents, the means and standards deviations for Q13.1, Q13.2 and Q13.3.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					K-W P-value	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q13.1a	4.33	4.96	4.77	4.78	4.55	.00	.00	.00	.10	.57	.12	.07	.00	.63	.09	.32
Q13.1b	4.37	5.00	4.72	4.79	4.22	.00	.00	.06	.18	.19	.01	.01	.00	.94	.00	.02
Q13.1c	4.29	5.00	4.27	4.78	4.38	.00	.00	.00	.04	.95	.01	.01	.00	.92	.01	.05
Q13.1d	4.35	4.92	4.60	4.73	4.38	.01	.00	.20	.24	.56	.01	.03	.00	.79	.09	.10
Q13.1e	4.35	4.96	4.70	4.47	4.27	.00	.00	.04	.64	.43	.04	.01	.00	.32	.01	.29
Q13.1f	4.29	4.88	4.64	4.78	4.16	.00	.00	.07	.05	.17	.06	.39	.00	.41	.00	.00
Q13.1g	4.29	4.88	4.62	4.73	4.22	.00	.00	.05	.11	.49	.11	.20	.00	.84	.02	.04
Q13.1h	4.49	4.88	4.38	4.77	4.27	.03	.03	.41	.38	.23	.00	.21	.00	.14	.52	.08
Q13.1i	4.32	4.92	4.63	4.63	4.11	.00	.00	.04	.25	.21	.02*	.01	.00	.75	.00	.03
Q13.1j	4.48	4.76	4.36	4.57	4.16	.04	.06	.51	.61	.07	.02*	.24	.00	.35	.21	.06
Q13.2a	2.92	3.50	3.19	3.63	3.50	.01	.00	.35	.00	.01	.18	.78	.92	.10	.22	.89
Q13.2b	2.46	2.76	283	3.10	3.27	.01	.12	.05	.01	.00	.90	.38	.15	.22	.08	.55
Q13.2c	2.38	2.69	2.75	3.36	3.16	.00	.14	.08	.00	.00	.98	.01	.08	.01	.07	.46
Q13.2d	2.87	3.26	3.12	3.52	3.44	.11	.10	.28	.02	.04	.47	.63	.68	.14	.23	.97
Q13.2e	2.50	2.42	2.71	3.00	3.27	.01	.94	.32	.04	.00	.40	.05	.00	.19	.02	.32
Q13.2f	2.38	2.53	2.73	3.31	3.27	.00	.35	.11	.00	.00	.73	.02	.01	.03	.02	.94
Q13.2g	2.94	2.76	2.75	3.47	3.16	.04	.46	.27	.08	.51	.60	.01	.20	.00	.07	.28
Q13.2h	2.92	3.44	3.10	3.33	3.44	.14	.02	.55	.14	.07	.14	.64	.89	.40	.23	.76
Q13.2i	2.41	2.36	2.89	3.27	2.76	.00	.91	.01	.00	.22	.03	.00	.21	.14	.55	.04
Q13.2j	3.07	2.96	3.25	3.26	3.35	.80	.67	.52	.74	.36	.36	.49	.27	.99	.71	.58

Note: Panel B of Table 6.14 shows the group means, p-values for the K-W and M-W tests for Q13.1 and Q13.2. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

In order to elicit stakeholders' evaluation of the extent to which directors of Saudi companies discharge their responsibilities by fulfilling their functions, they were asked in Q13.2 to express their opinions of the extent of actual adherence to board responsibilities within Saudi companies. The results displayed in Table 6.14 reveal a general dissatisfaction among respondents with the performance of boards of directors in respect of the responsibilities that they should shoulder, since there was only a limited agreement that Saudi boards actually review and guide corporate strategy, have major plans of action and risk policy, oversee annual budgets and business plans, oversee major capital expenditure, acquisitions and divestitures, set performance objectives and align the remuneration of key executives and directors with the longer-term interests of the company and its shareholders. From another perspective, excluding statement (j) regarding the oversight of major capital expenditure, acquisitions and divestitures, K-W and M-W tests show significant differences between the respondent groups in their answers to Q13.2, as shown in Table 6.14. These differences mainly result from differences between respondents from companies and those from outside companies; the outsider parties appear more dissatisfied about the way that boards of directors are actually shouldering their responsibilities.

However, when asked about the actual practices in their own companies, groups M and N indicated that, although in general the boards of Saudi companies do not always meet all their responsibilities, there is an acceptable level of performance in their own companies. The comparison of results obtained from Question 13, as shown in Figure 6.7, indicates that boards of directors should be responsible for many roles in exercising their jobs but that stakeholders were unhappy with what boards of directors were actually doing and

Table 6.15 Board Sub-Committees' Importance, Existence and Effectiveness

Panel A: Questions of Importance and Existence

Committee	Importance Q14.1			Existence Q14.2		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation
a. Audit Committee	175	4.63	.76	172	4.13	.89
b. Executive Committee	175	4.42	.91	171	3.78	1.04
c. Remuneration Committee	175	4.35	.87	171	2.95	1.14
d. Nomination Committee	174	4.33	.90	169	2.87	1.13
e. Corporate Governance Committee	173	4.30	.98	170	2.21	1.14
f. Risk Committee	174	4.07	1.06	170	2.06	1.10
g. Social Responsibility Committee	174	3.83	1.08	170	1.85	.98
h. *Sharia* Committee	174	3.82	1.24	170	2.13	1.21

Note: Cronbach's Alpha Test for Q14.1 = 0.89 and Q14.2 = 0.77. Panel A of Table 6.15 shows the number of respondents, the means and standards deviations for Q14.1 and 14.2.

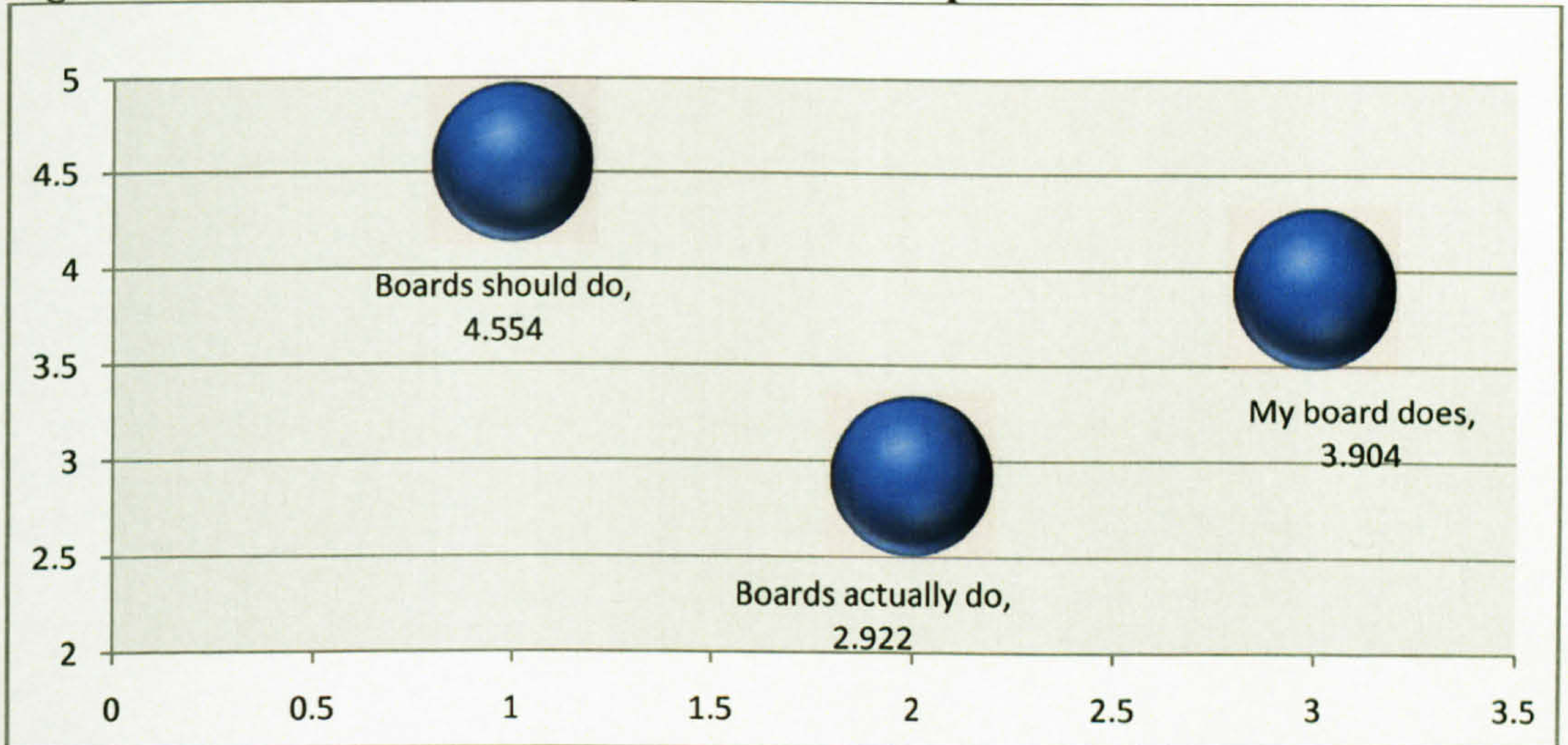
Panel B: Existence and Effectiveness of Committees

Committee	Existence Q15.1		Effectiveness Q15.2		
	Yes	No	N	Mean	Std. Deviation
a. Audit Committee	94%	6%	34	4.26	.75
b. Executive Committee	78%	22%	27	4.37	.62
c. Remuneration Committee	64%	36%	26	4.07	.84
d. Nomination Committee	58%	42%	23	4.17	.71
g. Social Responsibility Committee	14%	86%	5	4.40	.89
h. *Sharia* Committee	14%	86%	6	4.16	.75
e. Corporate Governance Committee	11%	89%	7	4.42	.78
f. Risk Committee	6%	94%	4	3.75	1.50

Note: Cronbach's Alpha = 0.99, N = 36. Panel B of Table 6.15 shows the percentages of response for Q15.1and the number of respondents, the means and standards deviations for Q15.2.

think that they are not doing enough to fulfil their roles and discharge their responsibilities, even though company respondents were satisfied with the way that their own boards were discharging their responsibilities.

Figure 6.7 Board of Directors Responsibilities Comparison



Note: The Figure shows the differences between the stakeholders perceptions about the board of directors' responsibilities. The first circle shows the perception of stakeholders regarding that boards should be responsible for ten elements given in Q13.1, while second circle shows their perception about the actual practices of these elements by boards of directors ten (Q13.2). The last circle show the perception of groups N and M about the practices of these elements by boards of their own companies (Q13.3).

6.3.7 Board of Directors' Sub-Committees

Questions 14 and 15 were designed to assess the importance, existence and effectiveness of board subcommittees in the Saudi business environment. Table 6.15 (Panel A), shows that stakeholders perceive the audit committee as the most important board subcommittee, with a mean of 4.63, while they consider the executive committee the second most important (4.42), followed by committees concerned with remuneration (4.35), nomination (4.33) and corporate governance (4.30). Those considered important but not to a great extent were the risk, social responsibility and *Sharia* committees. Groups means for Q14.1, listed in Table 6.15 (Panel C), show that while group R are in

Panel C: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					K-W P-value	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q14.1a	4.22	4.88	4.79	4.94	4.66	.00	.00	.00	.00	.05	.61	.47	.29	.24	.44	.12
Q14.1b	4.03	4.57	4.60	4.89	4.33	.00	.02	.00	.00	.46	.85	.14	.19	.14	.07	.00
Q14.1c	4.12	4.76	4.56	4.15	3.94	.00	.00	.00	.86	.22	.17	.01	.00	.08	.00	.31
Q14.1d	4.12	4.76	4.57	4.15	3.77	.00	.00	.00	.78	.05	.24	.02	.00	.11	.00	.12
Q14.1e	4.05	4.69	4.43	4.57	3.76	.00	.00	.00	.03	.50	.32	.38	.00	.97	.02	.05
Q14.1f	3.94	4.46	4.22	3.94	3.55	.01	.01	.04	.81	.22	.32	.06	.00	.20	.01	.26
Q14.1g	3.75	4.26	3.91	3.57	3.44	.06	.03	.33	.59	.31	.13	.04	.01	.26	.08	.75
Q14.1h	3.77	3.84	4.19	3.26	3.38	.04	.73	.06	.23	.22	.29	.20	.21	.01	.01	.88
Q14.2a	3.77	4.26	4.00	4.94	4.55	.00	.01	.16	.00	.00	.13	.00	.17	.00	.01	.05
Q14.2b	3.76	3.34	3.60	4.47	4.33	.00	.09	.76	.00	.00	.24	.00	.00	.00	.01	.60
Q14.2c	2.82	2.64	3.05	3.47	3.16	.03	.20	.31	.02	.18	.04	.00	.02	.21	.80	.22
Q14.2d	2.94	2.38	2.85	3.31	3.00	.09	.04	.66	.17	.83	.11	.01	.06	.13	.60	.26
Q14.2e	1.96	2.15	2.19	2.89	2.41	.07	.67	.22	.00	.17	.58	.05	.39	.03	.51	.28
Q14.2f	2.11	1.69	2.14	1.88	2.28	.38	.07	.85	.43	.60	.11	.51	.12	.50	.60	.34
Q14.2g	2.07	1.73	1.64	1.77	2.16	.12	.10	.02	.32	.78	.79	.71	.19	.54	.08	.32
Q14.2h	2.09	2.07	2.03	1.66	2.27	.32	.92	.40	.11	.96	.43	.20	.87	.02	.60	.26

Note: Panel B of Table 6.15 shows the group means, p-values for the K-W and M-W tests for Q14.1 and Q14.2. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

favour of almost all of the committees, group M were less responsive that these board subcommittees are important. The K-W test reveals significant differences between groups in their assessment of the importance of all committees except the social responsibility committee, while the M-W test P-values indicate significant differences between all stakeholder groups except R and I who seem to have similar attitudes about board subcommittees. However, the audit committee was chosen by all stakeholder groups as the most important board subcommittee, but, surprisingly, the *Sharia* committee was ranked least important by all stakeholders groups, apart from group I, who appear to believe in the role of such committee to ensure that companies adhere to *Sharia* law.

It is difficult to explain this result, but it might be related to stakeholders' awareness about the nature and role of the *Sharia* committee since there is no adequate information about the issues related to *Sharia* committees, such as its role, composition, and authority, or simply because they do not believe such a committee is necessary at all.

When asked about the existence of board sub-committees as opposed to the importance of them, the audit committee was regarded by respondents as the committee that most commonly existed in Saudi companies (Table 6.15) (Panel A); scores for all other committees apart from the executive committee were below 3, indicating that they generally do not exist in Saudi companies. According to the K-W P-values shown in Table 6.15, there were very significant differences among the respondents in respect of views about the existence of audit and executive committees; M-W tests indicate that the key differences were between groups N and M on one side and the other stakeholders previous question had asked all stakeholders about the importance and existence of these committees generally in Saudi companies. Table 6.15 (Panel B) presents data on the replies concerning the actual existence and effectiveness of board subcommittees in respondents' companies and confirms the above results, that audit committees exist most widely, as 94% of the company respondents state that their companies have set up audit committees, and executive committees are the second most commonly reported, by 78% of respondents to this question. Almost two-thirds of participants (64%) say that remuneration committees are in place in their companies and over half (58%) of those surveyed report the existence of nomination committees, whereas only a small number of respondents indicate that there were social responsibility (14%), *Sharia* (14%), corporate governance (11%) or risk (6%) committees in their companies.

When asked to evaluate the effectiveness of these subcommittees, Table 6.15 (Panel B) shows that the company respondents indicate their satisfaction with all committees. Interestingly, the corporate governance committee is considered as the most effective committee, with a mean of 4.42, and the social responsibility came next with a mean of 4.40. even though so few companies have either of these committees. Thus, although corporate governance and social responsibility committees rarely exist in Saudi companies, they are very effective in fulfilling their roles when they do exist. Also executive committees (4.37) receive strong recognition as effectual committees, whereas risk committees are considered not as effective as other board subcommittees. The K-W tests results show that there are no significant differences among respondents regarding their responses to Q15.2.

groups. Furthermore, group means shown in Table 6.15 (Panel C) indicate that groups N and M were most likely to report the existence of these committees in their companies. This result suggests that there is a gap between company respondents and other stakeholders groups about the existence of board subcommittees. Perhaps this can be explained as a result of inadequate information about these committees or by the lack of information that stakeholders have about companies.

Figure 6.8 provides a comparison between which board subcommittees stakeholders think companies should have and the existence of these committees. The comparison indicates that there is a variance between which subcommittees should exist and the actuality of these committees in Saudi companies. The figure shows that, apart from the audit and executive committees, other committees only exist infrequently.

Figure 6.8 The Importance and Existence of Board of Directors Sub-Committees

Note: The Figure shows the comparison between the perceptions of stakeholders about the important of board's committees and their perceptions of the existence of these committees on the Saudi companies' boards.

The next question asked only the company respondents, groups N and M, about the actual existence and effectiveness of board subcommittees in their own companies, whereas the

Overall, the results raised from Q15 reflect that board subcommittees are recognised as important committees and, furthermore, they are generally regarded as effective committees. However, the audit and executive committees are most common with less nomination and remuneration committees.

6.4 The Corporate Governance Framework in Saudi Companies

The next section of the questionnaire focused on issues related to the corporate governance frameworks in the Saudi business environment. Respondents were asked about what company practices should be and these responses were compared with what company respondents reported regarding their own companies' actual practices.

While respondents agree that Saudi companies should adopt all eleven elements that appear in Table 6.16 to provide an appropriate framework for good corporate governance practices, there were three distinct levels of agreement. First, they agreed strongly that companies should do statements (g), (h), (k), (i), (c), and (f). The second slightly lower level of agreement, was with statements (d), (a) and (j). Finally, the least strong agreement was with statements (e) and (b).

Interestingly, Table 6.16 shows that group M, with a mean of 3.66, and group N (3.72) only agreed to some extent that companies should have an independent chairmen. This result can possibly be explained by evidence from the interviews with the company directors, where they debated whether companies with owner-chairmen would perform better since owner chairmen regard themselves as the spiritual fathers of their companies and that such chairmen come from family businesses with wide experience and the desire, as an owner, to look after their companies' interests and monitor transactions and achieve their objectives. Group R agreed more so than the rest of the groups that Saudi

Table 6.16 Corporate Governance Framework

Panel A: Questions

Statement	Companies Should Q12.1			Companies Actually Q12.2			My company Q12.3		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	N	Mean	Std. Deviation
a. Treat all shareholders fairly	175	4.57	.80	173	2.54	.88	37	3.64	.82
b. Apply high ethical standards	175	4.57	.79	171	2.54	.87	36	3.44	.93
c. Provide access to accurate, relevant and timely information to board members	175	4.56	.76	172	2.83	.91	37	3.56	.89
d. Take into account the interests of all stakeholders	175	4.54	.80	173	2.65	.86	37	3.48	.86
e. Define the board's authorities and responsibilities and ensure that board members are aware of them	175	4.50	.89	173	2.79	.87	37	3.70	1.02
f. Ensure that board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and the shareholders	175	4.49	.81	173	2.46	.90	37	3.27	.93
g. Have appropriate standards to evaluate board business	175	4.44	.92	173	2.47	.92	37	3.29	.77
h. Separate the chairman and CEO roles	175	4.41	1.00	172	3.01	.94	36	3.97	1.20
i. Exercise objective independent judgement on corporate affairs	175	4.40	.81	173	2.68	.84	37	3.48	.76
j. Subject board members to orientation programmes to train and qualify them	175	4.13	1.09	173	2.11	.88	37	2.29	.93
k. Have an independent chairman	174	4.01	1.15	173	2.71	1.04	36	2.38	1.53

Note: Cronbach's Alpha Test for Q12.1 = 0.93, Q12.2 = 0.90 and Q12.3 = 0.85. Panel A of Table 6.16 shows the number of respondents, the means and standards deviations for Q12.1, Q12.2 and Q12.3.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					K-W P-value	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q12.1a	4.29	4.96	4.63	4.57	4.61	.01	.00	.11	.75	.48	.01	.00	.00	.27	.60	.69
Q12.1b	4.31	4.92	4.68	4.57	4.44	.01	.00	.05	.75	.94	.07	.00	.00	.17	.08	.67
Q12.1c	4.25	4.96	4.67	4.63	4.50	.00	.00	.03	.30	.67	.01	.00	.00	.51	.18	.55
Q12.1d	4.31	4.80	4.67	4.57	4.38	.02	.02	.08	.75	.57	.18	.03	.00	.22	.02	.34
Q12.1e	4.14	4.92	4.58	4.73	4.50	.01	.00	.04	.08	.46	.03	.09	.01	.73	.42	.32
Q12.1f	4.27	4.76	4.68	4.42	4.22	.01	.03	.02	.88	.51	.61	.02	.01	.03	.01	.60
Q12.1g	4.07	4.92	4.62	4.57	4.16	.00	.00	.01	.28	.70	.02	.00	.00	.39	.01	.13
Q12.1g	4.07	4.96	4.56	4.47	4.11	.00	.00	.02	.46	.59	.01	.00	.00	.23	.01	.23
Q12.1i	4.24	4.80	4.39	4.47	4.27	.03	.00	.39	.52	.76	.01	.02	.00	.96	.28	.36
Q12.1j	4.09	4.38	4.17	3.78	4.11	.37	.32	.84	.21	.66	.38	.04	.18	.15	.54	.46
Q12.1k	3.96	4.53	4.01	3.72	3.66	.09	.03	.85	.60	.36	.03	.03	.01	.54	.29	.77
Q12.2a	2.32	2.73	2.50	2.10	2.50	.01	.03	.26	.00	.40	.16	.19	.32	.01	.94	.04
Q12.2b	2.37	2.53	2.50	3.10	2.64	.07	.43	.53	.00	.28	.77	.05	.71	.01	.51	.16
Q12.2c	2.54	2.92	3.01	2.94	2.83	.06	.05	.00	.09	.21	.93	.94	.49	.83	.37	.61
Q12.2d	2.35	2.65	2.75	3.10	2.72	.00	.08	.01	.00	.07	.71	.07	.88	.10	.87	.10
Q12.2e	2.50	2.80	2.94	3.00	2.88	.09	.15	.01	.04	.07	.58	.61	.83	.93	.78	.78
Q12.2f	2.30	2.46	2.47	2.63	2.72	.36	.50	.21	.26	.04	.88	.65	.35	.70	.23	.59
Q12.2g	2.41	2.50	2.33	2.63	2.88	.27	.98	.61	.52	.05	.71	.60	.13	.32	.02	.33
Q12.2h	2.73	3.11	3.00	3.27	3.44	.06	.08	.23	.04	.00	.59	.57	.22	.34	.12	.60
Q12.2i	2.37	2.80	2.78	2.94	2.77	.02	.03	.00	.01	.07	.91	.69	.82	.57	.87	.53
Q12.2j	2.18	2.03	2.08	2.15	2.05	.89	.37	.48	.86	.59	.70	.53	.71	.70	.96	.76
Q12.2k	2.64	2.92	2.80	2.47	2.55	.64	.33	.60	.48	.65	.61	.14	.21	.34	.53	.68

Note: Panel B of Table 6.16 shows the group means, p-values for the K-W and M-W tests for Q12.1 and Q12.2. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

companies should adopt all these elements to create a good environment for the implementation of corporate governance. However, respondents indicated their dissatisfaction with current corporate governance practices in the Saudi business environment. Their answers reflect a weak corporate governance framework and show that companies have only adopted corporate governance practices to a minor extent; the overall means ranged between 2.11 and 2.83. The only exception is that, there is to some extent a separation between chairman and CEO roles in Saudi companies (mean = 3.01). When asked to describe their own companies' actual corporate governance practices, groups M and N reported low levels of adherence to desirable norms. Group means and K-W tests show there is a correspondence in the views of M and N in relation to their companies' actual practices of corporate governance.

6.5. Disclosure and Transparency

Question 16 elicited respondents' views about the aspects of information that companies should disclose and their assessment of the level of commitment to disclosure by Saudi companies. Groups M and N were asked about their own companies' disclosure practices.

Respondents generally agreed that Saudi companies should disclose all nine elements identified in question 16.1, although there was stronger agreement on the importance of disclosing the financial and operating results of the company (mean = 4.74), company objectives (4.53), future plans (4.53) and major share ownership and voting rights (4.50) than other information. K-W test results show significant differences among the groups in their answers to 7 out of 9 elements, especially between group R and company officers as represented by groups M and N. Group R felt most strongly that companies should disclose all nine elements, whereas company respondents (groups M and N) were the groups least strongly in support of disclosure and transparency. This result signifies the different perceptions that regulators and companies have about what information should be disclosed. And, apart from the financial and operating results of the company, companies are still conservative about disclosing other information in relation to companies and think that stakeholders should not know about them.

Table 6.17 Disclosure and Transparency

Panel A: Questions

Statement	Companies should disclose (Q16.1)			Companies actually disclose (Q16.2)			My company discloses (Q16.3)		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	N	Mean	Std. Deviation
a. The financial and operating results of the company	175	4.74	.71	173	3.84	.97	37	4.48	.60
b. Company objectives	174	4.53	.85	172	3.31	1.01	37	4.13	.78
c. Company future plans	175	4.53	.84	173	2.79	1.01	37	3.67	1.02
d. Major share ownership and voting rights	173	4.50	.95	171	2.57	1.13	37	3.24	1.32
e. Related party transactions	175	4.34	.95	171	2.59	1.06	36	3.44	1.18
f. Foreseeable risk factors	174	4.33	.94	170	2.28	.99	37	2.89	1.24
g. Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented	175	4.32	.91	171	2.35	.98	36	3.00	1.04
h. Remuneration, qualifications, selection, other directorships and independence	175	4.16	1.08	172	2.36	.99	37	2.97	1.14
i. Issues regarding employees and other stakeholders	175	4.00	1.14	171	2.18	.99	37	2.72	1.14

Note: Cronbach's Alpha Test for Q16.1 = 0.91, Q16.2 = 0.88 and Q16.3 = 0.94. Panel A of Table 6.17 shows the number of respondents, the means and standards deviations for Q16.1, Q16.2 and Q16.3.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					K-W P-values	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q16.1a	4.53	4.92	4.77	4.94	4.77	.04	.03	.03	.03	.32	.52	.75	.34	.39	.62	.25
Q16.1b	4.43	4.80	4.55	4.57	4.33	.15	.07	.35	.74	.33	.26	.19	.01	.70	.08	.27
Q16.1c	4.46	4.73	4.67	4.31	4.22	.07	.19	.13	.56	.21	.86	.12	.03	.10	.01	.67
Q16.1d	4.45	4.76	4.73	3.94	4.11	.01	.14	.02	.21	.30	.74	.03	.04	.00	.00	.81
Q16.1e	4.33	4.76	4.36	4.10	4.00	.01	.02	.57	.23	.09	.08	.00	.00	.12	.04	.68
Q16.1f	4.31	4.88	4.31	4.10	3.88	.00	.00	.81	.21	.10	.00	.00	.00	.14	.07	.72
Q16.1g	4.24	4.80	4.46	3.94	3.83	.00	.00	.19	.20	.19	.03	.00	.00	.02	.02	.89
Q16.1h	4.37	4.69	4.24	3.21	3.50	.00	.03	.99	.00	.00	.05	.00	.00	.00	.00	.46
Q16.1i	4.16	4.50	3.89	3.52	3.61	.02	.14	.47	.02	.06	.06	.00	.00	.16	.28	.83
Q16.2a	3.37	4.57	3.82	4.26	3.88	.00	.00	.01	.00	.05	.00	.10	.00	.08	.97	.13
Q16.2b	3.07	4.11	3.16	3.31	3.38	.00	.00	.56	.34	.12	.00	.00	.00	.72	.41	.46
Q16.2c	2.62	3.00	2.69	2.78	3.27	.05	.19	.76	.72	.00	.30	.51	.28	.85	.01	.02
Q16.2d	2.43	2.50	2.60	2.47	3.11	.27	.90	.56	.78	.02	.74	.83	.08	.64	.11	.07
Q16.2e	2.42	2.96	2.36	2.88	3.00	.02	.10	.81	.12	.00	.07	.88	.70	.10	.01	.43
Q16.2f	2.22	2.42	2.09	2.38	2.77	.06	.52	.29	.55	.01	.15	.99	.13	.24	.00	.21
Q16.2g	2.50	2.30	2.03	2.61	2.66	.02	.34	.01	.54	.39	.34	.18	.16	.01	.01	.77
Q16.2h	2.46	2.26	2.16	2.26	2.94	.01	.25	.04	.38	.01	.56	.90	.00	.52	.00	.01
Q16.2i	2.27	2.26	2.83	2.44	2.55	.01	.73	.01	.48	.18	.11	.36	.26	.00	.00	.52

Note: Panel B of Table 6.16 shows the group means, p-values for the K-W and M-W tests for Q16.1 and Q16.2. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

In contrast to the general support for disclosure and transparency, the survey indicates widespread dissatisfaction with companies' actual practices in this area, and disagreed that disclosure and transparency were occurring with respect to 7 out of 9 elements. In Table 6.17, K-W tests show 7 significant differences among the respondents groups, the most significant ones, according to the M-W test, being between group M and both groups O and I. The former believed more strongly that their companies complied with the requirements for disclosure and transparency. It is somewhat surprising that group R agreed the most that Saudi companies are disclosing the financial and operating results (4.570) and company objectives (4.11) even more so than the company respondents themselves. However, a p-value of (.01) of M-W test reveals very significant differences between groups M and N with regard to companies disclosure about remuneration, qualifications, selection, other directorships and independence, and suggests that group N are dissatisfied with companies disclosure about these issues. This result shows the variance among company directors' viewpoints in relation to disclosing enough information about themselves, which supports some interviewees views that there is a lack of information about directors in Saudi companies.

In respect to disclosure and transparency practices in their own companies, groups M and N indicated that, while there was disclosure of financial and operating results (mean = 4.48), company objectives (4.13), future plans (3.67), transactions with related parties (3.44), and major share ownership and voting rights (3.24), the remaining elements are less well disclosed, since the respondents agreed to only a minor extent that their own companies actually disclosed them.

6.6 Stakeholders

This section focuses on companies' stakeholders indicating the perception of the respondents in relation the accountability relationship between companies and their stakeholders and shows the ownership structure in Saudi companies and the rights of stakeholders and shareholders.

6.6.1 Stakeholders and Accountability

Question 17.1 sought the respondents' views of which groups of stakeholders have accountability relationships with Saudi companies, and Q17.2 which stakeholders should have representation on the board. Table 6.18 shows that respondents strongly agreed that there was an accountability relationship between a company and its shareholders, with a mean of 4.27, and also with other stakeholders (environmental groups, the regulatory and monitoring bodies, the government, customers, the community, auditors, financial consultants and analysts, lenders, suppliers and employees) apart from academics. Table 6.18 (Panel A) shows that all respondent groups agreed strongly that there was an accountability relationship between a company and its shareholders, and group R, believed that there was such a relationship with the government, the regulatory and monitoring bodies, employees, the community, auditors and lenders. The K-W and M-W tests indicate that there were no significant differences between respondent groups in respect of the accountability relationship between a company and its shareholders, but there were many significant differences between the five groups about accountability to all other stakeholder parties, the major differences were between group N and groups O and R and between groups R and M. In response to which stakeholder groups should be represented on company boards, respondents again agreed that only shareholders should have seats, with an overall mean of 4.39. Other stakeholders were not considered to have any right to be represented on boards. Moreover, K-W and M-W test outcomes show that there were no significant differences between the respondent groups in respect of the representation rights of shareholders. On the other hand, K-W tests demonstrate significant differences between respondents group in their answers with reference to other stakeholders parties, and M-W tests show that the most important differences were between groups N and I (13 times), N and O (12 times), N and R (11 times) N and M (7 times). These differences are a consequence of the strong belief among group N that no stakeholders, other than shareholders, have a right to sit on the board. This was an unexpected result since the non-executive directors, especially independent directors, should represent stakeholder parties who are not on the board but surprisingly they thought these parties do not have any right to be represented on the board.

Table 6.18 Stakeholders
Panel A: Questions

Statement	There is an accountability relationship between a company and: (Q17.1)			These stakeholders should have a representative on the board (Q17.2)		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation
a. Shareholders	174	4.27	1.02	174	4.39	1.07
b. Regulatory and monitoring bodies	173	3.79	1.18	174	2.59	3.44
c. The government	175	3.72	1.16	174	2.18	1.35
d. Lenders	174	3.67	1.18	175	2.11	1.21
e. Employees	174	3.67	1.27	176	2.42	1.35
f. Auditors	175	3.57	1.23	174	2.10	1.34
g. Customers	175	3.52	1.31	175	1.96	1.22
h. Suppliers	175	3.50	1.27	174	1.82	1.07
i. Community	174	3.48	1.30	174	2.19	1.31
j. Financial consultants and analysts	175	3.38	1.24	174	2.16	1.27
k. Environmental groups	175	3.15	1.30	175	1.94	1.16
l. Media	176	3.14	1.26	175	1.74	1.09
m. Academics	176	2.94	1.25	175	1.83	1.13

Note: Cronbach's Alpha Test for Q17.1 = 0.94 and Q17.2 = 0.88. Panel A of Table 6.18 shows the number of respondents, the means and standards deviations for Q17.1 and Q17.2.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					K-W P-values	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q17.1a	4.17	4.30	4.25	4.42	4.42	.94	.92	.84	.41	.66	.94	.53	.73	.50	.75	.78
Q17.1b	3.77	4.30	3.71	3.63	3.52	.08	.04	.90	.61	.25	.04	.03	.00	.69	.31	.64
Q17.1c	3.86	4.34	3.68	2.89	3.36	.00	.06	.61	.00	.07	.04	.00	.00	.01	.22	.12
Q17.1d	3.86	4.03	3.56	3.16	3.47	.04	.70	.35	.00	.10	.23	.00	.08	.10	.51	.36
Q17.1e	3.98	4.11	3.56	2.94	3.31	.00	.74	.11	.00	.02	.10	.00	.02	.07	.35	.39
Q17.1f	3.77	4.07	3.58	2.73	3.15	.00	.30	.43	.00	.01	.10	.00	.00	.01	.14	.26
Q17.1g	3.92	3.88	3.31	3.05	3.05	.00	.64	.05	.00	.00	.18	.01	.02	.34	.36	.92
Q17.1h	3.67	3.88	3.43	2.94	3.31	.08	.57	.44	.01	.14	.23	.01	.07	.13	.52	.39
Q17.1i	3.76	4.07	3.34	2.73	3.10	.00	.43	.13	.00	.02	.03	.00	.00	.07	.36	.27
Q17.1j	3.66	3.42	3.44	2.78	3.00	.03	.37	.55	.01	.01	.75	.09	.11	.05	.09	.71
Q17.1k	3.22	3.92	2.91	2.52	3.26	.00	.02	.24	.05	.97	.00	.00	.03	.29	.36	.68
Q17.1l	3.38	3.61	3.05	2.31	2.94	.00	.56	.14	.00	.15	.00	.00	.07	.03	.81	.09
Q17.1m	3.37	3.00	2.79	2.31	2.78	.02	.21	.02	.00	.07	.50	.07	.65	.19	.89	.10

Note: Panel B of Table 6.18 shows the group means, p-values for the K-W and M-W tests for Q17.1. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

Panel C: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					K-W P-values	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q17.2i	4.50	4.38	4.15	4.73	4.47	.42	.68	.32	.24	.65	.67	.17	.95	.08	.72	.17
Q17.2d	3.16	2.61	2.53	1.31	1.78	.00	.83	.78	.00	.92	.88	.00	.64	.00	.76	.00
Q17.2e	2.09	2.42	2.49	1.21	2.21	.00	.49	.16	.00	.60	.75	.00	.70	.00	.50	.00
Q17.2k	2.42	2.30	2.10	1.31	1.78	.00	.73	.18	.00	.05	.49	.00	.15	.00	.27	.08
Q17.2m	2.74	2.80	2.56	1.21	1.78	.00	.84	.51	.00	.01	.47	.00	.01	.00	.02	.01
Q17.2h	2.40	2.43	2.12	1.15	1.68	.00	.95	.27	.00	.06	.43	.00	.13	.00	.29	.00
Q17.2f	2.38	1.84	2.01	1.05	1.63	.00	.09	.14	.00	.03	.61	.00	.50	.00	.24	.01
Q17.2l	2.07	1.84	1.89	1.05	1.63	.00	.57	.42	.00	.14	.91	.00	.35	.00	.36	.01
Q17.2g	2.62	2.34	2.12	1.52	1.68	.01	.43	.07	.00	.01	.53	.03	.11	.04	.19	.43
Q17.2j	2.11	2.30	2.50	1.31	1.94	.00	.49	.14	.00	.56	.57	.00	.31	.00	.11	.07
Q17.2c	2.12	2.34	1.85	1.31	1.78	.02	.61	.18	.00	.34	.14	.00	.24	.03	.92	.04
Q17.2a	1.96	1.65	1.85	1.05	1.57	.00	.29	.60	.00	.15	.52	.00	.62	.00	.26	.03
Q17.2b	2.22	1.53	1.89	1.26	1.52	.01	.03	.28	.00	.04	.16	.26	.85	.01	.15	.39

Note: Panel B of Table 6.18 shows the group means, p-values for the K-W and M-W tests for Q17.2. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

6.6.2 Ownership Structure

Q18 asked group M and N about the ownership structure of their companies and to specify the proportion of shares held by major shareholders and whether these shareholders had representatives on the board. Table 6.19 presents the proportions of ownership given by 30 respondents t o six major categories of shareholders in their companies. The results show that individual private investors (who are often in reality a part of a business family but sometimes some famous investors are considered as individuals), family members and the government are the most common shareholders types. Apart from one respondent who stated that fund managers owned more that 10% of her/his company shares, no shareholder has more than 10% of a company's shares other than the three major shareholders mentioned above. Institutional investors, such as fund managers, social insurance funds and pension funds, were all reported to have less than 10% of companies' shares.

Table 6.19 The Proportions of Ownership of Major Shareholders and their Representations on the Boards

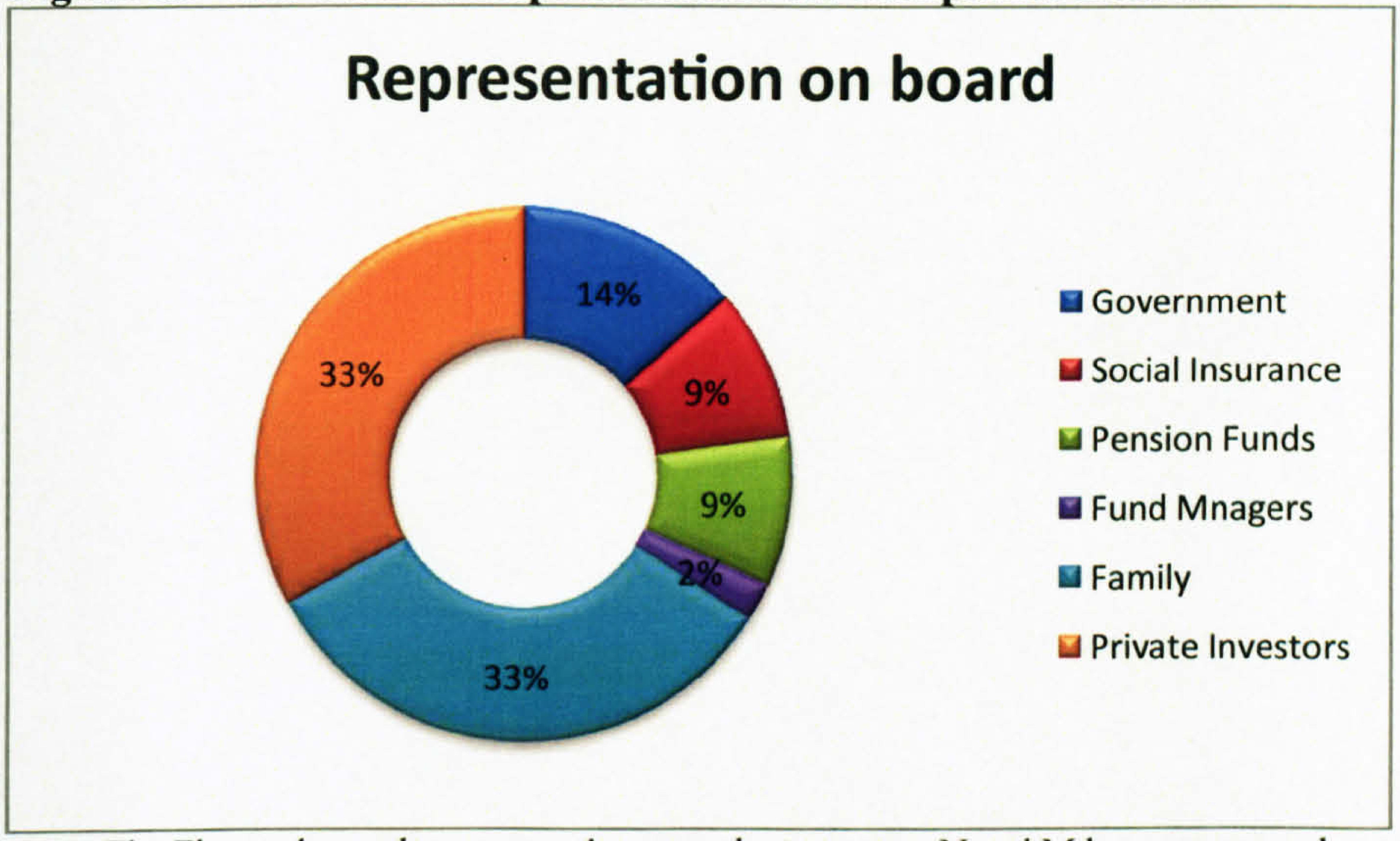
	Government Public Investment Fund		Social Insurance		Pension Funds		Fund Managers		Family Members		Individual Private Investors	
Ownership proportion	Freq.	Percent	Freq.	Percent	Freq.	Percent	Freq.	Percent	Freq.	Percent	Freq.	Percent
<%10	10	67%	11	100%	10	100%	15	94%	5	20%	6	20%
11%<%30	4	26%	0	0%	0	0%	1	6%	12	48%	19	64%
31%<%50	0	0%	0	0%	0	0%	0	0%	6	24%	4	13%
>50%	1	7%	0	0%	0	0%	0	0%	2	8%	1	3%
N=30	15		11		10		16		25		30	
Do they have representatives on the board?												
Yes	12	35%	8	23%	8	23%	2	6%	29	85%	29	85%
No	22	65%	26	77%	26	77%	32	94%	5	15%	5	15%
N=34												

Note: The Table shows the respondent of groups N and M regarding the percentages that each catogries of major shareholders own in their companies and whether they have representative on the board or not.

The results show that individual private investors and family shareholders own between 11% and 30% of the companies shares, and they rarely own more than a half of a company's shares. Unexpectedly, the government seems to own more than 10% of companies; it has between 11% and 30% ownership in four companies and in one company was the major shareholder. These results point out that there is a concentrated ownership structure among Saudi companies since major investors have substantial shares blocks.

Question 18.2 asked respondents whether the major shareholders in their companies had representatives on the board; 34 companies responded as shown in the bottom of Table 6.19. As expected the results show that individual private and family members were the investors most likely to have directorships, as 85% of the respondents declared that these two groups had seats on their companies' boards. Approximately one third of respondents stated that government investors had such representatives, while less than a quarter (23%) said that institutional investors of social insurance and pension funds did so. Interestingly, fund managers were said by two respondents to have representatives on their board, although regulations do not allow them to sit on Saudi companies' boards, because, in Saudi fund managers belong to banks; so it may be that the respondents believe these board members represent fund managers but in reality represent other shareholders. Figure 6.9 provides a model of how Saudi companies' boards of directors are structured by gathering the company respondents' answers about the representatives on their companies' boards. The figure shows that individual private and family investors equally dominate two thirds of boards whereas other major shareholders represent one third. This third contains 14% of government investors and 9% for each of social insurance and pension funds investors.

Figure 6.9 The Owners Representation on Companies Boards



Note: The Figure shows the company's respondents, groups N and M been answers about which of their own companies owners have representatives on the board.

6.6.3 The Roles and Rights of Shareholders and Stakeholders

The purpose of Q19 was to provide a wider understanding of the roles of shareholders and stakeholders in Saudi companies by asking the participants to express their views on 10 statements addressing some important issues related to shareholders and stakeholders. Q19(a) asked all respondents whether it was common for Saudi companies to have major shareholders. The results in Table 6.20 show that Saudi companies tend to have major shareholders, with an overall mean score of 4.30 (standard deviation = .94), and all five stakeholder groups agreed with the existence of major shareholdings in listed companies. This result confirms the previous results about ownership structure in their own companies and that there is a concentrated ownership structure in Saudi companies.

Respondents also agreed, in response to Q19(b), that major shareholders had control and a direct influence over companies' activities, with an overall mean of 4.18. The strongest agreement came from group R (4.57), whereas the weakest was that of group M (mean = 3.63). Consistent with these results, M-W tests suggested that the responses of group M were significantly different from those of groups R and I.

In response to Q19(c), respondents agreed (mean = 4.01) that ownership structure affected corporate governance practices and again M agreed less strongly (3.68). As a response to Q19(e) and (h), despite the fact that respondents have a neutral attitude regarding the protection of shareholders' interests, including minority shareholders, under Saudi law, with an overall mean of 3.27; they were unhappy with the current practice of shareholder protection in the Saudi business environment. Interestingly, the results show there are differences between insider and outsider directors in relation to the protection of shareholders rights by Saudi companies, group N with a mean of (2.68) disagreed with the adequacy of shareholder protection in Saudi companies, whereas group M had a mean of (3.21).

The survey indicates that there is inequitable treatment of shareholders by Saudi companies (mean = 2.60). Group means show significant differences between the two groups of company respondents: group M, with a mean of 3.33, supported to some extent the proposition that companies treat all types of shareholders equitably, while group N (2.57) had a different perception, believing on balance that companies distinguish between their different categories of shareholders.

However, these results draw attention to the fact that there is a perception inadequate of protection of shareholders rights and inequitable treatment of shareholders by Sau di companies and, arguably, more effort is required to be done in laws regulating, supervising and monitoring the protection and equitable treatment of shareholders including minorities.

Question 19(d) focused on the role that an accumulative voting system plays in enabling minority shareholders to appoint representatives on company boards. The participants appeared to be supportive of such a procedure to assist shareholders in placing their representatives in the boardroom, as they agreed to some extent with statement 19(d), with a mean of 3.73. Group R were the stakeholder group who believed most strongly in the importance of an accumulative voting system to support the rights of minority shareholders to be represented on the board, as seen by a group mean of 3.96, whereas group M were least likely to consider this voting system as an efficient tool for minority shareholders to affect decision-making (mean = 3.47). The unfamiliarity and lack of awareness of the nature and role of such a voting system was also found when doing the interviews, and could be an explanation for only weak agreement by the respondents and may indicate the need for more enlightenment in this area.

The participants were neutral about the extent to which institutional investors exercised their ownership rights (mean = 3.00). Groups means in Table 6.20 show that group N are the most to disagree that institutional shareholders are fulfilling their roles and see them as not exercising their ownership rights. Although the rest of the stakeholders had a different attitude from group N and agreed more readily that institutional investors

Table 6.20 The Roles and Rights of Shareholders and Stakeholders

Panel A: Questions

Statement	N	Mean	Std. Deviation
a. It is common for Saudi companies to have major shareholders	175	4.30	.94
b. Major shareholders control and have a direct influence over companies' activities	174	4.18	.97
c. The ownership structure affects companies' corporate governance practices	174	4.01	.99
d. An accumulative voting system would assist minority shareholders to choose their representatives on the board	174	3.73	1.28
e. The rights of shareholders including minority shareholders are adequately protected by law	174	3.27	1.08
f. Institutional investors exercise their ownership rights	175	3.00	1.14
g. Saudi companies respect the rights of stakeholders that are established by law or through mutual agreements	173	3.00	.89
h. The rights of shareholders including minority shareholders are adequately protected in practice	174	2.80	1.00
i. Saudi companies treat all shareholders equitably	173	2.60	.98
j. Saudi companies provide equal, timely and cost-efficient access to relevant information for all stakeholders	175	2.56	.98
k. Saudi companies enable stakeholders to communicate freely to the board their concerns about illegal or unethical practices	175	2.51	.96

Note: Cronbach's Alpha Test = .074 for Q19. Panel A of Table 6.20 shows the number of respondents, the means and standards deviations for Q19

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					K-W P-values	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q19a	4.00	4.73	4.44	4.26	4.15	.01	.00	.02	.44	.46	.08	.03	.05	.36	.46	.96
Q19b	4.00	4.57	4.31	4.31	3.63	.05	.02	.23	.42	.30	.11	.21	.01	.94	.04	.11
Q19c	3.98	4.11	4.08	4.10	3.68	.47	.77	.62	.52	.22	.86	.64	.14	.67	.08	.12
Q19d	3.71	3.96	3.71	3.78	3.47	.56	.31	.91	.53	.39	.41	.82	.08	.70	.32	.15
Q19e	3.07	3.61	3.01	3.57	3.84	.00	.01	.92	.03	.00	.02	.85	.44	.05	.00	.36
Q19f	2.75	3.30	3.18	2.42	3.31	.02	.06	.04	.31	.06	.62	.03	.89	.01	.74	.02
Q19g	2.63	3.34	3.08	2.94	3.36	.00	.00	.00	.10	.00	.15	.06	.84	.56	.27	.12
Q19h	2.86	3.03	2.55	2.68	3.21	.08	.52	.07	.67	.27	.05	.33	.66	.29	.01	.18
Q19 i	2.50	2.96	2.29	2.57	3.33	.00	.04	.19	.48	.00	.00	.23	.32	.15	.00	.03
Q19j	2.33	2.69	2.51	2.47	3.21	.01	.14	.31	.41	.00	.43	.43	.19	.96	.00	.01
Q19k	2.33	2.57	2.48	2.42	3.10	.03	.41	.41	.56	.00	.77	.72	.12	.91	.01	.01

Note: Panel B of Table 6.20 shows the group means, p-values for the K-W and M-W tests for Q19. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

exercised their ownership rights, group N viewpoint is, arguably, particularly important due to that fact their position enables them to judge and evaluate institutional investors' engagement. In Q19(g) the respondents were asked to express the extent of their agreement with the proposition that Saudi companies respect the rights of stakeholders as established by law or through mutual agreements. The overall mean of 3.00 indicates that they expressed limited agreement on this point. M-W test results show that there were significant differences in answers between group O, who thought that companies did not respect their rights, and groups R, I and M. Furthermore, low mean scores of 2.56 and 2.51 respectively for statements 19(j) and (k) reflect a belief that Saudi companies do not adequately provide equal, timely and cost-efficient access to relevant information for all stakeholders and do not adequately enable stakeholders to communicate freely to the board their concerns about illegal or unethical practices. Group means reveal that the only group that had a different opinion were M. However, the results obtained from Q19 (g, j, and k), which focused on the stakeholders rights and the facilities that Saudi companies provide them, gives an impression that stakeholders rights are not considered as an essential issue among Saudi companies and it seems that it is very difficult for stakeholders to practice their rights as they do not have appropriate facilities which would enable them to look after their interests in the companies.

6.7 Accountability Framework in the Saudi Business Environment

Stakeholders' perceptions in relation to accountability and the Islamic accountability framework and their practices in the Saudi business environment were addressed next in the survey.

6.7.1 Accountability

Respondents' views on accountability issues in the Saudi business environment were addressed by Q20. Table 6.21 suggests that the respondents had low agreement that accountability was generally practiced in Saudi society (mean = 2.30), and this dissatisfaction applied across all stakeholders groups (Table 6.21). Furthermore, the participants had low agreement that accountability was practiced in the Saudi business environment (mean = 2.61) and that companies, boards and managers are accountable for their actions. All stakeholder groups were less than enthusiastic about the level of accountability practiced by Saudi companies although, surprisingly, group N felt most strongly that accountability was poor in Saudi companies (2.10), whereas group R, with a mean of 2.80, were more positive that companies, boards and managers were accountable for their actions. Group R's attitude was also greater than group M themselves which can, perhaps, be explained that, although they are unhappy with the level of accountability practice in the Saudi business society, group R can see some improvements in relation to that. For example, a regulator interviewee stated that:

> "The awareness of board members has been improved. They know that membership is not honorary any more, that there are many huge responsibilities and that they should obtain the information which enables them to make decisions and have adequate time to deal with them, because they know that they are subject to accountability."

Additionally, in response to statement 20(c), concerning the accountability relationships between stakeholders and companies, respondents were unconvinced that stakeholders held companies to account (mean = 2.50). Although group N, agreed least strongly (mean = 2.10) whereas group M (2.89) were more neutral on whether stakeholders held companies to account. In relation to the extent of available accountability mechanisms in

Table 6.21 The Roles and Rights of Shareholders and Stakeholders

Panel A: Questions

Statement	N	Mean	Std. Deviation
a. Companies should adopt good corporate governance to discharge their accountability	175	4.17	.99
b. Companies, boards and managers are accountable for their acts	175	2.61	1.21
c. Stakeholders exercise their accountability relationships with companies	175	2.50	1.03
d. Accountability mechanisms are in place in companies	175	2.42	1.06
e. Accountability is practiced in Saudi society	175	2.30	.96

Note: Cronbach's Alpha Test = 0.71for Q20. Panel A of Table 6.21 shows the number of respondents, the means and standards deviations for Q20

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					K-W P-values	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q20a	3.71	4.10	4.41	4.47	4.42	.00	.06	.00	.00	.01	.19	.41	.36	.72	.92	.88
Q20b	2.62	2.80	2.63	2.10	2.73	.34	.58	.89	.08	.67	.51	.05	.92	.12	.60	.05
Q20c	2.52	2.34	2.56	2.10	2.89	.15	.54	.86	.16	.14	.43	.47	.05	.13	.17	.00
Q20d	2.35	2.30	2.46	2.21	2.89	.22	.82	.66	.64	.04	.56	.83	.04	.43	.10	.02
Q20e	2.43	2.50	2.17	2.05	2.36	.44	.70	.27	.22	.99	.16	.13	.77	.60	.34	.24

Note: Panel B of Table 6.21 shows the group means, p-values for the K-W and M-W tests for Q20. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other.

Saudi companies, Table 6.21 shows that the responses differed little from the other accountability questions: the stakeholders of this study did not think that there were accountability mechanisms in place in Saudi companies (mean of 2.42), although group M (mean of 2.89), were again less negative about the existence of accountability mechanisms in Saudi companies.

However, the participants agreed strongly that companies should adopt good corporate governance to discharge their accountability, since the overall mean of responses to statement 20(a) was 4.17 (standard deviation = 0.96). Although group O agreed less strongly (mean = 3.71), actual practice does not appear to accord with their wishes.

Overall, the results of Q20 show that accountability practices are generally absent in Saudi society and, accordingly, in the business environment. In such an environment, stakeholders do not practice their rights to bring companies, boards, and managers, to account and so be accountable for their actions. However, Saudi stakeholders strongly believe that good corporate governance practices would improve the accountability of companies to their stakeholders and help companies to discharge their responsibilities.

6.7.2 Islamic Accountability Framework

In order to examine the views of Saudi stakeholders about the Islamic conception of accountability and the extent of its application in Saudi companies, respondents were asked to rate their level of agreement with seven relevant statements in Question 21 of the questionnaire as shown in Table 6.22.

Table 6.22 shows that respondents strongly agreed with the seven statements of Q21.1, They believe that companies, their boards and managers are accountable for their actions according to the Islamic conception of accountability, they most agreed that companies, their boards and managers are accountable to Allah in the first place and then to shareholders and stakeholders according t o the Islamic conception of accountability. This result indicates clear support for the proposition that Saudi companies should be subject to all Islamic concepts of accountability and corporate governance.

Furthermore, the results indicate that respondents were strongly in favour of considering Sharia as appropriate to business: (mean of 4.29), and that Saudi companies should be subjected to Sharia in all their transactions. Additionally, there was agreement that companies should offer the opportunity for stakeholders to participate in making decisions according to the Islamic concept of *shura* (consultation) (mean = 3.96) and that they should provide the opportunity to stakeholders to ensure that all their interests in the company are protected according to the Islamic concept of *hisba* (mean = 4.02). Group mean values and the M-W test results in Table 6.22 show that group N recorded the lowest means for all seven statements and indicate the existence of significant differences between group N and other groups. These results show that they are more dubious about the other five statements.

Respondents appeared to believe that, in practice, Saudi companies do not fully obey *Sharia* in their all transactions and are far from applying the Islamic conception of accountability and conceptions of *Shura* and *Hisba.* The overall mean responses listed in Table 6.22 indicate that respondents strongly believe in *Sharia* and Islamic accountability, in addition to *Shura* and *Hisba,* but at the same time are not satisfied with the actual practices of Saudi companies in this regard. The comparison of group means in Table 6.22 confirms that group M agreed more strongly with the practice of Islamic accountability by their companies; this attitude caused some significant differences between group M and other groups, as can be seen from M-W tests results. This indicates that there is a gap between companies and stakeholders in relation to the practice of Islamic accountability where even companies practicing accountability do not connect such conceptions to an Islamic perspective.

Table 6.22 Islamic Accountability Framework

Panel A: Questions

Statement	Should be (21.1)			Actually are (21.2)		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation
a. Companies, their boards and managers are accountable to Allah according to the Islamic conception of accountability	175	4.49	.88	172	2.88	1.13
b. Companies, their boards and managers are accountable to shareholders according to the Islamic conception of accountability	175	4.41	.88	173	2.63	1.02
c. Companies, their boards and managers are accountable to stakeholders according to the Islamic conception of accountability	174	4.35	.90	172	2.65	.95
d. Companies, their boards and managers are accountable for their acts according to the Islamic conception of accountability	175	4.33	.97	173	2.52	.96
e. Companies are subject to Sharia in all their transactions	175	4.29	1.01	173	2.80	.95
f. Companies provide the opportunity to stakeholders to ensure that all their interests in the company are protected according to the Islamic concept of *Hisba*	174	4.02	1.17	171	2.42	.87
g. Companies offer the opportunity for stakeholders to participate in making decisions according to the Islamic concept of *Shura*	175	3.96	1.20	173	2.37	.89
Cronbach's Alpha	.928			.910		

Note: Cronbach's Alpha Test for Q21.1 = 0.93 and Q21.2 = 0.91. Panel A of Table 6.22 shows the number of respondents, the means and standards deviations for Q 21.1 and Q21.2.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q21.1	Group Means					K-W P-values	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q21.1a	4.41	4.76	4.56	4.10	4.52	.01	.08	.38	.03	.92	.26	.00	.10	.00	.46	.09
Q21.1b	4.39	4.53	4.48	4.10	4.42	.28	.40	.94	.09	.74	.43	.05	.36	.06	.67	.25
Q21.1c	4.46	4.30	4.41	3.89	4.36	.21	.67	.54	.01	.41	.96	.13	.79	.04	.72	.17
Q21.1d	4.26	4.46	4.46	3.89	4.42	.15	.30	.34	.11	.82	.75	.03	.49	.02	.64	.12
Q21.1e	4.28	4.50	4.37	3.68	4.42	.08	.31	.97	.03	.98	.28	.00	.40	.02	.94	.06
Q21.1f	4.26	3.80	4.15	3.50	3.78	.03	.26	.37	.00	.07	.47	.24	.71	.01	.23	.31
Q21.1g	4.22	3.96	3.89	3.57	3.84	.09	.57	.08	.01	.05	.57	.17	.38	.18	.61	.43

Note: Panel B of Table 6.22 shows the group means, p-values for the K-W and M-W tests for Q121.1. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other

Panel C: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q21.2	Group Means					K-W P-values	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q21.2a	2.56	3.00	2.91	3.05	3.42	.03	.14	.12	.04	.00	.79	.83	.21	.62	.09	.20
Q21.2b	2.49	2.76	2.50	2.68	3.21	.05	.26	.96	.32	.00	.30	.86	.11	.39	.01	.05
Q21.2c	2.48	2.53	2.58	2.73	3.42	.00	.79	.60	.22	.00	.85	.40	.00	.50	.00	.01
Q21.2d	2.47	2.46	2.37	2.68	3.05	.03	.90	.59	.10	.01	.64	.30	.05	.07	.00	.17
Q21.2e	2.90	2.53	2.67	2.94	3.10	.21	.20	.29	.71	.35	.67	.16	.05	.18	.05	.58
Q21.2f	2.43	2.23	2.34	2.44	2.89	.12	.39	.68	.89	.03	.64	.40	.00	.68	.02	.05
Q21.2g	2.45	2.23	2.25	2.31	2.78	.21	.39	.32	.72	.11	1.00	.70	.03	.72	.03	.10

Note: Panel B of Table 6.22 shows the group means, p-values for the K-W and M-W tests for Q21.1. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other

Question 22 was designed to establish whether there was any conflict between *Sharia* law and any corporate governance principles that could affect the practice of good corporate governance in an Islamic business environment such as that of Saudi Arabia. The results show that 98% of those who answered Q22 believe that Sharia does not conflict with good corporate governance principles. Some comments were made by the participants when they responded to this question, for example, an executive director who did not see any conflict between *Sharia* and corporate governance stated that:

> "A part of corporate governance principles is to protect shareholders' interests and to organize the relationship between the company's owners and board of directors which does not conflict with Islamic *Sharia*".

In addition to that, an independent company chairman agreed, but raised the question:

> "Are we, as a Muslim society, actually implementing *Sharia* principles, which call for honesty, integrity and good treatment?".

However, a CEO thought there was a conflict between *Sharia* and corporate governance principles and mentioned that:

> "The Saudi corporate governance code should be well prepared according to *Sharia* which is the country's constitution".

Surprisingly, the previous respondent thought that corporate governance principles conflicted with *Sharia* just because it had not been issued according to *Sharia*, not because the principles themselves were against *Sharia*. Furthermore, an investor respondent claimed that corporate governance principles do not seem to conflict with *Sharia*, but added that corporate governance principles should be confirmed by an authorized *Sharia* organisation and not be a matter only for regulatory bodies and companies' Sharia committees. These comments indicate that those who see a conflict between Sharia and corporate governance principles do not have any concern about the principles themselves but a desire that these principles are issued according to Islamic Sharia Law and approved by an authorized Sharia body.

6.8 Regulatory and Legal System

The next section of the questionnaire asked about general views of the adequacy and effectiveness of the regulatory and legal system in the Saudi business context and examined the extent to which it would assist in providing an appropriate environment for corporate governance and accountability practices. It also sought to elicit an evaluation of the compliance with laws and regulations by companies and t he various regulatory, supervision and monitoring bodies.

In Q23(b) respondents were asked to express their level of agreement with the statement that the laws and systems in Saudi Arabia are adequate, effective and provide an appropriate environment for corporate governance practices. Table 6.23 shows that the overall mean response was 2.87, indicating general low agreement with this statement and dissatisfaction with local laws and systems, and their ability to provide an appropriate atmosphere for the application of good corporate governance. Group means in Table 6.23 show that group N were the group most strongly in agreement with statement 23(b) (mean = 3.31) in addition to groups M (3.10) and R (3.07), whereas groups of O and I were least likely to trust the laws and systems to provide the required conditions for practicing good corporate governance, with respective means of 2.53 and 2.87. This indicates that those who are more involved in companies' laws and systems are slightly happier about their adequacy and effectiveness than those parties who are less involved.

Table 6.23 Regulatory and Legal System

Panel A: Questions

Statement	N	Mean	Std. Deviation
a. There is a need to establish a separate and independent body to look after corporate governance issues in Saudi Arabia	176	3.48	1.32
b. The laws and systems in Saudi Arabia are adequate, effective and provide an appropriate environment for corporate governance practices	176	2.87	1.05
c. Saudi companies comply with laws and regulations	176	2.84	.97
d. The laws and systems in Saudi Arabia are adequate, effective and provide an appropriate environment for accountability practices	176	2.69	1.03
e. The bodies regulating, supervising and monitoring corporate governance are efficient	176	2.45	1.01
f. The regulatory, supervisory and monitoring bodies work well together	176	2.43	1.26
g. The judiciary and the courts play a significant role in maintaining strong corporate governance practices	176	2.34	1.04

Note: Cronbach's Alpha Test = 0.79 for Q23. Panel A of Table 6.23 shows the number of respondents, the means and standards deviations for Q23

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q23	Group Means					K-W P-values	M-W P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q23a	3.12	3.15	3.70	4.05	3.73	.01	.99	.02	.00	.11	.06	.01	.10	.33	.65	.10
Q23b	2.53	3.07	2.87	3.31	3.10	.04	.05	.12	.00	.04	.44	.39	.80	.10	.33	.56
Q23c	2.46	2.88	3.01	3.26	2.94	.01	.03	.01	.00	.03	.81	.19	.71	.33	.95	.36
Q23d	2.46	2.96	2.65	2.94	2.89	.18	.06	.32	.08	.09	.25	.96	.96	.26	.30	.93
Q23e	2.35	2.96	2.36	2.21	2.57	.14	.04	.89	.60	.39	.03	.03	.26	.47	.41	.18
Q23f	2.55	2.73	2.36	1.89	2.42	.11	.24	.81	.06	.93	.12	.00	.31	.05	.76	.06
Q23g	2.42	2.34	2.39	1.78	2.52	.16	.73	.67	.02	.81	.88	.04	.66	.03	.62	.04

Note: Panel B of Table 6.23 shows the group means, p-values for the K-W and M-W tests for Q23. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other

The overall response to statement 23(d), with a mean of 2.69, shows that respondents in all groups had very limited agreement with the proposition that the laws and systems in place in Saudi Arabia are adequate, effective and provide an appropriate environment for accountability practices. There was also limited satisfaction among respondents with the role of the judiciary and the courts in maintaining good corporate governance practices (mean = 2.34). Group N had least agreement with the suggestion that the judiciary and the courts play a significant role in maintaining good corporate governance practices.

Respondents were asked in statement 23(e) to evaluate the bodies regulating, supervising and monitoring corporate governance; the overall mean response of 2.45 suggests that they did not consider these bodies to be effective. Furthermore, the respondents believed that the regulatory, supervisory and monitoring bodies did not coordinate well with each other (mean = 2.43).

However, in response to statement 23(a), participants agreed to some extent that there was a need to establish a separate and independent body to look after corporate governance issues in Saudi Arabia, with an overall mean of 3.48. Group N (mean = 4.05) were the only group who strongly believed in the significance of the role of such an independent body, and group R agreed least strongly. Some of the questionnaire respondents commented on the importance of establishing an independent body and they thought that such a body would be a good idea to encourage corporate governance practice in the local business environment. For example, a financial consultant stated in the questionnaire that:

> "Corporate governance is in its early stages of implementation in Saudi Arabia, therefore, this requires that an independent body take the responsibility of organising and setting corporate governance codes and

> regulations. This body should also require companies to adopt these codes and regulations"

Moreover, an institutional investor claimed that:

> "Such an independent body for corporate governance should monitor the companies' practices of corporate governance in order to activate the role of real corporate governance as what is implemented is actually not more than nominal and a visit to any AGM proves that"

In order to give a general perspective on the extent of adherence to laws and regulations by Saudi companies, respondents were asked to assess the extent of their agreement that Saudi companies comply with laws and regulations. The results shown in Table 6.23 indicate that there were very limited satisfaction with such compliance, (mean = 2.84). M-W tests show significant differences between group O, who felt least strongly that Saudi companies complied with laws and regulations (mean = 2.46) than all the other respondent groups. This gives an impression that the public thinks companies have only weak adherence with laws and regulations.

The results obtained from Q23 demonstrate that Saudi stakeholders, and even group R themselves, are not happy with the regulation, law and systems in the Saudi business environment and that the legal system does not provide the appropriate environment for the good practice of accountability and corporate governance. In addition to that, there is limited satisfaction related to the performance of regulatory and supervisory bodies as well as to companies' non-compliance with laws and regulations, all of which shows that there is a perception of a weak legal system in the Saudi business environment that directly affects the practice of good corporate governance. A possible explanation of why stakeholders do not agree strongly with the idea of establishing a separate and independent body to take care of corporate governance issues in Saudi Arabia may be that stakeholders think the problem is not only limited to corporate governance regulations but to the legal framework in Saudi Arabia in general and to the business legal framework more specifically.

6.9 Other Factors Influencing Corporate Governance in Saudi Arabia

This section investigates the impact of social, cultural, political, economic and other factors on the practice of corporate governance in Saudi Arabia. In response to statements 24(a) and 24(b), respondents agreed that social and cultural factors, such as favouritism, family ties and tribalism, have a direct impact on corporate governance practices in Saudi Arabia, with respective means of 4.03 and 4.00. They also agreed that corruption, politics and the economic situation in Saudi Arabia all have an impact on corporate governance practices. Group means in Table 6.24 indicate that group N believe strongly that social, cultural, political and economic factors, as well as corruption, have an impact on the practice of corporate governance in Saudi business, whereas group M thought less about the impact of these factors. This shows that outsider directors are more concerned about the impact of these factors over companies' practices.

However, some questionnaire respondents commented on the impact of the political situation over the practice of corporate governance in Saudi Arabia. For example, a non-executive company chairman drew attention to a crucial issue when he stated in the questionnaire that:

> "Corporate governance can not be effective without equality treatment for all parties and implementing the decision of the Council of Ministers which disallows the ministers and senior officers in the government for chair or being a member of boards of directors of joint-stocks companies".

A company manger (without giving any further details) notes that:

> "The presence on boards or enforcement of partnership of some of the royal family memberships should be considered as an influential factor over corporate governance practices in Saudi Arabia".

In the same context, an academic argued in the questionnaire that:

> "Corporate governance should be effective and implemented in reality, without any exception, and regardless of who are the companies chairmen".

In relation to the corruption factor, a company non-executive chairman mentioned that:

> "Good practice of corporate governance in Saudi will take time, till then; the most important issue for shareholders is to ensure that their companies' decisions are free of corruption".

Some participants talked in the questionnaire about economic factors such as the weak level of investment knowledge in Saudi Arabia and considered it as an obstacle facing good corporate governance practice, for example, a fund manger argued that:

> "The investment knowledge is absent among the minorities of shareholders, more work should be done to make them aware of their rights".

Furthermore, the auditing and accounting professions in Saudi Arabia seem to exert some influence on corporate governance practices, as the respondents showed reasonable agreement wit h this (mean of 3.84). However, they were less sure that the cost of corporate governance affected the practice of corporate governance in Saudi Arabia: the overall mean was 3.14.

The most interesting results were found by the M-W tests in relation to the two previous factors where there was a very significant difference between groups R and M in response to the impact of the auditing and accounting professions on corporate governance practices; group R, that includes auditor respondents, strongly believe the profession is important while group M only agree to some extent.

Table 6.24 Factors Influencing Corporate Governance in Saudi Arabia

Panel A: Questions

Q24	N	Mean	Std. Deviation
a. Cultural factors such as: favouritism, family ties and tribalism, have a direct impact on corporate governance practices in Saudi Arabia	176	4.03	.93
b. Social factors have a direct impact on corporate governance practices in Saudi Arabia	176	4.00	.95
c. Corruption in Saudi Arabia has an influence on corporate governance practices	175	3.92	1.05
d. The auditing and accounting profession in Saudi Arabia influences corporate governance practices	176	3.84	1.07
e. The political situation in Saudi Arabia impacts on corporate governance practices	176	3.83	1.07
f. The economic situation in Saudi Arabia impacts on corporate governance practices	175	3.80	1.03
g. The cost of corporate governance affects the practice of corporate governance in Saudi Arabia	176	3.14	1.28

Note: Cronbach's Alpha Test = 0.84 for Q24. Panel A of Table 6.24 shows the number of respondents, the means and standards deviations for Q24

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q24	Group Means					K-W P-	M-W P-values									
	O	R	I	N	M	values	O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q24a	4.01	4.34	3.91	4.47	3.63	.02	.16	.64	.08	.09	.08	.73	.00	.04	.19	.00
Q24b	4.12	4.19	3.77	4.47	3.63	.00	.57	.08	.20	.02	.06	.55	.01	.01	.42	.00
Q24c	3.96	3.73	3.89	4.44	3.63	.15	.44	.59	.12	.22	.67	.05	.69	.03	.34	.01
Q24d	3.92	4.11	3.77	3.89	3.36	.11	.39	.44	.93	.03	.13	.44	.00	.63	.11	.08
Q24e	3.96	3.69	3.70	4.52	3.36	.00	.56	.31	.02	.03	.85	.02	.23	.00	.17	.00
Q24f	3.77	4.07	3.63	4.15	3.63	.16	.19	.67	.15	.52	.07	.97	.06	.07	.70	.04
Q24g	3.27	2.92	3.25	3.10	2.73	.46	.47	.92	.77	.04	.36	.63	.62	.74	.10	.42

Note: Panel B of Table 6.24 shows the group means, p-values for the K-W and M-W tests for Q24. The K-W test shows whether there are many differences in the means of the response given by the groups for each question, while the M-W test shows which particular pairs of group means are significantly different from each other

Another interesting result is related to how the cost of corporate governance could affect corporate governance practices; group M do not consider the matter of cost when looking to corporate governance, whereas other stakeholders groups do.

6.10 Summary

To obtain a larger view of stakeholders about corporate governance in Saudi Arabia a questionnaire survey was conducted as the second research data collection method. Seven hundred and sixty questionnaires were distributed over different groups of stakeholders in Saudi Arabia between April and June 2008, with a response rate of 23%, 176 questionnaires returned.

The questionnaire results are generally very similar to the results obtained from interviews. The results indicate that participants tend to perceived corporate governance from a narrow principal-agent view and only secondly from a stakeholder perspective. The questionnaire respondents confirmed the importance of corporate governance for Saudi companies but they pointed out that there is an inadequate awareness of corporate governance in the country. Furthermore, they agreed only to some extent with the Arabic translations of the English term corporate governance, and they chose *Hawkama* as the most suitable Arabic term to refer to corporate governance.

The questionnaire findings reflect dissatisfaction among Saudi stakeholders about companies' current practices of corporate governance. However, although Saudi stakeholders are in favour and aware of boards of directors' responsibilities they are dissatisfied with the way these responsibilities are carried out by Saudi companies. They were also dissatisfied with the Saudi corporate governance code as well as with companies' compliance with the code. The results provide evidence that the processes of the selection of directors in Saudi companies are often ba sed on t wo factors, share ownership and personal relationships. The respondents thought that ownership and personal relationship factors are the major factors to influence directors' appointments in Saudi Arabia. The results show that stakeholders agree with the national code in relation to the proportion of independent NEDs as one third of the board, and Saudi companies seem to comply with this requirement. The respondents also agree with the code that five memberships should be the maximum number of board memberships that a person should have at any one time, the companies again seem to comply with this. On the other hand, the questionnaire respondents disagree with the code in relation to the size of the board, as the code requires companies to have between 3 and 11 members; the results suggest that there should be different sizes of board according to company size, but Saudi companies are complying with the national code of corporate governance in relation to board size. The respondents considered all board sub-committees as effective committees but they indicated that the audit and executive committees are the most common committees in Saudi companies.

Although the respondents supported an accountability relationship between a company and its stakeholders, they indicated that Saudi companies do not respect stakeholder's rights and do not enable them to practice their accountability relationships. The results suggest that there is a concentrated ownership structure in Saudi companies and the major shareholders are the government and families, and these major shareholders have control and a major influence over companies' activities and over the practices of corporate governance. The results show that although the participants have moderate agreement that the rights of shareholders, including minorities, are well protected in law they were dissatisfied with level of companies respecting these rights.

The questionnaire results show that Saudi stakeholders believe in accountability and that companies, boards and managers should be accountable for their actions and that good corporate governance practice will assist companies to discharge their accountability. The stakeholders were also in favour of the Islamic conception of accountability and thought that companies, boards and managers should be accountable for their actions to Allah, shareholders and stakeholders. On the other hand, Saudi stakeholders were dissatisfied with actual practice of accountability and Islamic accountability in society in general and in the business environment in particular.

The participants also indicated their dissatisfaction with legal system in Saudi and the business environment. The laws and systems in Saudi do not provide an appropriate environment for good practices of corporate governance and accountability. The results also indicate the direct impact that factors of social, cultural, political and economic have over the practice of corporate governance in Saudi. The findings of the questionnaire survey support the findings from the interviews. The next chapter present a general discussion and conclusion.

Chapter 7

Discussion and Conclusion

Chapter 7

Discussion and Conclusion

7.1 Introduction

This final chapter summarises and brings together the main areas covered in this thesis, it highlights the major findings from the empirical work and provides suggestions based on stakeholders' perceptions to improve corporate governance in Saudi Arabia. In addition it discusses the main limitations to the research, suggests future research avenues and presents the research contribution to knowledge and final concluding thoughts.

7.2 Summary of Research Project

The purpose of the current study was to determine the perception of corporate governance by stakeholders in Saudi Arabia. Consequently, the study set out to provide a general understanding of how Saudi stakeholders perceived corporate governance and their evaluation of current corporate governance practices by Saudi companies as well as the adequacy of the corporate governance framework. Saudi stakeholders' perceptions on accountability and their evaluation of practices of accountability in the Saudi business were also investigated.

The thesis consists of seven chapters. Chapter 1 gives a general introduction about the study's aims, the research questions and structure. In Chapter 2, the general corporate governance literature is reviewed including the literature of corporate governance in emerging markets. Chapter 2 also covers corporate governance in Saudi Arabia. It provides a general background about the country of study, including a range of issues in relation to Saudi politics, the social, economic and legal systems, the business environment and the accounting and auditing profession.

The research findings are interpreted according to an accountability theoretical framework and the Islamic theory of accountability as discussed in Chapter 3. Chapter 4 focuses on the research methodology and methods. An interpretive methodological approach has been adopted to provide an understanding of Saudi stakeholders' perceptions of corporate governance. Semi-structured interviews and a questionnaire survey are the two methods adopted to obtain the primary data of the study. In Saudi Arabia 22 stakeholders were interviewed, and 176 stakeholders participated in the questionnaire survey, these took place in two separate periods to investigate their view points on corporate governance. Chapters 5 and 6 contain an analysis of the results gathered from the interviews and the questionnaire survey respectively.

This section discusses the main findings generated from both pieces of empirical work, the interviews and questionnaire survey that were chosen to investigate the perspective of stakeholders about corporate governance and accountability in Saudi Arabia. Various stakeholder groups were asked to express their opinions about different issues related to corporate governance and accountability with the intention of exploring their consideration of these subjects. In particular, they were asked to state their opinions about the current practices of corporate governance and accountability in the local environment, and the Islamic conception of accountability was also considered.

This study addresses the following research questions:

1. *What is the understanding of the concept of corporate governance in Saudi Arabia and does this fit in with an accountability and stakeholder framework?*
2. *Do the current practices of corporate governance in Saudi Arabia reflect corporate accountability to stakeholders?*
3. *How adequate is the corporate governance framework in Saudi Arabia?*
4. *What is the understanding of accountability and its current practice in Saudi Arabia and does differ between different stakeholder groups?*

The following sections sum up the key findings of the study to answer the research questions and provide a general understanding of corporate governance and accountability in the Saudi business environment.

7.3 The Understanding of Corporate Governance in Saudi Arabia

The answer to the first research question provides a general understanding of how Saudi stakeholders consider corporate governance and includes issues such as the definition, importance, awareness, and translation of corporate governance a s well as board of directors, disclosure, transparency and stakeholders.

7.3.1 The Concept of Corporate Governance

There is a wide agreement amongst the interviewees that corporate governance is new in the Saudi business environment and that serious debate about corporate governance only started after the Saudi stock market crash in February 2006. It was thought that the dramatic, continual increase in companies' share prices over a long period before 2006 ensured that no one paid any attention to corporate governance until the collapse. In addition, there were no public scandals or collapses of any Saudi companies to alert shareholders to any corporate governance failings.

The questionnaire results provide evidence that, although there is no clear definition of corporate governance, stakeholders in Saudi Arabia generally have a very narrow conception of corporate governance as they consider Cadbury's definition of corporate governance, based on an agency perspective, as the appropriate definition. The system by which companies are directed and controlled, was the most accepted definition by the questionnaire respondents. Furthermore, interviewees also had a narrow standpoint by limiting their definition of corporate governance to the function of directing, and did not even consider the controlling of a company as a part of corporate governance. The stakeholder view received far less support than the Cadbury definition, by all the stakeholders groups. Except for NEDs (Group N), the other four groups saw corporate governance as an internal function of directing and controlling a company. The NEDs, who should look after the interests of the minority of shareholders and those unrepresented on the board, have a much wider view of corporate governance, consistent with their remit. However, the fact that most Saudi stakeholders have a narrow perception of corporate governance limits companies' accountability to a wide group of stakeholders. The accountability relationship regarding corporate governance appears to be just between company management and the board of directors; the managers are accountable to the board of directors and they discharge their accountability accordingly. The board of directors' accountability relationship with company shareholders and other stakeholders is not really recognised.

The findings from both the interviews and questionnaire survey show that stakeholders consider corporate governance as essential for Saudi companies and that the absence of such a system may lead to many problems for them. Saudi stakeholders think that good corporate governance is necessary for Saudi companies to assist them in: defining authorities and responsibilities; protecting shareholders' rights including minorities; protecting the company and increasing its trustworthiness; and strengthening the national economy.

However, the results find that stakeholders think that there is a lack of awareness about corporate governance and of its significance for Saudi society, and that such a perception is widely held across society, even by those who are closely involved with companies such as directors and investors. The researcher found this himself in his own observations when doing the interviews and administering the questionnaire. Many of those who refused to participate did so because of their lack of knowledge about corporate governance; they included a wide range of stakeholders including board members. It is worrying that even board members acknowledge that they know nothing about corporate governance. It has been recommended that monitoring, supervisory, and regulatory bodies should take responsibility for spreading an awareness of corporate governance and improving society's knowledge of its importance by setting up conferences, seminars and workshops and distributing publications that focus on corporate governance issues and practices. Furthermore, Saudi companies appear to suffer from a lack of sources of training programmes to improve their corporate governance practices. In addition, reference is made to the lack of academic courses that focus on corporate governance in Saudi universities. Again, this suggests a lack of accountability in Saudi Arabia.

One of the main findings of the research is that the Arabic translation of the English term "Corporate Governance" does not provide the same meaning as the English term. Moreover, there is a high possibility that the translation could cause misunderstanding or be misleading. The term "Corporate Governance" has only recently been translated into Arabic, and there are various translations in use in the Arabic literature and press. The study finds that the official term used by the CMA, "*Hawkama*", was chosen by stakeholders as the most appropriate Arabic term to refer to the English term of "Corporate Governance". So it can be suggested that by consistently only using *Hawkama* to refer to corporate governance, it will help in increasing the awareness of corporate governance and help communication and the consistency of understanding and hence improve accountability.

7.3.2 Boards of Directors

The interviewees specified factors that should be considered relating to the composition of the board of directors including: having experience in a company's field; being a specialist or having a background in economics, management, finance or auditing; being qualified; contributing to the variety of board members; having a good reputation; and having enough time to give to the company.

A major finding of this research is that Saudi stakeholders' views conflict with the Saudi corporate governance code in relation to the size of the board of directors, the research findings suggest that the size of a board of directors should relate to the size of a company. Respondents agreed that small companies should have a board of directors containing between 4 and 8 members, medium-sized companies' boards should have 6 to 10 members, whereas large companies should appoint 7 to 12 directors. This is in contrast to the code which recommends 3 members as the minimum and 11 as the maximum number of directors for all listed companies. The findings show a wide acknowledgement that companies are different in their size and that this should relate to the size of the board. One of the interviewees said that it would be difficult for some large companies to have a limit of 11 directors on the board as a company's business may be very complex and divergent, so there may be a need for more directors to cover all the company business tasks. He added that his company has had to accept the resignation of one of its directors to reduce the number of directors to 11 to comply with the code.

The findings indicate that there is an awareness among participant stakeholders about the importance of the role of independent NEDs on the board, to have the freedom to decide on company matters. The majority of the questionnaire respondents think that a company's board should contain one third of independent NEDs, which is consistent with the Saudi corporate governance code requirements. Interestingly, NEDs think that independent NEDs should be a half of the board. This may indicate their dissatisfaction with the current position of independent directors as only minorities on boards.

The responses also show that Saudi stakeholders agree that the maximum number of board memberships for anyone person should be five which is, again consistent, with the Saudi code. In relation to the meetings of boards of directors, on which the Saudi code is silent, the findings reveal that quarterly meetings of boards of directors would, in the view of respondents, be enough to fulfil their roles. The questionnaire respondents strongly agreed that boards of directors' authorities and responsibilities should be well defined and that board members should be aware of them. The respondents strongly agreed that boards of directors are responsible for the ten functions suggested in the questionnaire (see Table 6.14 Panel A); thus, stakeholders are expecting a lot from boards of directors in monitoring and supervising companies in order to discharge their responsibilities.

In regard to boards of directors' sub-committees, the audit committee was considered to be the most important committee. The findings also show that executive, remuneration, nomination, corporate governance, and risk committees are also very important, while social responsibility and *Sharia* c ommittees seem to be less important; this may be because there is little awareness of the nature and roles of these committees. The findings also indicate that Saudi stakeholders strongly agree that boards of directors should: apply high ethical standards; provide access to accurate, relevant and timely information to board members; ensure that board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and the shareholders; have appropriate standards to evaluate board business; separate the chairman and CEO roles; exercise objective independent judgement on corporate affairs; subject board members to orientation programmes to train and qualify them; and have an independent chairman. These results illustrate that stakeholders are aware of, and agree with boards of directors' authorities and responsibilities according to corporate governance principles to discharge their accountability.

7.3.3 Disclosure, Transparency and Stakeholders

The current study explores the perception of stakeholders about disclosure and transparency in the Saudi business environment. There is an obvious concern about the role of disclosure and transparency; the findings show that there is a real desire for more, and better, disclosure and transparency by companies. The elements most emphasised that companies should disclose and be transparent about are: the financial and operating results of the company; company objectives; company future plans; major share ownership and voting rights; related party transactions; foreseeable risk factors; governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented; remuneration, qualifications, selection, other directorships and independence; and issues regarding employees and other stakeholders.

The findings reveal that participants regard all those who affect, or are affected by, a company's actions as its stakeholders and a company should take into account the interests of all stakeholders. However, when digging deeper the respondents do not believe that stakeholders, other than shareholders, should have the right of board representation. This indicates that consideration is given to shareholders in the Saudi business environment and, although a company could affect other parties, it appears that shareholders are viewed as those who most affect and are affected by a company's actions; consequently they are viewed as the only ones to have the right to be represented on the board to look after their own interests.

The questionnaire respondents and interviewees agreed that an accumulative voting system would assist minority of shareholders to appoint representatives on the board. However, agreement was not unanimous amongst those surveyed and it may suggest that there is an inadequate awareness of the nature of the accumulative voting system, as the researcher observed while conducting the empirical work. Hence accountability seems to be severely restricted to only majority and powerful shareholders.

Overall, The answers to the first research question shows that Saudi stakeholders generally considered corporate governance from a narrow agency perspective which limited the accountability relationship to a limited groups of stakeholders, whoever, there was some consideration of a wide stakeholder perspective. In addition, although that corporate governance was considered as an important for Saudi companies it seem that there was an inadequate awareness of corporate governance in Saudi Arabia and that the Arabic translation of the English term seem to contribute to the lack of awareness since the findings indicate that these translations are misunderstanding or be misleading. The participants indicate well awareness about corporate governance issues in relation to board of directors, disclosure, transparency and stakeholders and that Saudi companies should improve their practices of these aspects of corporate governance to discharge their accountability.

7.4 Current Practices of Corporate Governance in Saudi Arabia

This section answers the second research question investigating the current practices of corporate governance in the Saudi business environment, the findings from both the interviews and the questionnaire gave general perceptions about how stakeholders regarded Saudi companies' practices of corporate governance. The findings show that, in general, Saudi companies started to pay attention to corporate governance issues just after the release of the corporate governance code by the CMA in November 2006. This was found to be the case even though there were at least two initiatives, recognised by Saudi companies, regarding corporate governance before this date. The findings indicate that there is a perception of inadequate compliance with corporate governance in Saudi business society; Saudi stakeholders are dissatisfied with the current poor practices of corporate governance by companies and there is no single Saudi company which is viewed as having appropriately adopted corporate governance principles. Nevertheless, some companies have started to consider corporate governance requirements and have issued their own codes resulting in many changes in order to comply with corporate governance requirements.

There are two main factors according to the participants in the research that influence Saudi companies' attitudes towards corporate governance are: the commitment of a company's chairman, owners, and board members; and a company's size and experience of dealing with corporate governance issues. The interviews illustrated that, although more efforts are needed to encourage better corporate governance practices, pressure at AGMs, and the CMA are increasing the pressure on companies to adopt good corporate governance systems; some interviewees think that it is just a matter of time before good corporate governance will occur in practice. The following subsections highlight the most important findings raised from the research in relation to the current state of corporate governance practice in Saudi Arabia.

7.4.1 Boards of Directors

The major factor that influences the process of appointing boards of directors in Saudi companies is personal relationships. The appointment of directors to Saudi companies is to a great extent, affected by personal relationships and favouritism. These relationships have, in the view of respondents, greater significance in the appointment of Saudi directors to companies' boards than experience, qualifications, financial or other specific knowledge, reputation, or having enough time to spend on company business. The findings indicate that personal relationships influence the process of selection of executive, non-executive and independent non-executive directors, although, independent non-executive directors appointments are not influenced so much by the ownership factor. Boards that are dominated by directors who come through personal relationship channels may, consequently, follow the interests of those who appoint them and be only accountable to them, ignoring other stakeholders. Further, their lack of knowledge, experience, and qualifications might make it difficult for them to achieve even their own interests. The interviewees indicate that, although appointments in family-owned and government-owned companies are influenced by ownership, personal relationships and favouritism, some of these companies are also concerned about appointing directors who are well-qualified and with relevant expertise for their companies' boards. The study finds that majority shareholders dominate the decision of selecting board members and there is no role for nomination committees. Moreover, as an accumulative voting system is not used, major shareholders can agree among themselves about the composition of the board. The researcher's personal observations from attending some companies' AGMs are consistent with this result.

This is however, a perception of a remarkable increase in the appointment of independent NEDs on companies' boards recently, at the same time as the overall number of executive directors has been reduced. The questionnaire respondents' results suggest that almost all of companies' boards contain at least one third of independent NEDs. This finding indicates that Saudi companies are generally in compliance with the Saudi corporate governance code in regard to the number of independent NEDs that boards of directors should contain, but interviewees drew attention to the reality of NEDs independence, as they were chosen according to personal relationships. For example, an institutional investor declared that:

> "There should be a revision of the conception of balance that appears in the corporate governance code, as the balance of power is much more important that the balance of numbers."

According to the responses, Saudi companies were also found to be in compliance with the requirements of the number of board memberships that a person have, which is not more than five boards at the same time, similarly, there was perception of compliance with requirements about the board of directors size, since all boards were between 7 and 11 directors. The results also show that the majority of companies' board meetings are convened quarterly, and fewer companies met only three times a year, which was consistent with stakeholders' perceptions that were mentioned above. Table 7.1 compares the Saudi corporate governance code with stakeholders' perceptions of the actual practices of Saudi companies in relation to: the size of the board of directors; board meetings; proportion of independent NEDs; and the number of directorships that a person can have at the same time.

Another important finding is that Saudi companies generally do not adhere to some crucial corporate governance practices. The participants claim that Saudi companies do not: separate the roles of chairman and CEO; have an independent chairman; subject board members to orientation programmes to train and qualify them; ensure that board members act on a fully informed basis, in good faith, with due diligence and care and act in the best interests of the company and the shareholders; apply high ethical standards;

exercise objective independent judgement on corporate affairs; have appropriate standards to evaluate board business; and provide access to accurate, relevant and timely information to board members.

Table 7.1 Comparison between the Saudi Code, Stakeholders Perspective and Companies Actual Practice

	Saudi Corporate Governance Code	*Stakeholders' perceptions of best practice*	*Companies' Actual Practice*
Size of board of directors	3 to 11 Members	4 to 9 (small company) 6 to 10 (midum-size company) 7 to 12 (large company)	Comply Between 7 and 11
Board of directors meetings	-	Quarterly	The majority meet quarterly
Proportion of independent NEDs	One third	One third	Comply
Boards memberships	Not more than 5	Not more than 5	Comply

Note: The Table compares between the Saudi corporate governance code and the questionnaire respondents perception of and the company's respondents about their own companies actual practices in relation to issues of board of directors size; meetings; independent NEDs; and number of directorships.

However, the company respondents who thought that Saudi companies failed to adopt good corporate governance practices, st ated that their own companies adopted t hese aspects of corporate governance, apart from having an independent chairman and subjecting their boards members to training programmes. Moreover, the results show that Saudi stakeholders are concerned about the inadequate situation of there being no definition of a board's authorities and responsibilities or of ensuring that board members are aware of them.

In relation to board sub-committees, audit and executive committees are viewed as being the most common in Saudi companies and that remuneration and nomination committees are the next most widely found. All board sub-committees were considered as effective in fulfilling their roles although the executive and audit committees were regarded as the most effective committees.

Overall, these findings suggest that personal relationships and favouritism have a major influence over the composition of board of directors' and activities in the Saudi companies, which mean that there is an accountability gap between these directors and a company's stakeholders.

7.4.2 Disclosure, Transparency and Stakeholders

The findings from the interviews and the questionnaire survey indicate that Saudi stakeholders are not happy with the disclosure and transparency of companies. The elements that companies inadequately disclosed most are: company future plans; major share ownership and voting rights; related party transactions; governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented; foreseeable risk factors; remuneration, qualifications, selection, other directorships and independence; and issues regarding employees and other stakeholders. However, the interviews indicate that, although they are dissatisfied with the companies' current disclosure and transparency, there are considerable improvements that have recently been made by CMA in promoting Saudi companies' disclosure and transparency.

The findings suggest that stakeholders' as distinct from shareholders are not considered when making decisions, and companies do not seem to respect the legal rights of stakeholders to an appropriate level. The participants believe that Saudi companies do not provide equal, timely and cost-efficient access to relevant information for all stakeholders. In addition to that, stakeholders are not able to communicate freely with the board about their concerns about any illegal or unethical practices.

The results also indicate that Saudi companies are viewed as having a concentrated ownership structure and are dominated by major shareholders such as family and government investors. These major shareholders have control and a direct influence over companies' activities, and over companies' corporate governance practices. Additionally, the findings indicate that the rights of shareholders, including minority shareholders are viewed as being inadequately protected in practice and Saudi companies do not treat all shareholders equitably.

In summary, answering the second research question indicates that although Saudi companies seem to be in compliance with some corporate governance features, they generally fail to comply with most corporate governance principles and have a poor corporate governance practices which means that Saudi companies are not discharging their accountability to stakeholders. Furthermore, directors in Saudi companies are generally appointed through relationships and are thus only accountable to the majority shareholders who appoint them. This indicates limited accountability of Saudi companies that do not consider a wider group of stakeholders' interests.

7.5 The Adequacy of the Corporate Governance Framework in Saudi Arabia

The third question in this research relates to the adequacy of the corporate governance framework in Saudi Arabia in order to assess how this framework would assist good corporate governance practices. The follow subsections present the key findings of the interviews and questionnaire survey to different aspects of the corporate governance framework.

7.5.1 Legal Systems

The laws and systems in Saudi are not viewed as adequate or effective and do not provide an appropriate environment for corporate governance and accountability practices. The participants argue that the judiciary and courts do not play any significant role in maintaining strong corporate governance practices. The issues that concern the interviewees about the legal system in Saudi are the unclear and uncertain laws and systems; as well as the performance of the judiciary and courts. There are characterised by long routine procedures and a dissatisfaction with judges' professional performance, the shortage of judges and, in particular, qualified judges in business matters. An interviewee stated that:

> "There is an undoubted risk around commercial activities and business transactions. It's impossible to speak about an obvious, systematic and clearly defined legal environment where the rights, duties and obligations are determined. We are still far from this status."

The findings show that there is a widely held view that there is little compliance with laws and regulations by Saudi companies, that there is an inadequate legal framework in Saudi society and that this has a direct and negative impact over the practice of good corporate governance and accountability.

7.5.2 Regulatory, Supervisory and Monitoring Bodies

The Ministry of Commerce and the Capital Market Authority are the two major bodies in charge of regulating, supervising and monitoring corporate governance in Saudi. These bodies are not viewed as efficient nor as fulfilling their roles, although the interviews show an appreciation for what the CMA has done to improve corporate governance practices. However, there is more dissatisfaction towards the Ministry of Commerce. Furthermore, the findings reveal that the regulatory, supervisory and monitoring bodies are not viewed as working well together and there are conflicts between them. These bodies are characterised as having a lack of professionalism and a lack of expertise. Consequently, the regulatory, supervisory and monitoring bodies in Saudi are not considered as providing an appropriate environment for the good practice of corporate governance and accountability. The findings suggest the need for establishing a new independent body to look after corporate governance issues in the Saudi business environment.

In relation to the Saudi corporate governance code, which was issued in November 2006 by the CMA, there is a general appreciation for the step of issuing the code and a general satisfaction among the interviewees but the questionnaire findings suggest that stakeholders are not satisfied with the code and do not see it as an adequate and effective. The interviews indicate that the code covers major corporate governance issues but the most important issue the code has raised is about an accumulative voting system. However, criticisms are that it is very general and lacks certainty and specification. Some interviewees see this as an advantage as the code just highlights the major corporate governance issues and lets companies themselves design their own corporate governance policies and procedures according to their companies' circumstances. Other criticisms mentioned are that the code came too late and should have started from other countries codes. Some interviewees stated that the code appeared weak and repetitive as some issues are already in company law. The code also does not define some significant issues such as: the independence of NEDs; the authority and responsibilities of the board of directors; and its accountability; its nomination requirements; its evaluation standards; methods of protecting against corruption; and disclosure and transparency. The interviewees also think that the CMA should get help from national and international sources.

The findings also show that Saudi companies generally are not viewed as being in compliance with the code, and suggest that the corporate governance code should be mandatory and that there should be penalties for non-compliant companies. However, although the results show there is a moderate familiarity among stakeholders with the national corporate governance code there is less familiarity with international developments in corporate governance.

These results show that even though the Saudi corporate governance code is not efficient in term of discharging companies' accountability, Saudi companies do not even comply with it. In summary, a lot of work still needs to be done in regulating the practice of corporate governance in order to discharge companies' accountability.

7.5.3 The Accounting and Auditing Profession

The findings suggest that there is a real concern about the accounting and auditing profession in Saudi Arabia and the direct impact this has over the practices of corporate governance a nd accountability. The issues of most concern to interviewees are: the weakness of the accounting and audit profession; no n appropriate professional care; competitive costs; and a distrust of the work of external auditors. The findings show that it is very important to improve the accounting and auditing profession in order to provide an appropriate environment for good corporate governance. Consequently regulations and standards are needed in addition to the regulatory and supervisory roles of SOCPA to assist in maintaining good corporate governance and accountability practices by Saudi companies.

7.5.4 Other Factors Influencing Corporate Governance in Saudi Arabia

The finding of both the interviews and the questionnaire highlight the crucially influential role that social and cultural factors have over the practices of corporate governance in the Saudi business environment. The cultural and social aspects such as favouritism, family ties and tribalism have a major impact over companies' corporate governance practices as these are considered to have a deep power over the whole of society. These factors influence companies' activities and consequently affect corporate governance and accountability practices. The main issues that appear to be influential as soc ial and cultural factors are: the process of appointing companies' directors and managers and defining their authorities and responsibilities; and the perceived low level of accountability relationships. The interviewees indicate that some social and cultural factors, such as the low level of compliance with laws and systems as well as a negative attitude towards monitoring and evaluation of people in the Saudi society, leads to a negative impact on the practices of corporate governance among Saudi companies.

However, the research results indicate that there is a significant role for religion, and that companies should consider and apply some *Sharia* requirements, such as not dealing with interest *(Riba)*. Furthermore, the findings suggest that politics, the economic situation and corruption also have a direct impact over practicing corporate governance in Saudi Arabia. The most important economic factors that influence the practice of corporate governance are the cost of such systems and the lack of qualified human resources. There is a lack of expertise in relation to corporate governance in the light of the restrictive rules that the government has issued over employing foreigners in order to support the employment of Saudi nationals. The findings indicate some concern about the role of some powerful parties that influence the practices of corporate governance among Saudi companies.

Overall, the findings in relation to the third research question point to a weak framework of corporate governance in the Saudi business environment which consists of inefficient legal systems; poor regulatory, supervisory and monitoring bodies of corporate governance; a minimalist code of corporate governance; little compliance with the code; and a poor accounting and auditing profession leading to a poor environment for corporate governance and accountability in Saudi Arabia.

7.6 Accountability Framework in Saudi Arabia

The fourth research question examines the accountability framework in Saudi Arabia in order to evaluate how Saudi stakeholders consider accountability and the Islamic conception of accountability, this section highlights the main findings regarding accountability in Saudi Arabia.

The interview findings reveal that accountability reflects the notion that individuals who are given tasks, authorities, and responsibilities should be accountable for their actions. This conception applies equally for both individuals and organisational bodies, and is well recognized by participant stakeholders who strongly believe in its importance to provide an appropriate environment for good corporate governance practices. Furthermore, there is a belief that a company, its board and managers, should be accountable for their actions to all stakeholders, and should discharge this accountability by providing stakeholders with information that they need to ensure that their interests are protected; this can be through financial statements or board reports. Moreover, the findings indicate that stakeholders strongly agree that adopting good corporate governance will help Saudi companies to discharge their accountability.

The findings also show that there is a general agreement among stakeholders of the importance of *Sharia* and that all Saudi companies should be subject to *Sharia* law in all their transactions. However, the findings from the interviews show that there is a variance between participants in their understanding of the implications of *Sharia.* The majority think that companies should not deal with any transactions prohibited by *Sharia,* whereas some think that, since the constitution of the country is based on *Sharia,* all companies transactions approved by the government are acceptable. This indicates that there are variant perceptions of whether, and how, companies should follow *Sharia.* For example, can company avoid interest on loans (*Riba*) which go against the principles of *Sharia.* However, most interviewees, including company directors, indicate that the majority of Saudi companies have submitted to society's demands to subject their transactions according to *Sharia,* e specially in relation to dealing with *Riba.* This illustrates the influential power that society and religion have over companies. It suggests that if there is a widely held belief in society, companies will respond positively to society's concerns. Moreover, the results indicate that there is no perception of a conflict between *Sharia* and good corporate governance principles. On the contrary, the respondents argue that *Sharia* can play a crucial role in supporting and improving the implementation of good corporate governance in Saudi society as *Sharia* calls for good principles such as fairness, honesty, probity, integrity, protecting interests, and accountability. The correspondence between *Sharia* accountability and corporate governance and the wide acceptance of *Sharia* in Saudi society, may lead to suggestions that there should be an Islamic corporate governance code. This could be based on *Sharia* resources that organise business relationships and at the same time benefit from international developments in corporate governance that do not conflict with *Sharia*. Interviewees agree with this suggestion that such a code would be more appropriate for Saudi society.

The findings also reveal that there is significant awareness among stakeholders about the Islamic conception accountability, as the both interviews and questionnaire results show that Saudi stakeholders believe that a company, its board and managers are accountable for their actions to Allah as well as to the company's stakeholders. There was a general appreciation of the Islamic conception of accountability and the stakeholders think the promotion of such a conception will play a significant role in improving accountability practices in society. The findings suggest that companies should provide the opportunity to stakeholders to ensure that all their interests in the company are protected according to the Islamic concept of *Hisba* and offer the opportunity for stakeholders to participate in making decisions according to the Islamic concept of *Shura*.

Nevertheless, stakeholders do not believe that accountability is practiced in Saudi society in general or in the business environment in particular. The participants claim that, in practice, companies, boards and managers are not accountable for their actions and stakeholders do not exercise their accountability relationships with companies who themselves do not provide the appropriate mechanisms for practising accountability.

However, the findings suggest that some Saudi companies do not even comply with *Sharia* in their transactions. Thus, Saudi companies are going against the principles of *Sharia,* and are not considering the Islamic conception of accountability. Indeed, the findings indicate that there is a complete absence of some aspects of the Islamic conception of accountability; there are no practices of *Shura* that would enable stakeholders to participate in making decisions, nor of *Hisba* which would enable stakeholders to ensure that all their interests in the company are protected. The next section analyses the differences between the different stakeholders to see whether their views vary.

7.6.1 The Difference in Perceptions between Stakeholder Groups

The participants in the questionnaire survey were categorised into five main groups for the purpose of analysis, as discussed in Chapter 5. The Mann-Whitney test provides an appropriate tool to investigate the differences in the perceptions between each pair of stakeholder groups and these differences between stakeholder groups in relation to different questions were laid out in Chapter 5. This section summarises the differences between the stakeholder groups in relation to the four main research questions in order to present a broad understanding of the bigger picture of the differences in the perceptions of stakeholder groups in Saudi Arabia in relation to corporate governance matters.

Table 7.2 groups all the questionnaire statements that relate to each research question and shows the significant differences (at 0.01 and 0.05) between each pair of five stakeholder groups. The Table identifies the questions with the most differences between each stakeholder group. The largest differences arise in relation to the understanding of corporate governance, with differences in 38% of pairs of stakeholder groups.

The accountability framework and adequacy of the corporate governance framework come next with 28% and 27% respectively. Responses to the current practice of corporate governance have the least difference between stakeholder groups with only 24% of pairs of stakeholders groups disagreeing with each other.

The split of the components that relate to the understanding of corporate governance, in Table 7.2 indicates that the major issues that stakeholders have different perceptions about are the boards of directors and the importance and an awareness of corporate governance, with 45% of pairs of stakeholders disagree with each other on these two issues. The regulators account for over half of the differences of this total on this category, and the differences are mainly related to boards of directors and disclosure and transparency, where regulators agree most with the roles and responsibilities of boards of directors and with the disclosure and transparency requirements according to principles of corporate governance; they also are the most familiar with the local corporate governance code and international developments in corporate governance.

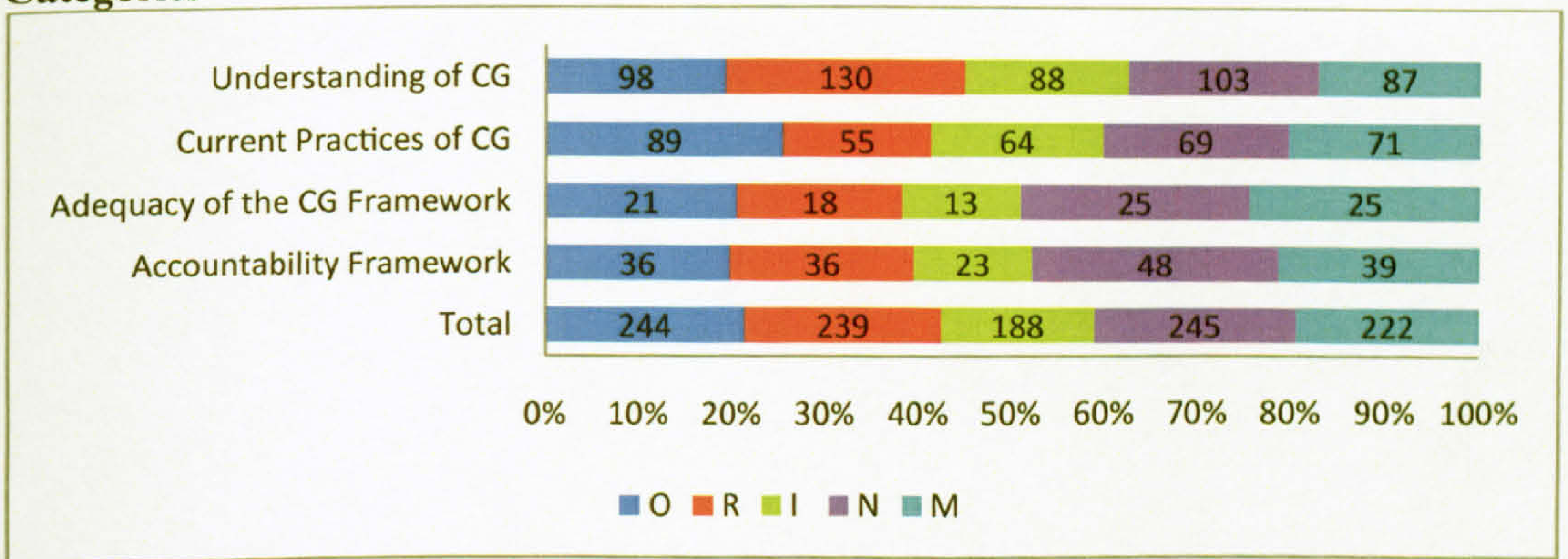
Table7.2 Summary of the Differences between the Stakeholder Groups form the Questionnaire Findings

<table>
<tr><th rowspan="2">Categories</th><th rowspan="2">No. of Statements</th><th colspan="2">Across all stakeholders groups</th><th colspan="4"></th></tr>
<tr><th>No. of differences</th><th>% of differences</th><th colspan="2">No. of differences</th><th colspan="2">% of total No. of differences</th></tr>
<tr><td>1. Understanding of CG issues</td><td></td><td></td><td></td><td colspan="4">Regulators</td></tr>
<tr><td>Definition of CG</td><td>5</td><td>12</td><td>24%</td><td colspan="2">3</td><td colspan="2">25%</td></tr>
<tr><td>Importance and awareness of CG</td><td>4</td><td>18</td><td>45%</td><td colspan="2">8</td><td colspan="2">44%</td></tr>
<tr><td>Translation of CG</td><td>6</td><td>6</td><td>10%</td><td colspan="2">1</td><td colspan="2">17%</td></tr>
<tr><td>Board of directors</td><td>29</td><td>131</td><td>45%</td><td colspan="2">83</td><td colspan="2">63%</td></tr>
<tr><td>Disclosure and Transparency</td><td>9</td><td>35</td><td>39%</td><td colspan="2">22</td><td colspan="2">63%</td></tr>
<tr><td>Stakeholders</td><td>14</td><td>51</td><td>36%</td><td colspan="2">13</td><td colspan="2">25%</td></tr>
<tr><td>Total</td><td>67</td><td>253</td><td>38% (1)</td><td colspan="2">130</td><td colspan="2">51%</td></tr>
<tr><td>2.Current Practices of CG</td><td></td><td></td><td></td><td colspan="4">Other stakeholders</td></tr>
<tr><td>Satisfaction with current practices of CG</td><td>1</td><td>2</td><td>20</td><td colspan="2">0</td><td colspan="2">0</td></tr>
<tr><td>Appointment of directors</td><td>24</td><td>41</td><td>17</td><td colspan="2">24</td><td colspan="2">58%</td></tr>
<tr><td>Board roles and responsibilities</td><td>22</td><td>51</td><td>23</td><td colspan="2">32</td><td colspan="2">63%</td></tr>
<tr><td>Board's subcommittees</td><td>8</td><td>24</td><td>30</td><td colspan="2">9</td><td colspan="2">37%</td></tr>
<tr><td>Disclosure and transparency</td><td>9</td><td>29</td><td>32</td><td colspan="2">13</td><td colspan="2">45%</td></tr>
<tr><td>Stakeholders</td><td>9</td><td>27</td><td>22</td><td colspan="2">11</td><td colspan="2">41%</td></tr>
<tr><td>Total</td><td>73</td><td>174</td><td>24% (4)</td><td colspan="2">89</td><td colspan="2">51%</td></tr>
<tr><td>3. Adequacy of CG Framework</td><td></td><td></td><td></td><td colspan="2">NEDs</td><td colspan="2">Managers</td></tr>
<tr><td>CG code</td><td>4</td><td>10</td><td>25%</td><td>1</td><td>10%</td><td>8</td><td>80%</td></tr>
<tr><td>Legal systems</td><td>8</td><td>25</td><td>31%</td><td>13</td><td>52%</td><td>5</td><td>20%</td></tr>
<tr><td>Other factors (e.g Social, culture, politic, economic)</td><td>7</td><td>23</td><td>33%</td><td>11</td><td>48%</td><td>12</td><td>52%</td></tr>
<tr><td>Total</td><td>19</td><td>51</td><td>27% (3)</td><td>25</td><td>43%</td><td>25</td><td>43%</td></tr>
<tr><td>4. Accountability Framework</td><td></td><td></td><td></td><td colspan="4">NEDs</td></tr>
<tr><td>Accountability relationship</td><td>13</td><td>46</td><td>35%</td><td colspan="2">25</td><td colspan="2">54%</td></tr>
<tr><td>Current practices of accountability</td><td>5</td><td>10</td><td>20%</td><td colspan="2">5</td><td colspan="2">50%</td></tr>
<tr><td>Perception of Islamic accountability</td><td>7</td><td>15</td><td>21%</td><td colspan="2">14</td><td colspan="2">93%</td></tr>
<tr><td>Current practices of Islamic accountability</td><td>7</td><td>19</td><td>27%</td><td colspan="2">4</td><td colspan="2">21%</td></tr>
<tr><td>Total</td><td>32</td><td>90</td><td>28%(2)</td><td colspan="2">48</td><td colspan="2">53%</td></tr>
</table>

Note: There are 10 pairs of stakeholders groups: O-R, O-I, O-N, O-M, R-I, R-N, R-M, I-N, I-M and N-M. The Table shows differences between stakeholder groups in relation to each category of the questionnaire. The second column shows the number of statements that related to each category and each different sub-categories. The third column shows number of significant differences between the stakeholders groups according to Mann-Witney test at the confidence level of 99% and 95%, and it also shows the percentage of differences between the stakeholder groups. The fourth column shows the number of differences and the percentage of differences based on the most dominant stakeholder group in related to each category. To aid the reader an explanation for the results in the first row follows: 12/(5*10)*100=24%; and 3/12*100= 25%.

Table 7.2 ranks accountability as the second area with most differences between stakeholders. Figure 7.1 shows that non-executive directors (Group N) have the most differences with the other stakeholders groups. The main differences between non-executive directors and other stakeholders groups in relation to accountability are that non-executive directors are the group of stakeholders least likely to agree that companies operate within the Islamic accountability framework and that there is an accountability relationship between a company and all its stakeholders other than shareholders.

Figure 7.1 Differences between Stakeholder Groups in Relation to the Questionnaire Categories



Note: The Table shows the number of differences of each stakeholder group in relation to each questionnaire categories.

The adequacy of the corporate governance framework was the third category to have differences between stakeholders groups. Figure 7.1 indicates that non-executive directors and managers (Groups of N and M) have the most differences with other stakeholders groups. The major reasons for this are because managers believe more strongly that Saudi companies comply with the local corporate governance code and, interestingly, they are the group who agreed least with the code being mandatory as well as with setting penalties for non compliance companies. The managers considered the impact of other factors as being least important. Non-executive directors mostly agreed about the major influence that these factors have. Another issue causing differences are that non-executive directors agree least that the judiciary and courts maintain good corporate governance and agree most strongly about the need to establish a new and independent body to look after corporate governance in Saudi Arabia.

The current practices of corporate governance resulted in the least number of differences between stakeholder groups. These indicate that other stakeholders (Group O) had the most differences with the rest in this category. An analysis shows that these differences are because other stakeholders (Group O) think that boards of directors in Saudi companies are not fulfilling their roles and responsibilities, in addition they also see Saudi companies as not disclosing enough or being transparent.

However, answers in relation to the fourth research question confirm that, in general, accountability does not appear to operate in practice in Saudi Arabia and there are differ between stakeholder groups regarding accountability according to their roles and positions.

7.7 Stakeholders' Suggestions to Improve Corporate Governance in Saudi Arabia

Some suggestions were raised from both the interviews and questionnaire survey in terms of improving the practice of corporate governance in Saudi Arabia as follows:

- A need for a common, appropriate and acceptable term for the English phrase "corporate governance" and, to reduce the confusion over the translation problem, *Hawkama* should be used consistently.
- There is a need to establish a separate and independent body to look after corporate governance issues in Saudi Arabia; such a body should focus on improving the awareness of corporate governance, providing appropriate methods to train directors, assisting companies in implementing corporate governance and monitoring corporate governance in practice.
- More effort should be made to encourage an awareness of corporate governance in the Saudi business environment through conferences, seminars and publications; universities should also provide appropriate corporate governance courses.
- The Saudi corporate governance code should be a mandatory code and should include penalties for non-compliance.
- Different board sizes should be allowed for different sizes of companies; boards should comprise between 4 and 8 members for a small company, between 6 and 10 for a medium-sized company and between 7 and 12 for a large company.
- An accumulative voting system should be mandatory to stop coalitions of major shareholders controlling boards and to enable minority shareholders to select their representatives on the boards.
- There should be specified requirements for the appointment of companies' directors based on their experience, qualifications and specialisms.

- There should be more requirements to ensure and promote the actual independence of non-executive directors.
- The authorities and responsibilities of the board of directors and its sub-committees should be clearly defined in the code
- There should be appropriate standards to train board members and evaluate boards of directors in the code.
- The laws and systems in relation to business in Saudi should be reviewed and updated to provide an appropriate environment for good corporate governance.
- Specialist commercial courts and qualified judges in business matters should be introduced.
- Regulatory, supervisory and monitoring bodies in relation to the business environment should be more effective and have the appropriate ability and resources enable them to fulfil their roles.
- AGMs should using video conferencing technology to encourage shareholders' attendance at companies' AGMs, because of the long distances between Saudi cities.
- An Islamic corporate governance code should be adopted that is based on both modern corporate governance principles and the heritage of *Sharia* law.

7.8 Limitations

A number of important limitations to this thesis need to be considered. First, with a small number of participants and respondents, caution must be applied as the findings may not be generalisable. The study conducted 22 interviews and analysed 176 usable questionnaires that were returned; as normal when using such methods they might not reflect the perspective of stakeholders as a whole in Saudi Arabia about corporate governance. Another important limitation lies in the fact that the participants in the study represent a number of stakeholders groups, but not an exhaustive list of all of them (such as: environmental groups, religious scholars, customers, and suppliers), as it is very difficult to include all stakeholders groups, so this might also affect the generalisation of the results. A third limitation also relates to generalisability and the issues of selection bias as those who agreed to participate in the interviews and the survey may be more knowledgeable about corporate governance as there were many who refused to be involved, due to their lack of awareness and knowledge about corporate governance.

Other limitations are related to the research methods. For example, using semi-structured interviews and questionnaire survey methods could be deceptive in some cases as some of the interviewees may not want to show their lack of knowledge or give a bad impression about their organizations, which makes them provide "perfect" answers. Another issue is that qualitative methods can be too impressionistic and subjective as the analysis relies to a great extent on the researcher's perspective and evaluation. Using a questionnaire survey faces the problem of the respondents getting bored after a while and then giving random answers to finish rather than thinking about their answers. Further, the questionnaire used in the study was long, and is a good lesson for the researcher in future projects.

Another important limitation is that this study investigates the perceptions of stakeholder groups about issues relating to corporate governance and accountability in Saudi Arabia. The findings of the study thus reflect the views of these stakeholders and rely on their understanding of corporate governance and accountability and their perception of practices in the local environment. As a result, the study is limited regarding actual companies' corporate governance practices or companies' compliance with the corporate governance code although the responses include company respondents regarding their own companies practices.

7.9 Future Research Avenues

Few studies a bout corporate governance in Saudi Arabia ha ve been conducted a nd, according to the researcher's knowledge, the current study is the first major study to investigate the perspective of a wide range of stakeholders about corporate governance in Saudi Arabia. As a result, more research is needed, in different areas of corporate governance, to fill the huge gap in the literature about corporate governance in Saudi Arabia.

The following are, thus, some recommendations for further research in relation to corporate governance. First, further research should investigate the ownership structure in Saudi companies and its impact over companies' activities. Information about Saudi companies' ownership is now publicly available as *Tadawal* disclose those who own 5% or more of all listed companies. The current study provides evidence of the significant role that ownership structure has over companies' activities and their practices of corporate governance and research into this area will provide a better understanding of the nature of the ownership structure in Saudi Arabia and its role in influencing corporate governance practices.

Another crucial issue that needs to be covered by future research is on the board of directors in Saudi companies. The current study shows that boards have a major role over companies' activities and corporate governance practices in Saudi. Consequently, issues such as: the separation of chairman and CEO roles; the real independence of NEDs; board of directors roles and responsibilities; the efficiency of the board of directors; board of directors subcommittees; and the impact of board of directors structure over companies' corporate governance practices.

The present study draws attention to poor shareholder protection in practices thus future possible research should look at the shareholders, including minority rights in the Saudi business environment to improve the protection of their rights. The nature and roles of institutional investors can also be recommended especially their activism and their role in protecting their interests in companies in addition their impact over corporate governance practices.

Over two years have passed since the issue of the Saudi corporate governance code by the CMA, and future research should investigate companies' compliance with the code and the obstacles facing their compliance. Finally, it would be interesting for future research to suggest a proposal for an Islamic corporate governance code relying on both corporate governance principles and the principles and heritage of Islamic *Sharia.*

7.10 Contribution to Knowledge

The current findings will assist to fill the huge gap in the literature regarding corporate governance practices in Saudi Arabia, specifically and in the Middle East in general. In addition to its contribution to the corporate governance literature, there is also a lack of studies that focus on the perception of stakeholders as most of the literature considers positivist studies that evaluate companies' corporate governance according to their performance.

The current study contributes to knowledge by providing a general understanding how corporate governance is considered in an emerging market and, particular, in a major market in the Middle East, that of Saudi Arabia. Another contribution made by the study is drawing attention to the problem of misunderstandings from the translation of the English term of "corporate governance" to the Arabic language.

The study provides an understanding of the current practices of corporate governance in Saudi Arabia and underscores the major factors that influence the practices of corporate governance in the local business environment. In addition to that, the issues in relation to the corporate governance framework are addressed.

The present study enhance an understanding of the boards of directors in Saudi companies especially in relation to their: composition; roles and responsibilities; sub-committees; meetings; size. It also adds substantially to an understanding of the ownership structure in Saudi companies and indicates the major shareholders' influence over companies. Furthermore, institutional investors in Saudi Arabia is an ignored area in the literature and this study has gone some way towards enhancing the understanding of nature and the role of those crucial investors in the Saudi market.

The study contributes to the knowledge as it contains the first attempt to evaluate the Saudi corporate governance code and also Saudi companies' compliance with it. Another main contribution that this study makes is providing an understanding of the accountability framework and the Islamic accountability framework in regard to current practices in the Saudi business environment.

7.11 Concluding Thoughts

In conclusion, the findings of the study indicate that corporate governance in an emerging market such as Saudi Arabia is in its early stages, with characteristics of a lack of accountability, a weak legal framework and poor protection of shareholders. The influence of social, culture and economics factors are evident and boards of directors are dominated by major shareholders, thus good corporate governance practices have many challenges. However, the pressure for good corporate governance should be generated from effective regulatory bodies (the CMA) and shareholders (at AGMs). Accountability also needs to be practiced in the business environment in order to develop an appropriate environment for good corporate governance by Saudi companies.

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Appendices

CAPITAL MARKET AUTHORITY

CORPORATE GOVERNANCE REGULATIONS IN THE KINGDOM OF SAUDI ARABIA

Issued by the Board of Capital Market Authority
Pursuant to Resolution No. 1/212/2006
dated 21/10/1427AH (corresponding to 12/11/2006)
based on the Capital Market Law
issued by Royal Decree No. M/30
dated 2/6/1424AH

English Translation of the Official Arabic Text

Arabic is the official language of the Capital Market Authority

The current version of these Rules, as may be amended, can be found at the CMA website: www.cma.org.sa

CONTENTS

PART 1
PRELIMINARY PROVISIONS

Article 1: Preamble

a) These Regulations include the rules and standards that regulate the management of joint stock companies listed in the Exchange to ensure their compliance with the best governance practices that would ensure the protection of shareholders' rights as well as the rights of stakeholders.

b) These Regulations constitute the guiding principles for all companies listed in the Exchange unless any other regulations, rules or resolutions of the Board of the Authority provide for the binding effect of some of the provisions herein contained.

c) As an exception of paragraph (b) of this article, a company must disclose in the Board of Directors' report, the provisions that have been implemented and the provisions that have not been implemented as well as the reasons for not implementing them.

Article 2: Definitions

a) Expression and terms in these regulations have the meanings they bear in the Capital Market Law and in the glossary of defined terms used in the regulations and the rules of the Capital Market Authority unless otherwise stated in these regulations.

b) For the purpose of implementing these regulations, the following expressions and terms shall have the meaning they bear as follows unless the contrary intention appears:

Independent Member: A member of the Board of Directors who enjoys complete independence. By way of example, the following shall constitute an infringement of such independence:

1. He/she holds a controlling interest in the company or in any other company within that company's group.

2. He/she, during the preceding two years, has been a senior executive of the company or of any other company within that company's group.

3. He/she is a first-degree relative of any board member of the company or of any other company within that company's group.

4. He/she is first-degree relative of any of senior executives of the company or of any other company within that company's group.

5. He/she is a board member of any company within the group of the company which he/she is nominated to be a member of its board.

6. If he/she, during the preceding two years, has been an employee with an affiliate of the company or an affiliate of any company of its group, such as external auditors or main suppliers; or if he/she, during the preceding two years, had a controlling interest in any such party.

Non-executive director: A member of the Board of Directors who does not have a full-time management position at the company, or who does not receive monthly or yearly salary.

First-degree relatives: father, mother, spouse and children.

Stakeholders: Any person who has an interest in the company, such as shareholders, employees, creditors, customers, suppliers, community.

Accumulative Voting: a method of voting for electing directors, which gives each shareholder a voting rights equivalent to the number of shares he/she holds. He/she has the right to use them all for one nominee or to divide them between his/her selected nominees without any duplication of these votes. This method increases the chances of the minority shareholders to appoint their representatives in the board through the right to accumulate votes for one nominee.

Minority Shareholders: Those shareholders who represent a class of shareholders that does not control the company and hence they are unable to influence the company.

PART 2
RIGHTS OF SHAREHOLDERS AND THE GENERAL ASSEMBLY

Article 3: General Rights of Shareholders

A Shareholder shall be entitled to all rights attached to the share, in particular, the right to a share of the distributable profits, the right to a share of the company's assets upon liquidation; the right to attend the General Assembly and participate in deliberations and vote on relevant decisions; the right of disposition with respect to shares; the right to supervise the Board of Directors activities, and file responsibility claims against board members; the right to inquire and have access to information without prejudice to the company's interests and in a manner that does not contradict the Capital Market Law and the Implementing Rules.

Article 4: Facilitation of Shareholders Exercise of Rights and Access to Information

a) The company in its Articles of Association and by-laws shall specify the procedures and precautions that are necessary for the shareholders' exercise of all their lawful rights.

b) All information which enable shareholders to properly exercise their rights shall be made available and such information shall be comprehensive and accurate; it must be provided and updated regularly and within the prescribed times; the company shall use the most effective means in communicating with shareholders. No discrepancy shall be exercised with respect to shareholders in relation to providing information.

Article 5: Shareholders Rights related to the General Assembly

a) A General Assembly shall convene once a year at least within the six months following the end of the company's financial year.

b) The General Assembly shall convene upon a request of the Board of Directors. The Board of Directors shall invite a General Assembly to convene pursuant to a request of the auditor or a number of shareholders whose shareholdings represent at least 5% of the equity share capital.

c) Date, place, and agenda of the General Assembly shall be specified and announced by a notice, at least 20 days prior to the date the meeting; invitation for the meeting shall be published in the Exchange' website, the company's website and in two newspapers of voluminous distribution in the Kingdom. Modern high tech means shall be used in communicating with shareholders.

d) Shareholders shall be allowed the opportunity to effectively participate and vote in the General Assembly; they shall be informed about the rules governing the meetings and the voting procedure.

e) Arrangements shall be made for facilitating the participation of the greatest number of shareholders in the General Assembly, including *inter alia* determination of the appropriate place and time.

f) In preparing the General Assembly's agenda, the Board of Directors shall take into consideration matters shareholders require to be listed in that agenda; shareholders holding not less than 5% of the company's shares are entitled to add one or more items to the agenda. upon its preparation.

g) Shareholders shall be entitled to discuss matters listed in the agenda of the General Assembly and raise relevant questions to the board members and to the external auditor. The Board of Directors or the external auditor shall answer the questions raised by shareholders in a manner that does not prejudice the company's interest.

h) Matters presented to the General Assembly shall be accompanied by sufficient information to enable shareholders to make decisions.

i) Shareholders shall be enabled to peruse the minutes of the General Assembly; the company shall provide the Authority with a copy of those minutes within 10 days of the convening date of any such meeting.

j) The Exchange shall be immediately informed of the results of the General Assembly.

Article 6: Voting Rights

a) Voting is deemed to be a fundamental right of a shareholder, which shall not, in any way, be denied. The company must avoid taking any action which might hamper the use of the voting right; a shareholder must be afforded all possible assistance as may facilitate the exercise of such right.

b) In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.

c) A shareholder may, in writing, appoint any other shareholder who is not a board member and who is not an employee of the company to attend the General Assembly on his behalf.

d) Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.

Article 7: Dividends Rights of Shareholders

a) The Board of Directors shall lay down a clear policy regarding dividends, in a manner that may realize the interests of shareholders and those of the company; shareholders shall be informed of that policy during the General Assembly and reference thereto shall be made in the report of the Board of Directors.

b) The General Assembly shall approve the dividends and the date of distribution. These dividends, whether they be in cash or bonus shares shall be given, as of right, to the shareholders who are listed in the records kept at the Securities Depository Center as they appear at the end of trading session on the day on which the General Assembly is convened.

PART 3
DISCLOSURE AND TRANSPARENCY

Article 8: Policies and Procedure related to Disclosure

The company shall lay down in writing the policies, procedures and supervisory rules related to disclosure, pursuant to law.

Article 9: Disclosure in the Board of Directors' Report

In addition to what is required in the Listing Rules in connection with the content of the report of the Board of Directors, which is appended to the annual financial statements of the company, such report shall include the following:

a) The implemented provisions of these Regulations as well as the provisions which have not been implemented, and the justifications for not implementing them.

b) Names of any joint stock company or companies in which the company Board of Directors member acts as a member of its Board of directors.

c) Formation of the Board of Directors and classification of its members as follows: executive board member, non-executive board member, or independent board member.

d) A brief description of the jurisdictions and duties of the Board's main committees such as the Audit Committee, the Nomination and Remuneration Committee; indicating their names, names of their chairmen, names of their members, and the aggregate of their respective meetings.

e) Details of compensation and remuneration paid to each of the following:
   1. The Chairman and members of the Board of Directors.
   2. The Top Five executives who have received the highest compensation and remuneration from the company. The CEO and the Chief Finance Officer shall be included if they are not within the top five.

f) Any punishment or penalty or preventive restriction imposed on the company by the Authority or any other supervisory or regulatory or judiciary body.

g) Results of the annual audit of the effectiveness of the internal control procedures of the company.

PART 4
BOARD OF DIRECTORS

Article 10: Main Functions of the Board of Directors

Among the main functions of the Board is the fallowing:

a) Approving the strategic plans and main objectives of the company and supervising their implementation; this includes:

1. Laying down a comprehensive strategy for the company, the main work plans and the policy related to risk management, reviewing and updating of such policy.

2. Determining the most appropriate capital structure of the company, its strategies and financial objectives and approving its annual budgets.

3. Supervising the main capital expenses of the company and acquisition/disposal of assets.

4. Deciding the performance objectives to be achieved and supervising the implementation thereof and the overall performance of the company.

5. Reviewing and approving the organizational and functional structures of the company on a periodical basis.

b) Laying down rules for internal control systems and supervising them; this includes:

1. Developing a written policy that would regulate conflict of interest and remedy any possible cases of conflict by members of the Board of Directors, executive management and shareholders. This includes misuse of the company's assets and facilities and the arbitrary disposition resulting from dealings with the related parties.

2. Ensuring the integrity of the financial and accounting procedures including procedures related to the preparation of the financial reports.

3. Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the company could encounter and disclosing them with transparency.

4. Reviewing annually the effectiveness of the internal control systems.

c) Drafting a Corporate Governance Code for the company that does not contradict the provisions of this regulation, supervising and monitoring in general the effectiveness of the code and amending it whenever necessary.

d) Laying down specific and explicit policies, standards and procedures, for the membership of the Board of Directors and implementing them after they have been approved by the General Assembly.

e) Outlining a written policy that regulate the relationship with stakeholders with a view to protecting their respective rights; in particular, such policy must cover the following:

1. Mechanisms for indemnifying the stakeholders in case of contravening their rights under the law and their respective contracts.

2. Mechanisms for settlement of complaints or disputes that might arise between the company and the stakeholders.

3. Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them.

4. A code of conduct for the company's executives and employees to regulate their relationship with the stakeholders. The code shall be compatible with the proper professional and ethical standards. The Board of Directors shall lay down procedures for supervising this code and ensuring compliance therewith.

5. The Company's social contributions.

f) Deciding policies and procedures to ensure the company's compliance with the laws and regulations and the company's obligation to disclose material information to shareholders, creditors and other stakeholders.

Article 11: Responsibilities of the Board

a) Without prejudice to the competences of the General Assembly, the company's Board of Directors shall assume all the necessary powers for the company's management. The ultimate responsibility for the company rests with the Board even if it sets up committees or delegates some of its powers to a third party. The Board of Directors shall avoid issuing general or indefinite power of attorney.

b) The responsibilities of the Board of Directors must be clearly stated in the company's Articles of Association.

c) The Board of Directors must carry out its duties in a responsible manner, in good faith and with due diligence. Its decisions should be based on sufficient information from the executive management, or from any other reliable source.

d) A member of the Board of Directors represents all shareholders; he/she undertakes to carry out whatever may be in the general interest of the company, but not the interests of the group he/she represents or that which voted in favor of his appointment to the Board of Directors.

e) The Board of Directors shall determine the powers to be delegated to the executive management and the procedures for taking any action and the validity of such delegation. It shall also determine matters reserved for decision by the Board of Directors. The executive management shall submit to the Board of Directors periodic reports on the exercise of the delegated powers.

f) The Board of Directors shall ensure that a procedure is laid down for orienting the new board members of the company's business and, in particular, the financial and legal aspects, in addition to their training, where necessary.

g) The Board of Directors shall ensure that sufficient information about the company is made available to all members of the Board of Directors, generally, and, in particular, to the non-executive members, to enable them to discharge their duties and responsibilities in an effective manner.

h) The Board of Directors shall not be entitled to enter into loans which spans more than three years, and shall not sell or mortgage real estate of the company, or drop the company's debts, unless it is authorized to do so by the company's Articles of Association. In the case where the company's Articles of Association includes no provisions to this respect, the Board should not act without the approval of the General Assembly, unless such acts fall within the normal scope of the company's business.

Article 12: Formation of the Board

Formation of the Board of Directors shall be subject to the following:

a) The Articles of Association of the company shall specify the number of the Board of Directors members, provided that such number shall not be less than three and not more than eleven.

b) The General Assembly shall appoint the members of the Board of Directors for the duration provided for in the Articles of Association of the company, provided that such duration shall not exceed three years. Unless otherwise provided for in the Articles of Association of the company, members of the Board may be reappointed.

c) The majority of the members of the Board of Directors shall be non-executive members.

d) It is prohibited to conjoin the position of the Chairman of the Board of Directors with any other executive position in the company, such as the Chief Executive Officer (CEO) or the managing director or the general manager.

e) The independent members of the Board of Directors shall not be less than two members, or one-third of the members, whichever is greater.

f) The Articles of Association of the company shall specify the manner in which membership of the Board of Directors terminates. At all times, the General Assembly may dismiss all or any of the members of the Board of Directors even though the Articles of Association provide otherwise.

g) On termination of membership of a board member in any of the ways of termination, the company shall promptly notify the Authority and the Exchange and shall specify the reasons for such termination.

h) A member of the Board of Directors shall not act as a member of the Board of Directors of more than five joint stock companies at the same time.

i) Judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.

Article 13: Committees of the Board

a) A suitable number of committees shall be set up in accordance with the company's requirements and circumstances, in order to enable the Board of Directors to perform its duties in an effective manner.

b) The formation of committees subordinate to the Board of Directors shall be according to general procedures laid down by the Board, indicating the duties, the duration and the powers of each committee, and the manner in which the Board monitors its activities. The committee shall notify the Board of its activities, findings or decisions with complete transparency. The Board shall periodically pursue the activities of such committees so as to ensure that the activities entrusted to those committees are duly performed. The Board shall approve the by-laws of all committees of the Board, including, *inter alia*, the Audit Committee, Nomination and Remuneration Committee.

c) A sufficient number of the non-executive members of the Board of Directors shall be appointed in committees that are concerned with activities that might involve a conflict of interest, such as ensuring the integrity of the financial and non-financial reports, reviewing the deals concluded by related parties, nomination to membership of the Board, appointment of executive directors, and determination of remuneration.

Article 14: Audit Committee

a) The Board of Directors shall set up a committee to be named the "Audit Committee". Its members shall not be less than three, including a specialist in financial and accounting matters. Executive board members are not eligible for Audit Committee membership.

b) The General Assembly of shareholders shall, upon a recommendation of the Board of Directors, issue rules for appointing the members of the Audit Committee and define the term of their office and the procedure to be followed by the Committee.

c) The duties and responsibilities of the Audit Committee include the following:

1. To supervise the company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.

2. To review the internal audit procedure and prepare a written report on such audit and its recommendations with respect to it .

3. To review the internal audit reports and pursue the implementation of the corrective measures in respect of the comments included in them.

4. To recommend to the Board of Directors the appointment, dismissal and the Remuneration of external auditors; upon any such recommendation, regard must be made to their independence.

5. To supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.

6. To review together with the external auditor the audit plan and make any comments thereon.

7. To review the external auditor's comments on the financial statements and follow up the actions taken about them.

8. To review the interim and annual financial statements prior to presentation to the Board of Directors; and to give opinion and recommendations with respect thereto.

9. To review the accounting policies in force and advise the Board of Directors of any recommendation regarding them.

Article 15: Nomination and Remuneration Committee

a) The Board of Directors shall set up a committee to be named "Nomination and Remuneration Committee".

b) The General Assembly shall, upon a recommendation of the Board of Directors, issue rules for the appointment of the members of the Nomination and Remuneration Committee, their remunerations, and terms of office and the procedure to be followed by such committee.

c) The duties and responsibilities of the Nomination and Remuneration Committee include the following:

1. Recommend to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards; the Committee shall ensure that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership.

2. Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, *inter alia*, the time that a Board member should reserve for the activities of the Board.

3. Review the structure of the Board of Directors and recommend changes.

4. Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest.

5. Ensure on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.

6. Draw clear policies regarding the indemnities and remunerations of the Board members and top executives; in

laying down such policies, the standards related to performance shall be followed.

Article 16: Meetings of the Board

1. The Board members shall allot ample time for performing their responsibilities, including the preparation for the meetings of the Board and the permanent and ad hoc committees, and shall endeavor to attend such meetings.

2. The Board shall convene its ordinary meetings regularly upon a request by the Chairman. The Chairman shall call the Board for an unforeseen meeting upon a written request by two of its members.

3. When preparing a specified agenda to be presented to the Board, the Chairman shall consult the other members of the Board and the CEO. The agenda and other documentation should be sent to the members in a sufficient time prior to the meeting so that they may be able to consider such matters and prepare themselves for the meeting. Once convened, the Board shall approve the agenda; should any member of the Board raise any objection to this agenda, the details of such objection shall be entered in the minutes of the meeting.

4. The Board shall document its meetings and prepare records of the deliberations and the voting, and arrange for these records to be kept in chapters for ease of reference.

Article 17: Remuneration and Indemnification of Board Members

The Articles of Association of the company shall set forth the manner of remunerating the Board members; such remuneration may take the form of a lump sum amount, attendance allowance, rights *in rem* or a certain percentage of the profits. Any two or more of these privileges may be conjoined.

Article 18: Conflict of Interest within the Board

a) A Board member shall not, without a prior authorization from the General Assembly, to be renewed each year, have any interest (whether directly or indirectly) in the company's business and contracts. The activities to be performed through general bidding shall constitute an exception where a Board member is the best bidder. A Board member shall notify the Board of Directors of any personal interest he/she may have in the business and contracts that are completed for the company's account. Such notification shall be entered in the minutes of the meeting. A Board member who is an interested party shall not be entitled to vote on the resolution to be adopted in this regard. The Chairman of the Board of Directors shall notify the General Assembly, when convened, of the activities and contracts in respect of which a Board member may have a personal interest and shall attach to such notification a special report prepared by the company's auditor.

b) A Board member shall not, without a prior authorization of the General Assembly, to be renewed annually, participate in any activity which may likely compete with the activities of the company, or trade in any branch of the activities carried out by the company.

c) The company shall not grant cash loan whatsoever to any of its Board members or render guarantee in respect of any loan entered into by a Board member with third parties, excluding banks and other fiduciary companies.

PART 5
CLOSING PROVISIONS

Article 19: Publication and Entry into Force

These regulations shall be effective upon the date of their publication.

Appendix II
Semi-Structured Interviews Questions

1. Companies

a. CG Definition

1. What is your definition and understanding of the concept of corporate governance? How important do you think it is?

2. To what extent do you think that corporate governance is important for your company?

3. What aspects of corporate governance are most important to your company?

4. What improvements have your company made to corporate governance?

5. What does your company do in the way of compliance with corporate governance? How do you assess your company's corporate governance performance?

6. What are the obstacles facing your company in implementing better corporate governance?

b. Board Structure, Responsibility, Disclosure and Transparency

1. How is your company's board structured? What are the requirements for the board's directors? How are executive directors selected and appointed? How regular are board meetings? Are duties and authorities clearly defined?

2. How many executive and non-executive directors do you have? What are the requirements for non-executive directors in your company? How are NEDs selected and appointed? What is the proportion of independent NEDs? And what their requirements?

3. What board sub-committees does your company have? Are their members executives or non-executives? How regular are board sub-committees meetings? Are duties and authorities clearly defined? What are the obstacles facing these committees and their members?

4. What could your company's board do further to fulfil its responsibility?

5. How does your company's board monitor the company's managers? What information do board members get (accurate, relevant and timely information)?
6. What steps have been taken by your company to improve disclosure and transparency? What are the most important elements in your company's disclosure?

7. How adequate do think that the disclosure and transparency standard requirements are? What does your company do to ensure its adherence to disclosure and transparency requirements?

c. Stakeholders

1. Who do you regard as the company's stakeholders? Do they have representatives on the board? Do they have influence over the activities of the company?

2. Who are your major shareholders? Do they have any influence over the activities of the company? Are they on the board? What does your company do to protect shareholders' rights? What does it do to protect minority shareholders?

3. What more could you do for stakeholders? What more could the regulators do to improve corporate governance for stakeholders? How far do you think that your stakeholders are satisfied?

d. Regulatory Bodies & Legal System

1. Which bodies are responsible for regulating corporate governance and which are responsible for monitoring companies' adherence to them? Is there any conflict between them?

2. What is your assessment of the capability, sufficiency and strength of these bodies' performance?

3. Which standards/regulations does your company find it most difficult to comply with and why?

4. What do you think of the laws that companies are subject to? To what extent does the legal system affect the practice of corporate governance?

5. What about the role of the judiciary and the courts in maintaining high corporate governance standards?

6. Are you aware of different approaches of corporate governance in different parts of the world?

7. Are you aware of the proposed corporate governance code issued recently by the Capital Market Authority? If so, what is your evaluation of it? To what extent has your company implemented it? Should it be mandatory or just for guidance? Should it apply to all companies or only to listed ones?

8. Has Saudi Arabia joining the WTO had any influence on your company's corporate governance?

9. Are there any political, economic or social factors affecting corporate governance in your company?

e. Accountability

1. What is your definition and understanding of accountability?

2. Are your company, its board of directors and managers accountable for their actions and performance? If so, to whom and how?

3. What has your company done in order to discharge its accountability? To what extent do you think you have succeeded?

4. Do you think that accountability requires your company to adopt a good corporate governance system?

5. How well do you think that accountability is defined in the relevant regulations?

6. How do stakeholders exercise their accountability relationship with the company?

f. Accountability in Islam

1. To what extent is your company subjected to *Sharia*?

2. What is your definition and understanding of accountability in Islam?

3. To what extent does the Islamic conception of accountability have any influence on your company's practice?

4. To what extent does the Islamic conception of accountability affect your company's corporate governance system?

5. To what extent does your company exercise the Islamic conception of *Shura*?

6. Does your company offer the opportunity for stakeholders to participate in making decisions in the light of the concept of *Shura*?

7. To what extent dose the Islamic concept of *Hisba* have any influence on your company?

8. According to *Hisba*, do you think that stakeholders have the right to ensure that all their interests are protected? Are they doing that? And if so who and how?

9. Is there a conflict between Islam and the corporate governance code?

2. Users

a. CG Definition

1. What is your definition and understanding of the concept of corporate governance? How important do you think it is?

2. What is your assessment of corporate governance practices within Saudi Arabian companies? Are there any deficiencies? If so, what are they?

3. What of aspects of corporate governance are most important?

4. How far are Saudi companies concerned with corporate governance improvements?

5. What aspects of corporate governance are most needed in Saudi Arabia?

b. Board Structure, Responsibility, Disclosure and Transparency

1. What do you think about the methods of structuring the boards of directors within Saudi companies? What they are usually based on?

2. Do companies have independent non-executive directors? How they nominated? What is their role?

3. What sub-committees do Saudi companies have? What is their role? What kinds of sub-committees are needed?

4. To what extent do you think that boards of directors are fulfilling their responsibilities?

5. How far do think that the disclosure and transparency standard requirements are adequate?

6. What is your assessment of companies' disclosure and transparency? How far do they comply with disclosure and transparency requirements?

c. Stakeholders

1. How common is it for companies to have one or two major shareholders? What influence do they have over the activities of the companies?

2. How well do you think that shareholders' rights are protected? Are shareholders treated equitably?

3. Are you concerned with improvements in corporate governance? Do you have representatives on the boards? Do you have influence over the activities of the companies?

4. How well do you think that you and other stakeholders' rights are protected by the law and in practice? How far are you satisfied?

5. What is your assessment of your roles (as a stakeholder)? What should be done? What are the obstacles?

d. Regulatory Bodies & Legal System

1. What is the extent of Saudi companies' compliance with regulations and standards?

2. Which bodies are responsible for regulating corporate governance systems and monitoring companies' adherence to them? Is there any discrepancy between them?

3. What do you think of the legal system in Saudi Arabia and the laws that companies are subject to? To what extent does the legal system affect the practice of corporate governance?

4. What about the role of the judiciary and the courts in maintaining high corporate governance standards?

5. What is your evaluation of the proposed corporate governance code issued recently by the Capital Market Authority? Should it be mandatory or just for guidance? Should it apply to all companies or only to listed ones?

6. Has Saudi Arabia joining the WTO had any influence on Saudi companies' corporate governance?

7. Are you aware of different approaches of corporate governance in different parts of the world?

8. Are there any political, economic or social factors affecting corporate governance in your company?

e. Accountability

1. What is your definition and understanding of accountability?

2. Are companies, their boards and managers accountable for their actions and performance? If so, to whom and how?

3. Do you think that companies are doing enough to discharge their accountability?

4. Form your viewpoint, does accountability require companies to adopt a good corporate governance system?

5. How well do you think that accountability is defined in the relevant regulations?

6. Have you exercise your accountability relationship with the company?

f. Accountability in Islam

1. To what extent are Saudi companies subject to Sharia?

2. What is your definition and understanding of accountability in Islam?

3. To what extent dose the Islamic conception of accountability have any influence on companies' practice?

4. To what extent does the Islamic conception of accountability affect companies' corporate governance systems?

5. To what extent do Saudi companies exercise the Islamic concept of *Shura*? If so, how? If not, why not?

6. Are Saudi companies offering the opportunity for stakeholders to participate in making decisions in the light of *Shura*?

7. To what extent dose the Islamic concept of *Hisba* has any influence on Saudi companies? If so, how? If not, why not?

8. According to *Hisba*, do you think that stakeholders have the right to ensure that all their interests are protected? How? Who is doing that?

9. Is there a conflict between Islam and the corporate governance code?

3. Auditor

a. CG Definition

1. What is your definition and understanding of the concept of corporate governance? How important do you think it is?

2. What is your assessment of corporate governance practices within Saudi Arabian companies? Are there any deficiencies? If so, what are they?

3. What of aspects of corporate governance are most important?

4. How far are Saudi companies concerned with corporate governance improvements?

5. What aspects of corporate governance are most needed in Saudi Arabia?

b. Board Structure, Responsibility, Disclosure and Transparency

1. What do you think about the methods of structuring the boards of directors within Saudi companies? What they are based on?

2. Do companies have independent non-executive directors? How are they nominated? What is their role?

3. Which sub-committees do Saudi companies have? What is their role? What kind of sub-committees are needed?

4. What is your assessment of the audit committees in the companies?

5. Who are the members of audit committees? How are they nominated? What are their roles? What involvement do you have with them?

6. To what extent do you think that boards of directors are fulfilling their responsibilities?

7. How far do think that the disclosure and transparency standard requirements are adequate?

8. What is your assessment of companies' disclosure and transparency? How far are they in compliance with disclosure and transparency requirements?

c. Stakeholders

1. How well do you think that shareholders' rights are protected? Are shareholders treated equitably?

2. What categories of stakeholders are concerned with the improvement of corporate governance? Do they have representatives on the boards? Do they have influence over the activities of the companies?

3. How well do you think that stakeholders' rights are protected under the law and in practice? How far do think that stakeholders are satisfied?

4. What is your assessment of stakeholders' roles? What should be done? What are the obstacles?

d. Regulatory Bodies & Legal System

1. What is the extent of Saudi companies' compliance with regulations and standards?

2. Which bodies are responsible for regulating corporate governance systems and monitoring companies' adherence to them? Is there any discrepancy between them?

3. What do you think of the legal system in Saudi Arabia and the laws that companies are subject to? To what extent does the legal system affect the practice of corporate governance?

4. What about the role of the judiciary and the courts in maintaining high corporate governance standards?

5. What is your evaluation of the proposed corporate governance code issued recently by the Capital Market Authority? Should it be mandatory or just for guidance? Should it apply to all companies or only to listed ones?

6. Has Saudi Arabia joining the WTO had any influence on Saudi companies' corporate governance?

7. Are you aware of different approaches of corporate governance in different parts of the world?

8. Are there any political, economic or social factors affecting corporate governance in your company?

e. Accountability

1. What is your definition and understanding of accountability?

2. Are companies, their boards and managers accountable for their actions and performance? If so, to whom and how?

3. Do you think that companies are doing enough to discharge their accountability?

4. Form your viewpoint, does accountability require companies to adopt a good corporate governance system?

5. How well do you think that accountability is defined in the relevant regulations?

6. Have you exercise your accountability relationship with the company?

f. Accountability in Islam

1. To what extent are Saudi companies subjected to Sharia?

2. What is your definition and understanding of accountability in Islam?

3. To what extent dose the Islamic conception of accountability have influence on companies' practice?

4. To what extent does Islamic accountability affect companies' corporate governance systems?

5. To what extent do Saudi companies exercise the Islamic concept of Shura? If so, how? If not, why not?

6. Are Saudi companies offering their stakeholders the opportunity to participate in making decisions in the light of Shura?

7. To what extent dose the Islamic concept of Hisba has any influence on Saudi companies?

8. According to Hisba, do you think that stakeholders have the right to ensure that all their interests are protected? How? Who is doing that?

9. Is there a conflict between Islam and the corporate governance code?

4. Regulator

a. CG Definition

1. What is your definition and understanding of the concept of corporate governance? How important do you think it is?

2. What is your assessment of corporate governance practices within Saudi Arabian companies? Are there any deficiencies? If so, what are they?

3. What of aspects of corporate governance are most important?

4. How far are Saudi companies concerned with corporate governance improvements?

5. What aspects of corporate governance are most needed in Saudi Arabia?

b. Board Structure, Responsibility, Disclosure and Transparency

1. What has been done to improve the methods of structuring the boards of directors within Saudi companies? What they are based on?

2. What has been done to encourage companies to have independent non-executive directors? What is their role? How are members of boards of directors nominated? How are they remunerated?

3. What sub-committees do Saudi companies have to establish? What are their roles? Who are their members?

4. What has been done to ensure that boards of directors are fulfilling their responsibilities?

5. What has been done to improve companies' disclosure and transparency?

6. What do you do to ensure companies' compliance with disclosure and transparency requirements? How well do they comply? What are the procedures if these requirements are not met?

7. Are there any political, economic or social factors affecting companies' disclosure and transparency?

c. Stakeholders

1. What has been done to protect shareholders' rights and to ensure that all shareholders are treated equitably? What has been done to see that they are represented on the boards and have influence over the activities of the companies?

2. What efforts have been made to protect minority shareholders' rights? What mechanisms are used to ensure that all shareholders' rights are protected? What are the procedures if there is any threat to these rights?

3. What efforts have been made to ensure that all shareholders are aware of their rights?

4. Who do you regard as companies' stakeholders? What roles should they play? What has been done to protect their interests? To ensure their right of representation on the boards? To regulate their influence over the companies? To ensure that their interests are protected?

5. What mechanisms are used to ensure that all stakeholders' interests are protected? What are the procedures if these interests are threatened?

6. What efforts have been made to ensure that all stakeholders are aware of their rights?

7. What has been done to measure stakeholders' satisfaction?

f. Regulatory Bodies & Legal System

1. What is the extent of Saudi companies' compliance with regulations and standards?

2. Which bodies are responsible for regulating corporate governance systems and monitoring companies' adherence to them? Is there any discrepancy between them?

3. What about the role of the judiciary and the courts in maintaining high corporate governance standards?

4. What steps were taken in drafting the proposed corporate governance code? Were any stakeholders groups involved in (...........) the code?

5. Is there any influence from the OECD corporate governance code or developed countries' codes?

6. Why is the code issued only as guidance and not mandatory? Is it for listed or all companies?

7. How well have companies complied with this code?

8. Do you have an adequate power and resources to monitor companies' compliance with the corporate governance regulations?

9. Has the joining of the WTO had any influence on your regulation or monitoring of companies' corporate governance?

10. Are you aware of different approaches of corporate governance in different parts of the world?

11. Are there any political, economic or social factors affecting your process of regulating and monitoring of companies' corporate governance?

d. Accountability

1. What is your definition and understanding of accountability?

2. What has been done to make sure that companies, their boards and managers are accountable for their actions and performance? To whom and how?

3. How do you ensure that companies are discharging their accountability? How well are they doing so?

4. From your viewpoint, does accountability require companies to adopt a good corporate governance system?

e. Accountability in Islam

1. To what extent do you take into account the *Sharia* in the process of issuing company regulations and rules?

2. What is your definition and understanding of accountability in Islam?

3. Do you take into account the concept of accountability in Islam when regulating and monitoring companies? If so, to whom should companies be accountable? And how?

4. Do you think that accountability in Islam required companies to adopt good corporate governance systems? If so, what do you do in this respect?

5. What has been done to ensure that there is an appropriate adopting of the Islamic conception of *Shura* within Saudi companies? If there. how? If no, Why?

6. What has been done to ensure that there is an appropriate participation opportunity for stakeholders in making decisions in the light of the concept of *Shura*?

7. Do you think that the Islamic concept of *Hisba* has any influence on your regulatory processes? If so, how? If not, why not?

8. In the light of *Hisba*, what has been done for stakeholders to have the right to ensure that all their interests are protected? How? Who is doing that?

9. Is there a conflict between Islam and the corporate governance code?

Appendix III

UNIVERSITY OF DUNDEE

Corporate Governance in Saudi Arabia

Questionnaire

(company)

Khalid Falgi

University of Dundee

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Thank you in advance for completing this questionnaire.

If you are involved in more than one role (below) please respond, where applicable in the questionnaire, in relation to your most significant role.

A: Demographic Information

- **Please identify your role by ticking the appropriate box (please choose one)**

  - ☐ Executive Company Chairman
  - ☐ Non-Executive Company Chairman
  - ☐ Independent Non-Executive Company Chairman
  - ☐ Chief Executive officer
  - ☐ Executive Director
  - ☐ Non-Executive Director
  - ☐ Independent Non-Executive Director
  - ☐ Company Manager
  - ☐ Other (please specify) ....

- **What is your highest level of academic qualification? (please choose one box)**

  - ☐ PhD
  - ☐ Master
  - ☐ First degree
  - ☐ Other (please specify) ....

- **If you have any professional qualifications please specify**

....

- **Where have you studied? (please tick all that apply)**

  - ☐ Saudi Arabia
  - ☐ Other Arab country
  - ☐ United States
  - ☐ United Kingdom
  - ☐ Other (please specify) ....

- **Please specify your age group:**
  - ☐ 30 years or less
  - ☐ 31-40 years
  - ☐ 41-50 years
  - ☐ 51-60 years
  - ☐ More than 60 years

- **Please identify your background:**
  - ☐ Saudi
  - ☐ Arab (please specify) ....
  - ☐ Asian (please specify) ....
  - ☐ European (please specify) ....
  - ☐ Other (please specify).............

- Please indicate your company's turnover in Saudi Riyals:

  ☐ Less than 500m ☐ Between 501m and 1.5bn ☐ More than 1.5bn

- **Please indicate which sector your company specialises in:**

☐ Banking & Insurance	☐ Industrial & Electrical	☐ Cement
☐ Services	☐ Telecommunication	☐ Agricultural

Please indicate your response through out the questionnaire by ticking the appropriate box where

1= Not at all   5= To a great extent

B: Corporate Governance Definition

Q1. To what extent do you agree that the term "Corporate Governance" refers to:

	1	2	3	4	5
a. The system by which companies are directed and controlled					
b. Organising the relationship between the company and its shareholders					
c. Organising the relationships between the owners, the board of directors and the managers					
d. Organising the relationship between the company and all the stakeholders who are affected by, or who affect, the company's decisions and activities					
e. The structures, processes, cultures and systems that engender the successful operation of the organisation					

Q2. Please indicate how familiar you are with the following:

	1	2	3	4	5
a. The Saudi Corporate Governance Code					
b. International developments in corporate governance					

Q3. To what extent do you agree with the following statements?

	1	2	3	4	5
a. Corporate governance is important for Saudi companies					
b. Saudi companies' practices of corporate governance are satisfactory					
c. There is an adequate awareness of corporate governance issues in the Saudi business environment					
d. The Saudi Corporate Governance Code is adequate and effective					
e. Saudi companies generally comply with The Saudi Corporate Governance Code					
f. The Saudi Corporate Governance Code should be mandatory for all listed companies					
g. There should be penalties for non-compliance with the Saudi Corporate Governance Code					
h. The Arabic translation of the English term "Corporate Governance" provides the same meaning that the English term does					

Q4. To what extent do you agree with the following as appropriate terms to refer to the English term "Corporate Governance"?

	1	2	3	4	5
a. *Hawkama*					
b. *Hakmea*					
c. *Edarat Wa Tawjeh Alshareka*					
d. *Edarat Wa Tandheem Alshareka*					
e. *Aledarah Alrashedah*					
f. Other (Please specify)					

C: Board structure, subcommittees and responsibilities

Q5. To what extent do you agree that the following factors influence the selection process of directors in Saudi companies?

Factor	Executive Directors					Non-Executive Directors					Independent NEDs				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. Share ownership															
b. Personal relationships															
c. Favouritism															
d. Experience and qualifications															
e. Having financial knowledge															
f. Having knowledge in other specialist areas															
g. Reputation															
h. Having enough time to spend on company business															
i. Other (please specify)															

Q6. In your opinion, how many Independent Non-Executive Directors should be on a Saudi company board, and how many Independent Non-Executive Directors are there in your company?(please choose one box for each row)

	None	One third of the board	Half of the board	Two thirds of the board	Other (specify)
Companies should have					
My company's board					

Q7. In your opinion, what is the maximum number of listed companies for which a person should be a board member at any one time? (please choose one box)

1	2	3	4	5	6	7	8	9	10	More than 10

Q8 .If you are a board member, please specify how many boards you are a member of?

....

Q9. In your opinion, what should be the appropriate number of board members for each size of Saudi company?

	Small companies Turnover < 500m	Medium companies Turnover between 501m and 1.5bn	Large companies Turnover > 1.5bn
Not less than			
Not more than			

Q10. Please specify how many members are on your company's board of directors?

....

Q11. In your opinion, how often should the board of directors meet? And how often does your company's board meet? (please choose one box for each row)

	Every 6 months	Every 4 months	Every 3 months	Every 2 months	Every month	More often
Companies' boards should meet						
My company board meets						

Q12. To what extent do you agree that companies should, are doing, and your company does, the following:

Statement	Companies should					Companies in general do					My company actually does				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. Separate the chairman and CEO roles															
b. Have an independent chairman															
c. Define the board's authorities and responsibilities and ensure that board members are aware of them															
d. Have appropriate standards to evaluate board business															
e. Subject board members to orientation programmes to train and qualify them															
f. Ensure that board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and the shareholders															
g. Treat all shareholders fairly															
h. Apply high ethical standards															
i. Take into account the interests of all stakeholders															
j. Exercise objective independent judgement on corporate affairs															
k. Provide access to accurate, relevant and timely information to board members															

Q13. To what extent do you agree that Saudi companies' boards of directors should be, actually are, and your company is, responsible for the following:

	Board should be responsible for:					Boards actually are:					My company's board is actually:				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans															
b. Setting performance objectives															
c. Monitoring corporate performance															
d. Overseeing major capital expenditure, acquisitions and divestitures.															
e. Monitoring the effectiveness of the company's governance practices and making changes as needed.															
f. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.															
g. Aligning key executive and board remuneration with the longer term interests of the company and its shareholders															
h. Ensuring a formal and transparent board nomination and election process.															
i. Monitoring and managing potential conflicts of interest of management or board members including misuse of corporate assets and abuse in related party transactions															
j. Ensuring that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control															
k. Overseeing the process of disclosure and communication															

Q14. To what extent do you think that it is important for Saudi companies to have the following board committees? And to what extent do these committees exist in Saudi companies?

Committee	The importance					The existence				
	1	2	3	4	5	1	2	3	4	5
a. Audit Committee										
b. Nomination Committee										
c. Remuneration Committee										
d. Executive Committee										
e. Corporate Governance Committee										
f. Risk Committee										
g. Social Responsibility Committee										
i. *Sharia* Committee										

Q15. Please indicate which of the following committees your company has, and to what extent are they effective?

Committee	The existence		The effectiveness				
	Yes	No	1	2	3	4	5
a. Audit Committee							
b. Nomination Committee							
c. Remuneration Committee							
d. Executive Committee							
e. Corporate Governance Committee							
f. Risk Committee							
g. Social Responsibility Committee							
i. *Sharia* Committee							

D: Disclosure and Transparency

Q16. To what extent do you agree that Saudi companies should be, actually are, and your own company is, disclosing the following:

Statement	Companies should be disclosing:					Companies actually are disclosing:					My company discloses:				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. The financial and operating results of the company															
b. Company objectives															
c. Company future plans															
d. Major share ownership and voting rights															
e. Remuneration, qualifications, the selection process, other company directorships and independence															
f. Related party transactions															
g. Foreseeable risk factors															
h. Issues regarding employees and other stakeholders															
i. Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.															

E: Stakeholders & Accountability

Q17. To what extent do you agree with the following:

	There is an accountability relationship between a company and:					These stakeholders should have a representative on the board				
	1	2	3	4	5	1	2	3	4	5
a. Academics										
b. Auditors										
c. Community										
d. Customers										
e. Employees										
f. Environmental groups										
g. Financial consultants and analysists										
h. The government										
i. Lenders										
j. Media										
k. The regulatory and monitoring bodies										
l. Shareholders										
m. Suppliers										

Q18. Please specify, approximately, the proportion of your company ownership by the following:

Owner	Percentage of ownership	Do they have representatives on the board	
		Yes	No
a. The Government (Public Investment Fund)			
b. Institutional Investors (Social Insurance)			
c. Institutional Investors (Pension Fund)			
d. Institutional Investors (Fund Managers)			
e. Family Members			
f. Individual Private Investors			
g. Other (please specify)...............			

Q19. To what extent do you agree with the following statements about Saudi companies?

Statements	1	2	3	4	5
a. It is common for Saudi companies to have major shareholders					
b. Major shareholders control and have a direct influence over companies' activities					
c. The ownership structure affects companies' corporate governance practices					
d. The rights of shareholders including minority shareholders are adequately protected by law					
e. The rights of shareholders including minority shareholders are adequately protected in practice					
f. Saudi companies treat all shareholders equitably					
g. An accumulative voting system would assist minority shareholders to choose their representatives on the board					
h. Institutional investors exercise their ownership rights					
i. Saudi companies respect the rights of stakeholders that are established by law or through mutual agreements.					
j. Saudi companies provide equal, timely and cost-efficient access to relevant information for all stakeholders					
k. Saudi companies enable stakeholders to freely communicate their concerns about illegal or unethical practices to the board					

Q20. To what extent do you agree with the following statements?

Statement	1	2	3	4	5
a. Accountability is practiced in Saudi society					
b. Companies, boards and managers are accountable for their acts					
c. Stakeholders exercise their accountability relationships with companies					
d. Accountability mechanisms are in place in companies					
f. Companies should adopt good corporate governance to discharge their accountability					

F: Accountability in Islam

Q21. To what extent do you agree with that Saudi companies should and are doing the following?

Statement	should be					Actually are				
	1	2	3	4	5					
a. Companies are subject to *Sharia* in all their transactions										
b. Companies, their boards and managers are accountable for their acts according to the Islamic conception of accountability.										
c. Companies, their boards and managers are accountable to Allah according to the Islamic conception of accountability.										
d. Companies, their boards and managers are accountable to shareholders according to the Islamic conception of accountability.										
e. Companies, their boards and managers are accountable to stakeholders according to the Islamic conception of accountability.										
f. Companies offer the opportunity for stakeholders to participate in making decisions according to the Islamic conception of *Shura*.										
g. Companies provide the opportunity to stakeholders to ensure that all their interests in the company are protected according to the Islamic conception of *Hisba*.										

Q22. In your opinion, does *Sharia* conflict with any corporate governance principles?

Yes ☐ No ☐

(If yes, please explain)

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G: Regulatory and legal system

Q23. To what extent do you agree with the following statements:

Statement	1	2	3	4	5
a. T he laws and systems in Saudi Arabia are adequate, effective and provide an appropriate environment for corporate governance practices					
b. The laws and systems in Saudi Arabia are adequate, effective and pr ovide an appropriate environment for accountability practices					
c. The judiciary and the courts play a significant role in maintaining high corporate governance practices					
d. The corporate governance regulatory, supervision and monitoring bodies are efficient					
e. The regulatory, supervision and monitoring bodies work well together.					
f. There is a need for establishing a separate and independent body to look after corporate governance issues in Saudi Arabia					
g. Saudi companies comply with laws and regulations					

Section H: The corporate governance framework

Q24. To what extent do agree with the following statements:

Statement	1	2	3	4	5
a. Social factors have a direct impact on corporate governance practices in Saudi Arabia					
b. Cultural factors such as: favouritism, family ties and tribalism, have a direct impact on corporate governance practices in Saudi Arabia					
c. The political situation in Saudi Arabia impacts on corporate governance practices					
d. The economic situation in Saudi Arabia impacts on corporate governance practices					
f. Corruption in Saudi Arabia has an influence on corporate governance practices					
g. The auditing and accounting profession in Saudi Arabia impacts on corporate governance practices					
h. The cost of corporate governance affects the practice of corporate governance in Saudi Arabia					

Please feel free to add any comments that you think are related to corporate governance practices in Saudi companies in general

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Appendix IV

DUNDEE

Corporate Governance in Saudi Arabia

Questionnaire

(Other Stakeholders)

Khalid Falgi

University of Dundee

School of Accounting & Finance, University of Dundee, Dundee, DD1 4HN, UK
Tel: +44 (0) 1382 384193 Fax: +44 (0) 1382 388421

Thank you in advance for completing this questionnaire.

If you are involved in more than one role (below) please respond, where applicable in the questionnaire, in relation to your most significant role.

A: Demographic Information

- Please identify your role by ticking the appropriate box (please choose one)
  - ☐ Academic
  - ☐ Auditor
  - ☐ Company Employee
  - ☐ Economic Journalist
  - ☐ Family Investor
  - ☐ Financial Consultant / Analyst
  - ☐ Fund Manager
  - ☐ Government Institutional Investor
  - ☐ Judiciary
  - ☐ Lender
  - ☐ Private Investor
  - ☐ Regulator
  - ☐ Stock Broker
  - ☐ Other (please specify) ....

- What is your highest level of academic qualification? (please choose one box)
  - ☐ PhD
  - ☐ Master
  - ☐ First degree
  - ☐ Other (please specify)............................

- If you have any professional qualifications please specify

....

- Where have you studied? (please tick all that apply)
  - ☐ Saudi Arabia
  - ☐ Other Arab country
  - ☐ United States
  - ☐ United Kingdom
  - ☐ Other (please specify) ....

- Please specify your age group:
  - ☐ 30 years or less
  - ☐ 31-40 years
  - ☐ 41-50 years
  - ☐ 51-60 years
  - ☐ More than 60 years

- Please identify your background:
  - ☐ Saudi
  - ☐ Arab (please specify) ....
  - ☐ Asian (please specify) ....
  - ☐ European (please specify) ....
  - ☐ Other (please specify).............

Please indicate your response through out the questionnaire by ticking the appropriate box where
1= Not at all 5= To a great extent

B: Corporate Governance Definition

Q1. To what extent do you agree that the term "Corporate Governance" refers to:

	1	2	3	4	5
a. The system by which companies are directed and controlled					
b. Organising the relationship between the company and its shareholders					
c. Organising the relationships between the owners, the board of directors and the managers					
d. Organising the relationship between the company and all the stakeholders who are affected by, or who affect, the company's decisions and activities					
e. The structures, processes, cultures and systems that engender the successful operation of the organisation					

Q2. Please indicate how familiar you are with the following:

	1	2	3	4	5
a. The Saudi Corporate Governance Code					
b. International developments in corporate governance					

Q3. To what extent do you agree with the following statements:

	1	2	3	4	5
a. Corporate governance is important for Saudi companies					
b. Saudi companies' practices of corporate governance are satisfactory					
c. There is an adequate awareness of corporate governance issues in the Saudi business environment					
d. The Saudi Corporate Governance Code is adequate and effective					
e. Saudi companies generally comply with The Saudi Corporate Governance Code					
f. The Saudi Corporate Governance Code should be mandatory for all listed companies					
g. There should be penalties for non-compliance with the Saudi Corporate Governance Code					
h. The Arabic translation of the English term "Corporate Governance" provides the same meaning as the English term					

Q4. To what extent do you agree with the following as appropriate terms to refer to the English term "Corporate Governance"?

	1	2	3	4	5
a. *Hawkama*					
b. *Hakmea*					
c. *Edarat Wa Tawjeh Alshareka*					
d. *Edarat wa Tandheem Alshareka*					
e. *Aledarah Alrashedah*					
f. Other (Please specify)					

C: Board structure, subcommittees and responsibilities

An Executive Director is a board member who has a management position in a company.
A Non-Executive Director is a board member who does not have a full-time management position at a company, or who does not receive a monthly or yearly salary.
An Independent Non-Executive Director is a member of the board of directors who has complete independence.

Q5. To what extent do you agree that the following factors influence the selection process of directors in Saudi companies?

Factor	Executive Directors					Non-Executive Directors					Independent NEDs				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. Share ownership															
b. Personal relationships															
c. Favouritism															
d. Experience and qualifications															
e. Having financial knowledge															
f. Having knowledge in other specialist areas															
g. Reputation															
h. Having enough time to spend on company business															
i. Other (please specify)															

Q6. According to the Saudi Corporate Governance Code, the number of Independent Non-Executive Directors shall not be fewer than two members, or one-third of the members of a board, whichever is greater. In your opinion, how many Independent Non-Executive Directors should be on a Saudi company board? (please choose one box)

None	One third of the board	Half of the board	Two thirds of the board	Other (specify)

Q7. According to the Saudi Corporate Governance Code, a member of a board of directors shall not act as a member of the board of directors of more than five listed companies at the same time. In your opinion, what is the maximum number of listed companies for which a person should be a board member at any one time? (please choose one box)

1	2	3	4	5	6	7	8	9	10	More than 10

Q8. According to the Saudi Corporate Governance Code, the maximum number of board members is 11members and the minimum is 3 members. In your opinion, what should be the appropriate number of board members for each size of Saudi company?

	Small companies Turnover < 500m	Medium companies Turnover between 500m and 1.5bn	Large companies Turnover >1.5bn
Not less than			
Not more than			

Q9. In your opinion, how often should the board of directors meet?

Every 6 months	Every 4 months	Every 3 months	Every 2 months	Every month	More

Q10. To what extent do you agree that companies should do, and are doing, the following:

Statement	Companies should					Companies in general do				
	1	2	3	4	5	1	2	3	4	5
a. Separate the chairman and CEO roles										
b. Have an independent chairman										
c. Define the board's authorities and responsibilities and ensure that board members are aware of them										
d. Have appropriate standards to evaluate board business										
e. Subject board members to orientation programmes to train and qualify them										
f. Ensure that board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and the shareholders										
g. Treat all shareholders fairly										
h. Apply high ethical standards										
i. Take into account the interests of all stakeholders.										
j. Exercise objective independent judgement on corporate affairs										
k. Provide access to accurate, relevant and timely information to board members										

Q11. To what extent do you agree that the board of directors should be, and are, responsible for the following:

	Boards should be responsible for:					Boards actually are:				
	1	2	3	4	5	1	2	3	4	5
a. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans										
b. Setting performance objectives										
c. Overseeing major capital expenditure, acquisitions and divestitures										
d. Monitoring the effectiveness of the company's governance practices and making changes as needed										
e. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning										
f. Aligning key executive and board remuneration with the longer term interests of the company and its shareholders										
g. Ensuring a formal and transparent board nomination and election process										
h. Monitoring and managing potential conflicts of interest of management or board members including misuse of corporate assets and abuse in related party transactions										
i. Ensuring that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control										
j. Overseeing the process of disclosure and communication										

Q12. To what extent do you think that it is important for Saudi companies to have the following board committees? And to what extent do these committees exist in Saudi companies?

Committee	The importance					The existence				
	1	2	3	4	5	1	2	3	4	5
a. Audit Committee										
b. Nomination Committee										
c. Remuneration Committee										
d. Executive Committee										
e. Corporate Governance Committee										
f. Risk Committee										
g. Social Responsibility Committee										
i. *Sharia* Committee										

D: Disclosure and Transparency

Q13. To what extent do you agree that Saudi companies should be, and actually are, disclosing the following:

Statement	Companies should be disclosing:					Companies actually are disclosing				
	1	2	3	4	5	1	2	3	4	5
a. The financial and operating results of the company										
b. Company objectives										
c. Company future plans										
d. Major share ownership and voting rights										
e. Remuneration, qualifications, the selection process, other company directorships and independence										
f. Related party transactions										
g. Foreseeable risk factors										
h. Issues regarding employees and other stakeholders										
i. Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.										

E: Stakeholders & Accountability

Q14. To what extent do you agree with the following:

	There is an accountability relationship between a company and:					These stakeholders should have a representative on the board				
	1	2	3	4	5	1	2	3	4	5
a. Academics										
b. Auditors										
c. Community										
d. Customers										
e. Employees										
f. Environmental groups										
g. Financial consultants and analysists										
h. The government										
i. Lenders										
j. Media										
k. The regulatory and monitoring bodies										
l. Shareholders										
m. Suppliers										

Q15. To what extent do you agree with the following statements about Saudi companies?

Statements	1	2	3	4	5
a. It is common for Saudi companies to have major shareholders					
b. Major shareholders control and have a direct influence over companies' activities					
c. The ownership structure affects companies' corporate governance practices					
d. The rights of shareholders including minority shareholders are adequately protected by law					
e. The rights of shareholders including minority shareholders are adequately protected in practice					
f. Saudi companies treat all shareholders equitably					
g. An accumulative voting system would assist minority shareholders to choose their representatives on the board					
h. Institutional investors exercise their ownership rights					
i. Saudi companies respect the rights of stakeholders that are established by law or through mutual agreements.					
j. Saudi companies provide equal, timely and cost-efficient access to relevant information for all stakeholders					
k. Saudi companies enable stakeholders to freely communicate their concerns about illegal or unethical practices to the board					

Q16. To what extent do you agree with the following statements:

Statement	1	2	3	4	5
a. Accountability is practiced in Saudi society					
b. Companies, boards and managers are accountable for their acts					
c. Stakeholders exercise their accountability relationships with companies					
d. Accountability mechanisms are in place in companies					
f. Companies should adopt good corporate governance to discharge their accountability					

F: Accountability in Islam

Q17. To what extent do you agree with that Saudi companies should and are doing the following?

Statement	Should be					Actually are				
	1	2	3	4	5	1	2	3	4	5
a. Companies are subject to *Sharia* in all their transactions										
b. Companies, their boards and managers are accountable for their acts according to the Islamic conception of accountability.										
c. Companies, their boards and managers are accountable to Allah according to the Islamic conception of accountability.										
d. Companies, their boards and managers are accountable to shareholders according to the Islamic conception of accountability.										
e. Companies, their boards and managers are accountable to stakeholders according to the Islamic conception of accountability.										
f. Companies offer the opportunity for stakeholders to participate in making decisions according to the Islamic conception of *Shura*.										
g. Companies provide the opportunity to stakeholders to ensure that all their interests in the company are protected according to the Islamic conception of *Hisba*.										

Q18. In your opinion, does *Sharia* conflict with any corporate governance principles?

Yes ☐ No ☐

(If yes, please explain)

....

....

G: Regulatory and legal system

Q19. To what extent do you agree with the following statements:

Statement	1	2	3	4	5
a. The laws and systems in Saudi Arabia are adequate, effective and pr ovide an appropriate environment for corporate governance practices					
b. The laws and systems in Saudi Arabia are adequate, effective and pr ovide an appropriate environment for accountability practices					
c. The judiciary and the courts play a significant role in maintaining high corporate governance practices					
d. The corporate governance regulatory, supervision and monitoring bodies are efficient					
e. The regulatory, supervision and monitoring bodies work well together.					
f. There is a need for establishing a separate and independent body to look after corporate governance issues in Saudi Arabia					
g. Saudi companies comply with laws and regulations					

H: The corporate governance framework

Q20. To what extent do agree with the following statements:

Statement	1	2	3	4	5
a. Social factors have a direct impact on corporate governance practices in Saudi Arabia					
b. Cultural factors such as: favouritism, family ties and tribalism, have a direct impact on corporate governance practices in Saudi Arabia					
c. The political situation in Saudi Arabia impacts on corporate governance practices					
d. The economic situation in Saudi Arabia impacts on corporate governance practices					
f. Corruption in Saudi Arabia has an influence on corporate governance practices					
g. The auditing and accounting profession in Saudi Arabia impacts on corporate governance practices					
h. The cost of corporate governance affects the practice of corporate governance in Saudi Arabia					

Please feel free to add any comments that you think are related to corporate governance practices in Saudi companies in general

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Appendix IV

UNIVERSITY OF
DUNDEE

Corporate Governance in Saudi Arabia

Questionnaire

(Other Stakeholders)

Khalid Falgi

University of Dundee

School of Accounting & Finance, University of Dundee, Dundee, DD1 4HN, UK
Tel: +44 (0) 1382 384193 Fax: +44 (0) 1382 388421

Thank you in advance for completing this questionnaire.

If you are involved in more than one role (below) please respond, where applicable in the questionnaire, in relation to your most significant role.

A: Demographic Information

- Please identify your role by ticking the appropriate box (please choose one)
  - ☐ Academic
  - ☐ Auditor
  - ☐ Company Employee
  - ☐ Economic Journalist
  - ☐ Family Investor
  - ☐ Financial Consultant / Analyst
  - ☐ Fund Manager
  - ☐ Government Institutional Investor
  - ☐ Judiciary
  - ☐ Lender
  - ☐ Private Investor
  - ☐ Regulator
  - ☐ Stock Broker
  - ☐ Other (please specify) ....

- What is your highest level of academic qualification? (please choose one box)
  - ☐ PhD
  - ☐ Master
  - ☐ First degree
  - ☐ Other (please specify)..........................

- If you have any professional qualifications please specify

....

- Where have you studied? (please tick all that apply)
  - ☐ Saudi Arabia
  - ☐ Other Arab country
  - ☐ United States
  - ☐ United Kingdom
  - ☐ Other (please specify) ....

- Please specify your age group:
  - ☐ 30 years or less
  - ☐ 31-40 years
  - ☐ 41-50 years
  - ☐ 51-60 years
  - ☐ More than 60 years

- Please identify your background:
  - ☐ Saudi
  - ☐ Arab (please specify) ....
  - ☐ Asian (please specify) ....
  - ☐ European (please specify) ....
  - ☐ Other (please specify)............

Please indicate your response through out the questionnaire by ticking the appropriate box where
1= Not at all 5= To a great extent

B: Corporate Governance Definition

Q1. To what extent do you agree that the term "Corporate Governance" refers to:

	1	2	3	4	5
a. The system by which companies are directed and controlled					
b. Organising the relationship between the company and its shareholders					
c. Organising the relationships between the owners, the board of directors and the managers					
d. Organising the relationship between the company and all the stakeholders who are affected by, or who affect, the company's decisions and activities					
e. The structures, processes, cultures and systems that engender the successful operation of the organisation					

Q2. Please indicate how familiar you are with the following:

	1	2	3	4	5
a. The Saudi Corporate Governance Code					
b. International developments in corporate governance					

Q3. To what extent do you agree with the following statements:

	1	2	3	4	5
a. Corporate governance is important for Saudi companies					
b. Saudi companies' practices of corporate governance are satisfactory					
c. There is an adequate awareness of corporate governance issues in the Saudi business environment					
d. The Saudi Corporate Governance Code is adequate and effective					
e. Saudi companies generally comply with The Saudi Corporate Governance Code					
f. The Saudi Corporate Governance Code should be mandatory for all listed companies					
g. There should be penalties for non-compliance with the Saudi Corporate Governance Code					
h. The Arabic translation of the English term "Corporate Governance" provides the same meaning as the English term					

Q4. To what extent do you agree with the following as appropriate terms to refer to the English term "Corporate Governance"?

	1	2	3	4	5
a. *Hawkama*					
b. *Hakmea*					
c. *Edarat Wa Tawjeh Alshareka*					
d. *Edarat wa Tandheem Alshareka*					
e. *Aledarah Alrashedah*					
f. Other (Please specify)					

C: Board structure, subcommittees and responsibilities

An Executive Director is a board member who has a management position in a company.
A Non-Executive Director is a board member who does not have a full-time management position at a company, or who does not receive a monthly or yearly salary.
An Independent Non-Executive Director is a member of the board of directors who has complete independence.

Q5. To what extent do you agree that the following factors influence the selection process of directors in Saudi companies?

Factor	Executive Directors					Non-Executive Directors					Independent NEDs				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. Share ownership															
b. Personal relationships															
c. Favouritism															
d. Experience and qualifications															
e. Having financial knowledge															
f. Having knowledge in other specialist areas															
g. Reputation															
h. Having enough time to spend on company business															
i. Other (please specify)															

Q6. According to the Saudi Corporate Governance Code, the number of Independent Non-Executive Directors shall not be fewer than two members, or one-third of the members of a board, whichever is greater. In your opinion, how many Independent Non-Executive Directors should be on a Saudi company board? (please choose one box)

None	One third of the board	Half of the board	Two thirds of the board	Other (specify)

Q7. According to the Saudi Corporate Governance Code, a member of a board of directors shall not act as a member of the board of directors of more than five listed companies at the same time. In your opinion, what is the maximum number of listed companies for which a person should be a board member at any one time? (please choose one box)

1	2	3	4	5	6	7	8	9	10	More than 10

Q8. According to the Saudi Corporate Governance Code, the maximum number of board members is 11members and the minimum is 3 members. In your opinion, what should be the appropriate number of board members for each size of Saudi company?

	Small companies Turnover < 500m	Medium companies Turnover between 500m and 1.5bn	Large companies Turnover >1.5bn
Not less than			
Not more than			

Q9. In your opinion, how often should the board of directors meet?

Every 6 months	Every 4 months	Every 3 months	Every 2 months	Every month	More

Q10. To what extent do you agree that companies should do, and are doing, the following:

Statement	Companies should					Companies in general do				
	1	2	3	4	5	1	2	3	4	5
a. Separate the chairman and CEO roles										
b. Have an independent chairman										
c. Define the board's authorities and responsibilities and ensure that board members are aware of them										
d. Have appropriate standards to evaluate board business										
e. Subject board members to orientation programmes to train and qualify them										
f. Ensure that board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and the shareholders										
g. Treat all shareholders fairly										
h. Apply high ethical standards										
i. Take into account the interests of all stakeholders.										
j. Exercise objective independent judgement on corporate affairs										
k. Provide access to accurate, relevant and timely information to board members										

Q11. To what extent do you agree that the board of directors should be, and are, responsible for the following:

	Boards should be responsible for:					Boards actually are:				
	1	2	3	4	5	1	2	3	4	5
a. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans										
b. Setting performance objectives										
c. Overseeing major capital expenditure, acquisitions and divestitures										
d. Monitoring the effectiveness of the company's governance practices and making changes as needed										
e. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning										
f. Aligning key executive and board remuneration with the longer term interests of the company and its shareholders										
g. Ensuring a formal and transparent board nomination and election process										
h. Monitoring and managing potential conflicts of interest of management or board members including misuse of corporate assets and abuse in related party transactions										
i. Ensuring that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control										
j. Overseeing the process of disclosure and communication										

Q12. To what extent do you think that it is important for Saudi companies to have the following board committees? And to what extent do these committees exist in Saudi companies?

Committee	The importance					The existence				
	1	2	3	4	5	1	2	3	4	5
a. Audit Committee										
b. Nomination Committee										
c. Remuneration Committee										
d. Executive Committee										
e. Corporate Governance Committee										
f. Risk Committee										
g. Social Responsibility Committee										
i. *Sharia* Committee										

D: Disclosure and Transparency

Q13. To what extent do you agree that Saudi companies should be, and actually are, disclosing the following:

Statement	Companies should be disclosing:					Companies actually are disclosing				
	1	2	3	4	5	1	2	3	4	5
a. The financial and operating results of the company										
b. Company objectives										
c. Company future plans										
d. Major share ownership and voting rights										
e. Remuneration, qualifications, the selection process, other company directorships and independence										
f. Related party transactions										
g. Foreseeable risk factors										
h. Issues regarding employees and other stakeholders										
i. Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.										

E: Stakeholders & Accountability

Q14. To what extent do you agree with the following:

	There is an accountability relationship between a company and:					These stakeholders should have a representative on the board				
	1	2	3	4	5	1	2	3	4	5
a. Academics										
b. Auditors										
c. Community										
d. Customers										
e. Employees										
f. Environmental groups										
g. Financial consultants and analysists										
h. The government										
i. Lenders										
j. Media										
k. The regulatory and monitoring bodies										
l. Shareholders										
m. Suppliers										

Q15. To what extent do you agree with the following statements about Saudi companies?

Statements	1	2	3	4	5
a. It is common for Saudi companies to have major shareholders					
b. Major shareholders control and have a direct influence over companies' activities					
c. The ownership structure affects companies' corporate governance practices					
d. The rights of shareholders including minority shareholders are adequately protected by law					
e. The rights of shareholders including minority shareholders are adequately protected in practice					
f. Saudi companies treat all shareholders equitably					
g. An accumulative voting system would assist minority shareholders to choose their representatives on the board					
h. Institutional investors exercise their ownership rights					
i. Saudi companies respect the rights of stakeholders that are established by law or through mutual agreements.					
j. Saudi companies provide equal, timely and cost-efficient access to relevant information for all stakeholders					
k. Saudi companies enable stakeholders to freely communicate their concerns about illegal or unethical practices to the board					

Q16. To what extent do you agree with the following statements:

Statement	1	2	3	4	5
a. Accountability is practiced in Saudi society					
b. Companies, boards and managers are accountable for their acts					
c. Stakeholders exercise their accountability relationships with companies					
d. Accountability mechanisms are in place in companies					
f. Companies should adopt good corporate governance to discharge their accountability					

F: Accountability in Islam

Q17. To what extent do you agree with that Saudi companies should and are doing the following?

Statement	Should be					Actually are				
	1	2	3	4	5	1	2	3	4	5
a. Companies are subject to *Sharia* in all their transactions										
b. Companies, their boards and managers are accountable for their acts according to the Islamic conception of accountability.										
c. Companies, their boards and managers are accountable to Allah according to the Islamic conception of accountability.										
d. Companies, their boards and managers are accountable to shareholders according to the Islamic conception of accountability.										
e. Companies, their boards and managers are accountable to stakeholders according to the Islamic conception of accountability.										
f. Companies offer the opportunity for stakeholders to participate in making decisions according to the Islamic conception of *Shura*.										
g. Companies provide the opportunity to stakeholders to ensure that all their interests in the company are protected according to the Islamic conception of *Hisba*.										

Q18. In your opinion, does *Sharia* conflict with any corporate governance principles?

Yes ☐ No ☐

(If yes, please explain)

....

....

G: Regulatory and legal system

Q19. To what extent do you agree with the following statements:

Statement	1	2	3	4	5
a. The laws and systems in Saudi Arabia are adequate, effective and pr ovide an appropriate environment for corporate governance practices					
b. The laws and systems in Saudi Arabia are adequate, effective and pr ovide an appropriate environment for accountability practices					
c. The judiciary and the courts play a significant role in maintaining high corporate governance practices					
d. The corporate governance regulatory, supervision and monitoring bodies are efficient					
e. The regulatory, supervision and monitoring bodies work well together.					
f. There is a need for establishing a separate and independent body to look after corporate governance issues in Saudi Arabia					
g. Saudi companies comply with laws and regulations					

H: The corporate governance framework

Q20. To what extent do agree with the following statements:

Statement	1	2	3	4	5
a. Social factors have a direct impact on corporate governance practices in Saudi Arabia					
b. Cultural factors such as: favouritism, family ties and tribalism, have a direct impact on corporate governance practices in Saudi Arabia					
c. The political situation in Saudi Arabia impacts on corporate governance practices					
d. The economic situation in Saudi Arabia impacts on corporate governance practices					
f. Corruption in Saudi Arabia has an influence on corporate governance practices					
g. The auditing and accounting profession in Saudi Arabia impacts on corporate governance practices					
h. The cost of corporate governance affects the practice of corporate governance in Saudi Arabia					

Please feel free to add any comments that you think are related to corporate governance practices in Saudi companies in general

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Appendix V

UNIVERSITY OF DUNDEE

إستمارة إستبيان

عن حوكمة الشركات في المملكة العربية السعودية

Corporate Governance in Saudi Arabia

Questionnaire

(company)

خالد بن إدريس الفلقي
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DUNDEE

بسم الله الرحمن الرحيم

سعادة المكرم

السلام عليكم ورحمة الله وبركاته

أما بعد ،،،،

أقوم حالياً بتحضير درجة الدكتوارة في جامعة دندي بالمملكة المتحدة وذلك عن حوكمة الشركات في المملكة العربية السعودية، بإشراف كل من البروفسور كرستين هيلير والبروفسور ديفيد كوليسون. وكجزء هام من الدراسة التطبيقية للبحث أقوم بمسح إستبياني بغرض التعرف على آراء الأطراف ذات الصلة بالشركات حول المواضيع المتعلقة بحوكمة الشركات وممارساتها في بيئة الأعمال السعودية.

ولعلمي التام بإيمانكم بأهمية دعم وتشجيع البحث العلمي ودو ره في تطوير المجتمع، فإنني أرجو منكم التكرم بالإجابة على أسئلة الا ستمارة المرفقة وإعادة إرسالها في المظروف مسبق الدفع المرفق، أو بالطريقة المتفق عليها مع الباحث . كما لا يفوتني التنويه على أهمية عدم التردد في إظهار وجهة نظرك في مختلف القضايا المطروحة وعدم القلق من عدم المعرفة أو الالمام ببعض الأمور، حيث أن أحد أهداف البـ حث هو التعرف على الواقع الفعلي للحوكمة في البيئة المحلية. كما أن جميع المعلومات ستعامل بسرية كاملة ولن تستخدم إلا لأغراض البحث العلمي فقط ولن يتم ذكر أسماء ومراكز المشاركين في الإستبيان . وفي حال رغبتكم في الحصول على ملخص لنتائج البحث عند إنتهائه فإنه يسرني إرساله اليكم بالطريقه التي تفضلونها.

شاكراً ومقدراً حسن تعاونكم ،،،،

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شكراً لك مقدماً على المشاركة في الإجابة على هذا الاستبيان.

في حال ممارستك لأكثر من وظيفة، الرجاء الإجابة على أسئلة الإستبيان فيما يتعلق بأهم وظيفة تشغلها.

أ. معلومات ديموغرافيه

- حدد وظيفتك

- ☐ رئيس مجلس إدارة تنفيذي
- ☐ رئيس مجلس إدارة غير تنفيذي
- ☐ رئيس مجلس إدارة غير تنفيذي مستقل
- ☐ رئيس تنفيذي
- ☐ عضو مجلس إدارة تنفيذي
- ☐ عضو مجلس إدارة غير تنفيذي
- ☐ عضو مجلس إدارة غير تنفيذي مستقل
- ☐ مدير
- ☐ أخرى (رجاءاً حدد) ....

- حدد مستواك التعليمي

- ☐ دكتوراة
- ☐ ماجستير
- ☐ بكالوريوس
- ☐ أخرى (رجاءاً حدد) ....

- إذا كنت حاصل على أي شهادات مهنية الرجاء ذكرها:

....

- أين كانت دراستك (اختر كل ما هو مناسب):

- ☐ السعودية
- ☐ دولة عربية أخرى
- ☐ الولايات المتحدة
- ☐ بريطانيا
- ☐ أخرى (رجاءاً حدد) ....

- حدد فئتك العمرية:

- ☐ 30 سنة أو أقل
- ☐ 31- 40 سنة
- ☐ 41- 50 سنة
- ☐ 51 – 60 سنة
- ☐ أكبر من 60 سنة

- حدد جنسيتك:

- ☐ سعودي
- ☐ عربي (رجاءاً حدد) ....
- ☐ أسيوي (رجاءاً حدد) ....
- ☐ أوروبي (رجاءاً حدد) ....
- ☐ أخرى (رجاءاً حدد) ....

- حدد المبيعات السنوية لشركتك بالريال السعودي:

☐ أقل من 500 مليون ☐ ما بين 501 مليون الى 1.5 مليار ☐ أكثر من 1.5 مليار

- حدد القطاع الذي تنتمي اليه شركتك:

- ☐ البنوك والتأمين
- ☐ الخدمات
- ☐ الصناعة والكهرباء
- ☐ الإتصالات
- ☐ الأسمنت
- ☐ الزراعة

الرجاءالإجابة على أسئلة الأستبيان بإختيار الصندوق الملائم حيث أن:
1= لا أوافق على الاطلاق و 5= موافق الى حد بعيد

ب: تعريف حوكمة الشركات

س1: الى أي مدى توافق على أن مصطلح حوكمة الشركات "Corporate Governance" يشير الى:

	1	2	3	4	5
أ. النظام الذي من خلاله توجه وتراقب الشركة	☐	☐	☐	☐	☐
ب. تنظيم العلاقة بين الشركة ومساهميها	☐	☐	☐	☐	☐
ج. تنظيم العلاقة بين الملاك ومجلس الإدارة والمدراء	☐	☐	☐	☐	☐
د. تنظيم العلاقة بين الشركة وكل الاطراف ذات الصلة الذين يتأثرون ويؤثرون على قرارات ونشاطات الشركة	☐	☐	☐	☐	☐
هـ. مجموعة من الأنظمة، القواعد، العمليات والثقافلت التي تؤدي الى نجاح عمليات المنظمة	☐	☐	☐	☐	☐

س2: الى أي مدى أنت ملم بالتالي:

	1	2	3	4	5
أ. لائحة حوكمة الشركات السعودية (الصادرة عن هيئة السوق المالية)	☐	☐	☐	☐	☐
ب. التطورات الدولية في مجال حوكمة الشركات	☐	☐	☐	☐	☐

3. الى أي مدى توافق على العبارات التالية:

	1	2	3	4	5
أ. حوكمة الشركات مهمة للشركات السعودية	☐	☐	☐	☐	☐
ب. ممارسة الشركات السعودية للحوكمة مرضية	☐	☐	☐	☐	☐
ج. هناك وعي كاف بقضايا الحوكمة في بيئة الأعمال السعودية	☐	☐	☐	☐	☐
د. لائحة حوكمة الشركات السعودية كافية وفعالة	☐	☐	☐	☐	☐
هـ. الشركات السعودية عموماً تلتزم بلائحة حوكمة الشركات	☐	☐	☐	☐	☐
و. لائحة حوكمة الشركات يجب ان تكون الزامية على جميع الشركات المساهمة المدرجة	☐	☐	☐	☐	☐
ز. يجب معاقبة الشركات الغير ملتزمة بلائحة حوكمة الشركات	☐	☐	☐	☐	☐
ح. الترجمة العربية للمصطلح الانجليزي لحوكمة الشركات "Corporate Governance" تقدم نفس المعنى الذي يقدمه المصطلح الانجليزي	☐	☐	☐	☐	☐

س4: الى أي مدى توافق على ملائمة العبارات التالية للإشارة الى المصطلح الانجليزي "Corporate Governance"؟

	1	2	3	4	5
أ. حوكمة	☐	☐	☐	☐	☐
ب. حاكمية	☐	☐	☐	☐	☐
ج. نظام توجيه ورقابة الشركة	☐	☐	☐	☐	☐
د. إدارة وتنظيم الشركة	☐	☐	☐	☐	☐
هـ. الإدارة الرشيدة	☐	☐	☐	☐	☐
و. أخرى (رجاءاً حدد)	☐	☐	☐	☐	☐

ج: تركيبة مجلس الإدارة، اللجان الفرعية والمسؤليات

س5: الي أي مدى توافق على أن العوامل التالية تؤثر على عملية إختيار أعضاء مجالس الإدارة في الشركات السعودية؟

العامل	العضو التنفيذي					العضو غير التنفيذي					العضو الغير تنفيذي المستقل				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
أ. ملكية الأسهم	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ب. العلاقة الشخصية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ج. المجاملة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
د. الخبرة والكفاءة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
هـ. المعرفة المحاسبية و المالية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
و. إمتلاك معرفة في مجالات متخصصة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ز. السمعة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ح. إمتلاك الوقت الكافي لتخصيصه لأعمال الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ط. آخرى (رجاءاً حدد)............	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

س6: من وجهة نظرك، كم يجب ان يكون عدد الأعضاء المستقلين الغير تنفيذيين في مجالس إدارت الشركات السعودية، وكم عدد الأعضاء المستقلين الغير تنفيذيين في مجلس إدارة شركتك؟ (رجاءاً أختر إجابة واحدة من كل صف)

	لا أعضاء	ثلث المجلس	نصف المجلس	ثلثي المجلس	آخرى (رجاءاً حدد)
عدد الأعضاء المستقلين يجب أن يكون في الشركات	☐	☐	☐	☐	☐
عدد الأعضاء المستقلين في شركتي	☐	☐	☐	☐	☐

س7: من وجهة نظرك، ماهو الحد الأ قصى من الشركات المدرجة التي يمكن لشخص ما ان يكون عضو مجلس إدارة فيها في وقت واحد؟ (رجاءاً أختر إجابة واحدة)

مجلس واحد	مجلسين	3 مجالس	4 مجالس	5 مجالس	6 مجالس	7 مجالس	8 مجالس	9 مجالس	10 مجالس	أكثر من 10 مجالس
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

س8: إذا كنت عضو مجلس إدارة، رجاءاً أذكر عدد مجالس الإدارة التي انت عضو فيها؟

....

س9: من وجهة نظرك، ما هو عدد الأعضاء المناسب لمجلس إدارة كل حجم من الشركات السعودية؟ (حدد رقم في كل صندوق)

	الشركات الصغيرة (المبيعات السنوية أقل من 500 مليون ريال)	الشركات المتوسطة (المبيعات السنوية بين 500 مليون الى 1.5 مليار ريال)	الشركات الكبيرة (المبيعات السنوية أكثر من 1.5 مليار ريال)
لا يقل عدد الأعضاء عن	☐	☐	☐
لا يزيد عدد الأعضاء عن	☐	☐	☐

س10: رجاءاً حدد كم عدد أعضاء مجلس إدارة شركتك؟

....

س11: من وجهة نظرك، كم عدد الإجتماعات التي يجب على مجلس الإدارة عقدها، وكم عدد الأجتماعات التي يعقدها مجلس إدارة شركتك؟(رجاءاً أختر إجابة واحدة من كل صف)

	كل 6 أشهر	كل 4 أشهر	كل 3 أشهر	كل شهرين	كل شهر	أكثرمن ذلك
مجالس الشركات يجب أن تجتمع	☐	☐	☐	☐	☐	☐
مجلس شركتي يجتمع كل	☐	☐	☐	☐	☐	☐

س12: الى أي مدى توافق على أن الشركات يجب أن تقوم بالتالي، وهل هي في الواقع تقوم بذلك, وما هوالوضع بالنسبة لشركتك؟

العبارة	يجب على الشركات					الشركات في الواقع تقوم ب					شركتي تقوم بـ				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
أ. الفصل بين أدوار رئيس مجلس الإدارة و الرئيس التنفيذي	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ب. تعيين رئيس مجلس إدارة مستقل	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ج. تحديد مسؤليات وصلاحيات مجلس الإدارة و التأكد من إلمام اعضاء المجلس بها	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
د. إيجاد معايير مناسبة لتقييم أعمال مجلس الإدارة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
هـ. إخضاع أعضاء المجلس لبرامج توجيهيه لتدريبهم وتأهيلهم	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
و. التأكد ان أعضاء مجلس الإدارة يعملون وفق قواعد محددة وبحسن نية وبعناية مهنية لتحقيق المصالح العليا للشركة والمساهمين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ز. معاملة جميع المساهمين بشكل عادل	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ح. تطبيق معايير أخلاقية عالية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ط. الأخذ في الأعتبار مصالح جميع الأطراف ذات الصلة بالشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ي. ممارسة قرار موضوعي مستقل في الشؤون المتعلقة بالشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ك. توفير وسائل الوصول للمعلومات الدقيقة وذات العلاقة وفي الوقت المناسب لأعضاء مجلس الإدارة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

س13: الى أي مدى توافق على أن مجالس الإدارة في الشركات يجب أن تكون مسوؤلة عن التالي، وهل هي في الواقع مسؤولة عن ذلك, وما هو الوضع بالنسبة لشركتك؟

	المجالس يجب أن تكون مسؤول عن:					المجالس في الواقع مسؤول عن:					مجلس الإدارة في شركتي مسؤول عن				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
أ. مراجعة وتوجيه إستراتيجية الشركة، سياسة الخطر، الموازنات التقديرية السنوية و خطط العمل	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ب. وضع أهداف الأداء	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ج. الأشراف على العمليات الرأسمالية الرئيسية كالمصروفات، البيع والتملك	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
د. مراقبة فعالية ممارسة حوكمة الشركة وإجراء التغييرات اللازمة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
هـ. إختيار، تعويض، مراقبة وإذا لزم تغيير المدراء التنفيذيين الرنيسيين للشركة والإشراف على التعاقب الوظيفي	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ز. تحديد مكافآت المدراء التنفيذيين الرنيسيين وأعضاء مجلس الإدارة بما يتلائم مع المصالح طويلة الأجل للشركة والمساهمين	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ح. ضمان نظامية وشفافية عملية ترشيح وإختيار أعضاء المجلس	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ط. مراقبة وإدارة أي تضارب مصالح محتمل من الإدارة او أعضاء المجلس ويتضمن ذلك سوء استخدام أصول الشركة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ي. ضمان وجود نظام ملائم للرقابة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ك. الاشراف على عملية الإفصاح والاتصال	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□

س14: الى أي مدى تعتقد بأهمية وجود اللجان التالية في الشركات السعودية؟ و ما مدى وجود هذه اللجان في الشركات السعودية؟

اللجنة	أهمية اللجان للشركات					وجود الهجان في الشركات				
	1	2	3	4	5	1	2	3	4	5
أ. لجنة المراجعة	□	□	□	□	□	□	□	□	□	□
ب. لجنة الترشيحات	□	□	□	□	□	□	□	□	□	□
ج. لجنة المكافآت	□	□	□	□	□	□	□	□	□	□
د. اللجنة التنفيذية	□	□	□	□	□	□	□	□	□	□
هـ. لجنة الحوكمة	□	□	□	□	□	□	□	□	□	□
و. لجنة الخطر	□	□	□	□	□	□	□	□	□	□
ز. لجنة المسؤلية الإجتماعية	□	□	□	□	□	□	□	□	□	□
ح. اللجنة الشرعية	□	□	□	□	□	□	□	□	□	□

س15: رجاءاً حدد ماهي اللجان الموجودة في شركتك، وماهو مدى فعالية هذه اللجان؟

اللجنة	وجود اللجنة في شركتي		فعالية اللجنة				
	نعم	لا	1	2	3	4	5
أ. لجنة المراجعة	□	□	□	□	□	□	□
ب. لجنة الترشيحات	□	□	□	□	□	□	□
ج. لجنة المكافآت	□	□	□	□	□	□	□
د. اللجنة التنفيذية	□	□	□	□	□	□	□
هـ. لجنة الحوكمة	□	□	□	□	□	□	□
و. لجنة الخطر	□	□	□	□	□	□	□
ز. لجنة المسؤلية الإجتماعية	□	□	□	□	□	□	□
ح. اللجنة الشرعية	□	□	□	□	□	□	□

د: الإفصاح والشفافية

س16: الى أي مدى توافق على ان الشركات السعودية يجب أن تفصح عن التالي، وهل في الواقع تقوم بذلك, وما هو الوضع بالنسبة لشركتك:

	الشركات يجب ان تفصح عن:					الشركات في الواقع تفصح عن:					شركتي تفصح عن:				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
أ. نتائج الشركة المالية والتشغيلية	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ب. أهداف الشركة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ج. الخطط المستقبلية للشركة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
د. الملاك الرئيسيين للأسهم و حقوق التصويت	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
هـ. المكافآت، المؤهلات، اجراءات الاختيار،الادارة في شركات اخرى و الاستقلال	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
و. صفقات الاطراف ذات العلاقة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ز. عوامل الخطر المنظورة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ح. القضايا المتعلقة بالموظفين والاطراف الأخرى ذات الصلة	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□
ط. تركيبة وسياسات الحوكمة وخصوصا محتويات لائحة الحوكمة الداخلية للشركة و سياسات و إجراءات تطبيقها	□	□	□	□	□	□	□	□	□	□	□	□	□	□	□

هـ: الأطراف ذات الصلة والمسائلة

س17: الى أي مدى توافق على التالي:

الأطرف ذات الصلة	هناك علاقة مسائلة بين الشركة و:					هؤلاء الاطراف ذات الصلة بالشركة يجب أن يكون لهم ممثل في مجلس الإدارة:				
	1	2	3	4	5	1	2	3	4	5
أ. الاعلام	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ب. الأكاديميين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ج. جماعات الحفاظ على البيئة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
د. الجهات التشريعية والرقابية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
هـ. الحكومة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
و. الزبائن	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ز. المجتمع	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ح. المراجعين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ط. المساهمين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ي. المستشارين والمحللين الماليين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ك. المقرضين (الدائنين)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ل. الموردين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
م. الموظفين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

س18: رجاءأحدد بشكل تقريبي نسبة ما يملكه كل طرف من الأطراف التالية في شركتك:

المالك	نسبة الملكية	هل له ممثل في مجلس الإدارة	
		نعم	لا
أ. الحكومة (صندوق الإستثمارت العامة	☐	☐	☐
ب. التأمينات الإجتماعية	☐	☐	☐
ج. مصلحة معاشات التقاعد	☐	☐	☐
د. صناديق البنوك	☐	☐	☐
هـ. مستثمرين عائليين	☐	☐	☐
و. مستثمرين أفرد	☐	☐	☐
ز. آخرى (رجاءاً حدد)	☐	☐	☐

س19: الى أي مدى توافق على العبارات التالية حول الشركات السعودية:

العبارة	1	2	3	4	5
أ. من الشائع في الشركات السعودية وجود مساهميين رئيسيين كبار	□	□	□	□	□
ب. المساهمين الرئيسيين الكبار يسيطرون ولهم تأثير مباشر على نشاطات الشركات	□	□	□	□	□
ج. تركيبة الملكية تؤثر على ممارسة الشركات للحوكمة	□	□	□	□	□
د. حقوق المساهمين بما فيهم الأقليات محمية بعدل في القانون	□	□	□	□	□
هـ. حقوق المساهمين بما فيهم الأقليات محمية بعدل في الممارسة	□	□	□	□	□
و. الشركات السعودية تعامل كل المساهمين بلتساوي	□	□	□	□	□
ز. نظام التصويت التراكمي يساعد أقليات المساهمين لإختيار ممثليهم في مجلس الإدارة	□	□	□	□	□
ح. المستثمرين المؤسساتيين يمارسون حقوقهم التي توفرها لهم ملكيتهم	□	□	□	□	□
ط. تحترم الشركات السعودية حقوق الأطراف ذات الصلة الموجودة في القانون أو الاتفاقيات ذات العلاقة	□	□	□	□	□
ي. الشركات السعودية توفر وسائل عادلة وفي الوقت المناسب و غير مكلفة للحصول على المعلومات لكل الأطراف ذات الصلة	□	□	□	□	□
ك. الشركات السعودية تمكن الأطراف ذات الصلة من الإبلاغ عن قلقهم حول الممارسات الغير قانونية أو اللاأخلاقية الى مجلس الإدارة	□	□	□	□	□

س20: الى أي مدى توافق على العبارات التالية:

العبارة	1	2	3	4	5
أ. المسائلة ممارسة في المجتمع السعودي	□	□	□	□	□
ب. الشركات ومجالس الإدارة والمدراء مسائلون عن تصرفاتهم	□	□	□	□	□
ج. الأطراف ذات الصلة تمارس المسائلة على الشركات	□	□	□	□	□
د. اليات المسائلة موجودة في الشركات السعودية	□	□	□	□	□
هـ. يجب على الشركات تطبيق حوكمة جيدة لإبراء ذمتها من المسائلة	□	□	□	□	□

و: المسائلة في الشريعة الأسلامية

س21: الى أي مدى توافق على أن الشركات السعودية يجب أن، وفي الواقع تقوم يالتالي:

العبارة	الشركات يجب أن					الشركات في الواقع				
	1	2	3	4	5	1	2	3	4	5
أ. تخضع الشركات للشريعة الأسلامية في كل تعاملاتها	□	□	□	□	□	□	□	□	□	□
ب. الشركات، مجالس الإداراة والمدراء مسائلون عن تصرفاتهم وفقاً للمفهوم الإسلامي للمسائلة	□	□	□	□	□	□	□	□	□	□
ج. الشركات، مجالس الإدارة والمدراء مسائلون أمام الله وفقاً للمفهوم الإسلامي للمسائلة	□	□	□	□	□	□	□	□	□	□
د. الشركات، مجالس الإدارة والمدراء مسائلون أمام المساهمين وفقاً للمفهوم الإسلامي للمسائلة	□	□	□	□	□	□	□	□	□	□
هـ. الشركات، مجالس الإدارة والمدراء مسائلون أمام الأطراف ذات الصلة وفقاً للمفهوم الإسلامي للمسائلة	□	□	□	□	□	□	□	□	□	□
و. الشركات توفر الفرصة للأطراف ذات الصلة للمشاركة في إتخاذ القرارات وفقاً للمفهوم الإسلامي للشورى	□	□	□	□	□	□	□	□	□	□
ز. الشركات توفر الفرصة للأطراف ذات الصلة للتأكد من أن مصالحهم محمية وفقاً للمفهوم الإسلامي للحسبة	□	□	□	□	□	□	□	□	□	□

س22: من وجهة نظرك، هل هناك أي تعارض بين الشريعة الإسلامية وأي من مباديء الحوكمة؟

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(إذا نعم رجاءاً وضح)

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ز: النظام القانوني والتشريعي

س23: الى أي مدى توافق على العبارات التالية:

العبارة	1	2	3	4	5
أ. القوانين والأنظمة في السعودية كافية وفعالة وتوفر بيئة مناسبة لممارسة الحوكمة	☐	☐	☐	☐	☐
ب. القوانين والأنظمة في السعودية كافية وفعالة وتوفر بيئة مناسبة لممارسة المسائلة	☐	☐	☐	☐	☐
ج. السلطات القضائية والمحاكم تلعب دور هام في المحافظة على مستوى عالي من ممارسة الحوكمة	☐	☐	☐	☐	☐
د. هناك فعالية في أداء الجهات المسؤولة عن التشريع، الإشراف ومراقبة حوكمة الشركات	☐	☐	☐	☐	☐
هـ. تعمل الجهات المسؤولة عن التشريع، الإشراف ومراقبة حوكمة الشركات مع بعضها البعض بشكل جيد	☐	☐	☐	☐	☐
و. هناك حاجة لإنشاء جهة مستقلة للإشراف على قضايا حوكمة الشركات في السعودية	☐	☐	☐	☐	☐
ز. تلتزم الشركات السعودية بالقوانين والأنظمة	☐	☐	☐	☐	☐

ح: الإطار العام للحوكمة:

س24: الى أي مدى توافق على العبارات التالية:

العبارة	1	2	3	4	5
أ. العوامل الإجتماعية لها تأثير مباشر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
ب. العوامل الثقافية كالمجاملة والعائلة والقبلية لها تأثير مباشر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
ج. الوضع السياسي يؤثر عل ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
د. الوضع الإقتصادي يؤثر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
هـ. الفساد في السعودية يؤثر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
و. مهنة المحاسبة والمراجعة تؤثر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
ز. تكلفة الحوكمة تؤثر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐

الرجاء إضافة أي تعليق تعتقد ان له إرتباط بممارسة حوكمة الشركات في المملكة العربية السعودية

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كل الشكر والتقدير على حسن تعاونك

الرجاء التكرم باعادة إرسال الاستمارة الى العنوان التالي

خالد بن إدريس الفلقي
ص . ب 19159
جدة 21435

أو بالطريقة التي تم الإتفاق عليها

جوال : 0504626461

إذا رغبت في الحصول على ملخص لنتائج البحث فضلاً ضع بريدك الألكتروني

....

Appendix VI

إستمارة إستبيان

عن حوكمة الشركات في المملكة العربية السعودية

Corporate Governance in Saudi Arabia

Questionnaire

(Other Stakeholders)

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شكراً لك مقدماً على المشاركة في الإجابة على هذا الاستبيان

ملاحظة: في حال إرتباطك بأكثر من وظيفة، الرجاء الإجابة على أسئلة الإستبيان فيما يتعلق بأهم وظيفة تشغلها

أ. معلومات ديموغرافيه

- حدد وظيفتك

- ☐ أكاديمي
- ☐ صحفي إقتصادي
- ☐ قاضي
- ☐ مدير صندوق
- ☐ مراجع حسابات
- ☐ مستثمر خاص
- ☐ مستثمر عائلي
- ☐ مستثمر مؤسساتي حكومي
- ☐ مستشار/ محلل مالي
- ☐ مشرع
- ☐ مقرض (دائن)
- ☐ موظف شركة
- ☐ وسيط أوراق مالية
- ☐ آخرى (رجاءاً حدد) ....

- حدد مستواك التعليمي

- ☐ دكتوراة
- ☐ ماجستير
- ☐ بكالوريوس
- ☐ أخرى (رجاءاً حدد) ....

- إذا كنت حاصل على أي شهادات مهنية الرجاء ذكرها:

....

- أين كانت دراستك (اختر كل ما هو مناسب):

- ☐ السعودية
- ☐ دولة عربية أخرى
- ☐ الولايات المتحدة
- ☐ بريطانيا
- ☐ أخرى (رجاءاً حدد) ....

- حدد فئتك العمرية:

- ☐ 30 سنة أو أقل
- ☐ 31- 40 سنة
- ☐ 41- 50 سنة
- ☐ 51 – 60 سنة
- ☐ أكبر من 60 سنة

- حدد جنسيتك:

- ☐ سعودي
- ☐ عربي (رجاءاً حدد) ....
- ☐ أسيوي (رجاءاً حدد) ....
- ☐ أوروبي (رجاءاً حدد) ....
- ☐ أخرى (رجاءاً حدد) ....

الرجاءالإجابة على أسئلة الأستبيان بإختيار الصندوق الملائم حيث أن:
1= لا أوافق على الاطلاق و 5= موافق الى حد بعيد

ب: تعريف حوكمة الشركات

س1: الى أي مدى توافق على أن مصطلح حوكمة الشركات "Corporate Governance" يشير الى:

	1	2	3	4	5
أ. النظام الذي من خلاله توجه وتراقب الشركة	☐	☐	☐	☐	☐
ب. تنظيم العلاقة بين الشركة ومساهميها	☐	☐	☐	☐	☐
ج. تنظيم العلاقة بين الملاك ومجلس الإدارة والمدراء	☐	☐	☐	☐	☐
د. تنظيم العلاقة بين الشركة وكل الاطراف ذات الصلة الذين يتأثرون ويؤثرون على قرارات ونشاطات الشركة	☐	☐	☐	☐	☐
هـ. مجموعة من الأنظمة، القواعد، العمليات والثقافات التي تؤدي الى نجاح عمليات المنظمة	☐	☐	☐	☐	☐

س2: الى أي مدى أنت ملم بالتالي:

	1	2	3	4	5
أ. لائحة حوكمة الشركات السعودية (الصادرة عن هيئة السوق المالية)	☐	☐	☐	☐	☐
ب. التطورات الدولية في مجال حوكمة الشركات	☐	☐	☐	☐	☐

س3: الى أي مدى توافق على العبارات التالية:

	1	2	3	4	5
أ. حوكمة الشركات مهمة للشركات السعودية	☐	☐	☐	☐	☐
ب. ممارسة الشركات السعودية للحوكمة مرضية	☐	☐	☐	☐	☐
ج. هناك وعي كاف بقضايا الحوكمة في بيئة الأعمال السعودية	☐	☐	☐	☐	☐
د. لائحة حوكمة الشركات السعودية كافية وفعالة	☐	☐	☐	☐	☐
هـ. الشركات السعودية عموماً تلتزم بلائحة حوكمة الشركات	☐	☐	☐	☐	☐
و. لائحة حوكمة الشركات يجب ان تكون الزامية على جميع الشركات المساهمة المدرجة	☐	☐	☐	☐	☐
ز. يجب معاقبة الشركات الغير ملتزمة بلائحة حوكمة الشركات	☐	☐	☐	☐	☐
ح. الترجمة العربية للمصطلح الانجليزي لحوكمة الشركات "Corporate Governance" تقدم نفس المعنى الذي يقدمه المصطلح الانجليزي	☐	☐	☐	☐	☐

س4: الى أي مدى توافق على ملائمة العبارات التالية للإشارة الى المصطلح الانجليزي "Corporate Governance"؟

	1	2	3	4	5
أ. حوكمة	☐	☐	☐	☐	☐
ب. حاكمية	☐	☐	☐	☐	☐
ج. نظام توجيه ورقابة الشركة	☐	☐	☐	☐	☐
د. إدارة وتنظيم الشركة	☐	☐	☐	☐	☐
هـ. الإدارة الرشيدة	☐	☐	☐	☐	☐
و. أخرى (رجاءاً حدد)	☐	☐	☐	☐	☐

ج: تركيبة مجلس الإدارة، اللجان الفرعية والمسؤليات

تعريفات:
العضو التنفيذي: هو عضو مجلس الإدارة الذي يشغل موقع إداري في الشركة.
العضو الغير تنفيذي: هو عضو مجلس الإدارة الذي لا يشغل موقع إداري دائم في الشركة أو لا يتقاضى راتب شهري او سنوي.
العضو غير التنفيذي المستقل: هوعضو مجلس الإدارة الذي يتمتع بالاستقلال الكامل.

س5: الى أي مدى توافق على أن العوامل التالية تؤثر على عملية إختيار أعضاء مجالس الإدارة في الشركات السعودية؟

العامل	العضو التنفيذي					العضو غير التنفيذي					العضو الغير تنفيذي المستقل				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
أ. ملكية الأسهم	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ب. العلاقة الشخصية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ج. المجاملة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
د. الخبرة والكفاءة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
هـ. المعرفة المحاسبية و المالية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
و. إمتلاك معرفة في مجالات متخصصة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ز. السمعة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ح. إمتلاك الوقت الكافي لتخصيصه لأعمال الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ط. آخرى (رجاءاً حدد)............	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

س6: وفقاً للائحة حوكمة الشركات السعودية، عدد الأعضاء المستقلين الغير تنفيذيين في مجلس الإدارة يجب أن لا يقل عن عضوين أو ثلث أعضاء المجلس أيهما أكبر. من وجهة نظرك، كم يجب ان يكون عدد الأعضاء المستقلين الغير تنفيذيين في مجالس إدارت الشركات السعودية؟ (رجاءاً أختر إجابة واحدة)

☐ لا أعضاء ☐ ثلث المجلس ☐ نصف المجلس ☐ ثلثي المجلس

☐ آخرى (رجاءاً حدد) ....

س:7 وفقاً للائحة حوكمة الشركات السعودية، عضو مجلس الإدارة يجب أن لا يمارس عمله كعضو مجلس إدارة في أكثر من خمسة مجالس إدارة شركات مدرجة في وقت واحد. من وجهة نظرك، ماهو الحد الأقصى من الشركات المدرجة التي يمكن لشخص ما ان يكون عضو مجلس إدارة فيها في وقت واحد؟ (رجاءاً أختر إجابة واحدة)

مجلس واحد	مجلسين	3 مجالس	4 مجالس	5 مجالس	6 مجالس	7 مجالس	8 مجالس	9 مجالس	10 مجالس	أكثر من 10 مجالس
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

س8: وفقاً للائحة حوكمة الشركات السعودية، الحد الأقصى لعدد أعضاء مجلس الإدارة هو 11 عضو والحد الادنى هو 3 أعضاء. من وجهة نظرك، ما هو عدد الأعضاء المناسب لمجلس إدارة لكل حجم من الشركات السعودية؟ (حدد رقم في كل صندوق)

	الشركات الصغيرة (المبيعات السنوية أقل من 500 مليون ريال)	الشركات المتوسطة (المبيعات السنوية بين 500 مليون الى 1.5 مليار ريال)	الشركات الكبيرة (المبيعات السنوية أكثر من 1.5 مليار ريال)
لا يقل عدد الأعضاء عن	☐	☐	☐
لا يزيد عدد الأعضاء عن	☐	☐	☐

س9: من وجهة نظرك، كم عدد الإجتماعات التي يجب على مجلس الإدارة عقدها؟ (رجاءاً أختر إجابة واحدة)

كل 6 أشهر	كل 4 أشهر	كل 3 أشهر	كل شهرين	كل شهر	أكثر
☐	☐	☐	☐	☐	☐

س10: الى أي مدى توافق على أن الشركات يجب أن تقوم بالتالي، وهل هي في الواقع تقوم بذلك:

العبارة	يجب على الشركات					الشركات في الواقع تقوم ب				
	1	2	3	4	5	1	2	3	4	5
أ. الفصل بين أدوار رئيس مجلس الإدارة و الرئيس التنفيذي	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ب. تعيين رئيس مجلس إدارة مستقل	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ج. تحديد مسؤليات وصلاحيات مجلس الإدارة و التأكد من إلمام اعضاء المجلس بها	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
د. إيجاد معايير مناسبة لتقييم أعمال مجلس الإدارة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
هـ. إخضاع أعضاء المجلس لبرامج توجيهيه لتدريبهم وتأهيلهم	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
و. التأكد ان أعضاء مجلس الإدارة يعملون وفق قواعد محددة وبحسن نية وبعناية مهنية لتحقيق المصالح العليا للشركة والمساهمين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ز. معاملة جميع المساهمين بشكل عادل	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ح. تطبيق معايير أخلاقية عالية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ط. الأخذ في الأعتبار مصالح جميع الأطراف ذات الصلة بالشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ي. ممارسة قرار موضوعي مستقل في الشؤون المتعلقة بالشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ك. توفير وسائل الوصول للمعلومات الدقيقة وذات العلاقة وفي الوقت المناسب لأعضاء مجلس الإدارة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

س11: الى أي مدى توافق على أن مجالس الإدارة في الشركات يجب أن تكون مسؤولة عن التالي، وهل هي في الواقع مسؤولة عن ذلك:

	المجلس يجب أن يكون مسؤول عن:					المجلس في الواقع مسؤول عن:				
	1	2	3	4	5	1	2	3	4	5
أ. مراجعة وتوجيه إستراتيجية الشركة، سياسة الخطر، الموازنات التقديرية السنوية و خطط العمل	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ب. وضع أهداف الأداء	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ج. الأشراف على العمليات الرأسمالية الرئيسية كالمصروفات، البيع والتملك	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
د. مراقبة فعالية ممارسة حوكمة الشركة وإجراء التغييرات اللازمة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
هـ. إختيار، تعويض، مراقبة وإذا لزم تغيير المدراء التنفيذيين الرئيسيين للشركة والإشراف على التعاقب الوظيفي	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ز. تحديد مكافآت المدراء التنفيذيين الرئيسيين وأعضاء مجلس الإدارة بما يتلائم مع المصالح طويلة الأجل للشركة والمساهمين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ح. ضمان نظامية وشفافية عملية ترشيح وإختيار أعضاء المجلس	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ط. مراقبة وإدارة أي تضارب مصالح محتمل من الإدارة او أعضاء المجلس ويتضمن ذلك سوء استخدام أصول الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ي. ضمان وجود نظام ملائم للرقابة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ك. الاشراف علي عملية الإفصاح والاتصال	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

س12: الى أي مدى تعتقد بأهمية وجود اللجان التالية في الشركات السعودية؟ و ما مدى وجود هذه اللجان في الشركات السعودية؟

اللجنة	أهمية اللجان للشركات					وجود اللجان في الشركات				
	1	2	3	4	5	1	2	3	4	5
أ. لجنة المراجعة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ب. لجنة الترشيحات	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ج. لجنة المكافآت	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
د. اللجنة التنفيذية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
هـ. لجنة الحوكمة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
و. لجنة الخطر	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ز. لجنة المسؤلية الإجتماعية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ح. اللجنة الشرعية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

د: الإفصاح والشفافية

س13: الى أي مدى توافق على ان الشركات السعودية يجب أن تفصح عن التالي، وهل في الواقع تقوم بذلك:

	الشركات يجب ان تفصح عن:					الشركات في الواقع تفصح عن:				
	1	2	3	4	5	1	2	3	4	5
أ. نتائج الشركة المالية والتشغيلية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ب. أهداف الشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ج. الخطط المستقبلية للشركة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
د. الملاك الرئيسيين للأسهم و حقوق التصويت	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
هـ. المكافآت، المؤهلات، اجراءات الاختيار،الادارة في شركات اخرى و الاستقلال	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
و. صفقات الاطراف ذات العلاقة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ز. عوامل الخطر المنظورة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ح. القضايا المتعلقة بالموظفين والاطراف الأخرى ذات الصلة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ط. تركيبة وسياسات الحوكمة وخصوصا محتويات لائحة الحوكمة الداخلية للشركة و سياسات و إجراءات تطبيقها	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

هـ: الأطراف ذات الصلة والمسائلة

س14: الى أي مدى توافق على التالي:

الطرف ذي الصلة	هناك علاقة مسائلة بين الشركة و:					هؤلاء الاطراف ذات الصلة بالشركة يجب أن يكون لهم ممثل في مجلس الإدارة:				
	1	2	3	4	5	1	2	3	4	5
أ. الاعلام	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ب. الأكاديميين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ج. جماعات الحفاظ على البيئة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
د. الجهات التشريعية والرقابية	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
هـ. الحكومة	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
و. الزبائن	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ز. المجتمع	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ح. المراجعين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ط. المساهمين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ي. المستشارين والمحللين الماليين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ك. المقرضين (الدائنين)	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ل. الموردين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
م. الموظفين	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

س15: الى أي مدى توافق على العبارات التالية حول الشركات السعودية:

العبارة	1	2	3	4	5
أ. من الشائع في الشركات السعودية وجود مساهمين رئيسيين كبار	□	□	□	□	□
ب. المساهمين الرئيسيين الكبار يسيطرون ولهم تأثير مباشر على نشاطات الشركات	□	□	□	□	□
ج. تركيبة الملكية تؤثر على ممارسة الشركات للحوكمة	□	□	□	□	□
د. حقوق المساهمين بما فيهم الأقليات محمية بعدل في القانون	□	□	□	□	□
هـ. حقوق المساهمين بما فيهم الأقليات محمية بعدل في الممارسة	□	□	□	□	□
و. الشركات السعودية تعامل كل المساهمين بالتساوي	□	□	□	□	□
ز. نظام التصويت التراكمي يساعد أقليات المساهمين لإختيار ممثليهم في مجلس الإدارة	□	□	□	□	□
ح. المستثمرين المؤسساتيين يمارسون حقوقهم التي توفرها لهم ملكيتهم	□	□	□	□	□
ط. تحترم الشركات السعودية حقوق الأطراف ذات الصلة الموجودة في القانون أو الاتفاقيات ذات العلاقة	□	□	□	□	□
ي. الشركات السعودية توفر وسائل عادلة وفي الوقت المناسب و غير مكلفة للحصول على المعلومات لكل الأطراف ذات الصلة	□	□	□	□	□
ك. الشركات السعودية تمكن الأطراف ذات الصلة من الإبلاغ عن قلقهم حول الممارسات الغير قانونية أو اللاأخلاقية الى مجلس الإدارة	□	□	□	□	□

س16: الى أي مدى توافق على العبارات التالية:

العبارة	1	2	3	4	5
أ. المسائلة ممارسة في المجتمع السعودي	□	□	□	□	□
ب. الشركات ومجالس الإداراة والمدراء مسائلون عن تصرفاتهم	□	□	□	□	□
ج. الأطراف ذات الصلة تمارس المسائلة على الشركات	□	□	□	□	□
د. اليات المسائلة موجودة في الشركات السعودية	□	□	□	□	□
هـ. يجب على الشركات تطبيق حوكمة جيدة لإبراء ذمتها من المسائلة	□	□	□	□	□

و: المسائلة في الشريعة الأسلامية

س17: الى أي مدى توافق على أن الشركات السعودية يجب أن، وفي الواقع تقوم بالتالي:

العبارة	الشركات يجب أن					الشركات في الواقع				
	1	2	3	4	5	1	2	3	4	5
أ. تخضع الشركات للشريعة الأسلامية في كل تعاملاتها	□	□	□	□	□	□	□	□	□	□
ب. الشركات، مجالس الإداراة والمدراء مسائلون عن تصرفاتهم وفقاً للمفهوم الإسلامي للمسائلة	□	□	□	□	□	□	□	□	□	□
ج. الشركات، مجالس الإدارة والمدراء مسائلون أمام الله وفقاً للمفهوم الإسلامي للمسائلة	□	□	□	□	□	□	□	□	□	□
د. الشركات، مجالس الإدارة والمدراء مسائلون أمام المساهمين وفقاً للمفهوم الإسلامي للمسائلة	□	□	□	□	□	□	□	□	□	□
هـ. الشركات، مجالس الإدارة والمدراء مسائلون أمام الأطراف ذات الصلة وفقاً للمفهوم الإسلامي للمسائلة	□	□	□	□	□	□	□	□	□	□
و. الشركات توفر الفرصة للأطراف ذات الصلة للمشاركة في إتخاذ القرارات وفقاً للمفهوم الإسلامي للشورى	□	□	□	□	□	□	□	□	□	□
ز. الشركات توفر الفرصة للأطراف ذات الصلة للتأكد من أن مصالحهم محمية وفقاً للمفهوم الإسلامي للحسبة	□	□	□	□	□	□	□	□	□	□

س18: من وجهة نظرك، هل هناك أي تعارض بين الشريعة الإسلامية وأي من مباديء الحوكمة؟

☐ نعم ☐ لا

(إذا نعم رجاءاً وضح)

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ز: النظام القانوني والتشريعي

س19: الي أي مدى توافق على العبارات التالية:

العبارة	1	2	3	4	5
أ. القوانين والأنظمة في السعودية كافية وفعالة وتوفر بيئة مناسبة لممارسة الحوكمة	☐	☐	☐	☐	☐
ب. القوانين والأنظمة في السعودية كافية وفعالة وتوفر بيئة مناسبة لممارسة المسائلة	☐	☐	☐	☐	☐
ج. السلطات القضائية والمحاكم تلعب دور هام في المحافظة على مستوى عالي من ممارسة الحوكمة	☐	☐	☐	☐	☐
د. هناك فعالية في أداء الجهات المسؤولة عن التشريع، الإشراف ومراقبة حوكمة الشركات	☐	☐	☐	☐	☐
هـ. تعمل الجهات المسؤولة عن التشريع، الإشراف ومراقبة حوكمة الشركات مع بعضها البعض بشكل جيد	☐	☐	☐	☐	☐
و. هناك حاجة لإنشاء جهة مستقلة للإشراف على قضايا حوكمة الشركات في السعودية	☐	☐	☐	☐	☐
ز. تلتزم الشركات السعودية بالقوانين والأنظمة	☐	☐	☐	☐	☐

ح: الإطار العام للحوكمة:

س20: الي أي مدى توافق على العبارات التالية:

العبارة	1	2	3	4	5
أ. العوامل الإجتماعية لها تأثير مباشر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
ب. العوامل الثقافية كالمجاملة والعائلة والقبلية لها تأثير مباشر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
ج. الوضع السياسي يؤثر عل ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
د. الوضع الإقتصادي يؤثر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
هـ. الفساد في السعودية يؤثر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
و. مهنة المحاسبة والمراجعة تؤثر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐
ز. تكلفة الحوكمة تؤثر على ممارسة الحوكمة في الشركات السعودية	☐	☐	☐	☐	☐

الرجاء إضافة أي تعليق تعتقد ان له إرتباط بممارسة حوكمة الشركات في المملكة العربية السعودية

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كل الشكر والتقدير على حسن تعاونك

الرجاء التكرم بإعادة إرسال الاستمارة الى العنوان التالي

خالد بن إدريس الفلقي
ص . ب 19159
جدة 21435
أو بالطريقة التي تم الإتفاق عليها
فاكس 072858333
جوال : 0504626461

إذا رغبت في الحصول على ملخص لنتائج البحث فضلاً ضع بريدك الألكتروني

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Appendix VII

Answered Questionnaire

DUNDEE

Corporate Governance in Saudi Arabia

Questionnaire

Khalid Falgi

University of Dundee

School of Accounting & Finance, University of Dundee, Dundee, DD1 4HN, UK
Tel: +44 (0) 1382 384193 Fax: +44 (0) 1382 388421

Thank you in advance for completing this questionnaire.

If you are involved in more than one role (below) please respond, where applicable in the questionnaire, in relation to your most significant role.

A: Demographic Information

- **Please identify your role by ticking the appropriate box (please choose one)**
  - ☐ (13) Academic
  - ☐ (15) Auditor
  - ☐ (15) Company Employee
  - ☐ (12) Financial Consultant / Analyst
  - ☐ (14) Fund Manager
  - ☐ (17) Government Institutional Investor
  - ☐ (26) Private Investor
  - ☐ (11) Regulator
  - ☐ (15) Stock Broker
  - ☐ (6) Non-Executive Company Chairman
  - ☐ (5) Chief Executive officer
  - ☐ (6) Executive Director
  - ☐ (8) Non-Executive Director
  - ☐ (5) Independent Non-Executive Director
  - ☐ (8) Company Manager

- **What is your highest level of academic qualification? (please choose one box)**
  - ☐ (21) PhD
  - ☐ (42) Master
  - ☐ (97) First degree
  - ☐ Other (please specify) (5) Diploma, (4) High School Degree and (7) Other

- **If you have any professional qualifications please specify**

………………………………………………

- **Where have you studied? (please tick all that apply)**
  - ☐ (95) Saudi Arabia
  - ☐ (17) Other Arab country
  - ☐ (35) KSA ndUnited States
  - ☐ (21) KSA and United Kingdom
  - ☐ Other (please specify) (1) USA and other Arab Country (3) USA and other country and (4) KSA and other Arab country

- **Please specify your age group:**
  - ☐ (26) 30 years or less
  - ☐ (61) 31-40 years
  - ☐ (65) 41-50 years
  - ☐ (22) 51-60 years
  - ☐ (1) More than 60 years

- **Please identify your background:**
  - ☐ (153) Saudi
  - ☐ (20) Arab (please specify) ………..
  - ☐ (1) Asian (please specify) ………..
  - ☐ (0) European (please specify) …….
  - ☐ Other (please specify)………….

- Please indicate your company's turnover in Saudi Riyals:
  - ☐ (6) Less than 500m ☐ (19) Between 501m and 1.5bn ☐ (13) More than 1.5bn

- **Please indicate which sector your company specialises in:**

☐ (3) Banking & Insurance ☐ (20) Industrial & Electrical ☐ (5) Cement
☐ (9) Services ☐ (1) Telecommunication ☐ (38) Agricultural

Please indicate your response through out the questionnaire by ticking the appropriate box where
1= Not at all 5= To a great extent

B: Corporate Governance Definition

Q1. To what extent do you agree that the term "Corporate Governance" refers to:

	1	2	3	4	5
a. The system by which companies are directed and controlled	5	13	37	55	64
b. Organising the relationship between the company and its shareholders	3	18	51	51	50
c. Organising the relationships between the owners, the board of directors and the managers	6	18	53	53	42
d. Organising the relationship between the company and all the stakeholders who are affected by, or who affect, the company's decisions and activities	4	16	54	50	50
e. The structures, processes, cultures and systems that engender the successful operation of the organisation	6	17	47	58	46

Q2. Please indicate how familiar you are with the following:

	1	2	3	4	5
a. The Saudi Corporate Governance Code	14	26	37	53	46
b. International developments in corporate governance	28	38	58	36	15

Q3. To what extent do you agree with the following statements?

	1	2	3	4	5
a. Corporate governance is important for Saudi companies	1	2	5	25	143
b. Saudi companies' practices of corporate governance are satisfactory	42	67	52	11	4
c. There is an adequate awareness of corporate governance issues in the Saudi business environment	39	76	41	13	6
d. The Saudi Corporate Governance Code is adequate and effective	26	41	64	32	11
e. Saudi companies generally comply with The Saudi Corporate Governance Code	23	72	60	15	4
f. The Saudi Corporate Governance Code should be mandatory for all listed companies	2	3	13	50	108
g. There should be penalties for non-compliance with the Saudi Corporate Governance Code	1	4	19	54	96
h. The Arabic translation of the English term "Corporate Governance" provides the same meaning that the English term does	32	17	47	43	33

Q4. To what extent do you agree with the following as appropriate terms to refer to the English term "Corporate Governance"?

	1	2	3	4	5
a. *Hawkama*	16	14	36	55	49
b. *Hakmea*	80	37	26	13	9
c. *Edarat Wa Tawjeh Alshareka*	31	20	45	42	30
d. *Edarat Wa Tandheem Alshareka*	53	37	42	26	8
e. *Aledarah Alrashedah*	58	38	34	22	15
f. Other (Please specify)					

C: Board structure, subcommittees and responsibilities

Q5. To what extent do you agree that the following factors influence the selection process of directors in Saudi companies?

Factor	Executive Directors					Non-Executive Directors					Independent NEDs				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. Share ownership	14	15	15	35	97	3	9	18	37	106	50	23	38	23	37
b. Personal relationships	12	11	25	45	82	8	7	27	46	85	9	12	34	42	74
c. Favouritism	19	19	45	40	52	15	17	39	46	55	15	17	47	45	48
d. Experience and qualifications	4	11	63	46	49	9	22	64	45	28	9	13	62	58	26
e. Having financial knowledge	16	21	68	40	31	19	27	83	31	11	13	27	72	39	20
f. Having knowledge in other specialist areas	10	15	61	58	32	13	29	82	34	16	10	23	73	44	22
g. Reputation	7	9	54	61	45	6	16	68	54	30	4	13	64	53	38
h. Having enough time to spend on company business	12	15	51	49	48	24	32	85	23	10	19	33	80	29	11
i. Other (please specify)															

Q6. In your opinion, how many Independent Non-Executive Directors should be on a Saudi company board, and how many Independent Non-Executive Directors are there in your company?(please choose one box for each row)

	None	One third of the board	Half of the board	Two thirds of the board	Other (specify)
Companies should have	1	111	50	12	1
My company's board	1	27	4	4	1

Q7. In your opinion, what is the maximum number of listed companies for which a person should be a board member at any one time? (please choose one box)

1	2	3	4	5	6	7	8	9	10	More than 10
10	27	74	17	44		1	2			

Q8 .If you are a board member, please specify how many boards you are a member of?

1	2	3	4	5	6	7	8	9	10	More than 10
10	3	4	4	1		1				

Q9. In your opinion, what should be the appropriate number of board members for each size of Saudi company?

	Small companies (Turnover < 500m)									
Not less than	2	3	4	5	6	7	8	9	10	11
	1	74	15	57	12	11	3	2	0	1
Not more than	5	6	7	8	9	10	11	12	13	16
	10	222	59	16	38	3	24	1	1	1

	Medium companies (Turnover between 501m and 1.5bn)											
Not less than	3	4	5	6	7	8	9	10	11	12	15	
	28	2	53	23	44	6	13	3	2	1	1	
Not more than	5	7	8	9	10	11	12	13	15	18	19	20
	2	12	7	66	22	56	5	2	1	1	1	1

	Large companies (Turnover > 1.5bn)											
Not less than	3	5	6	7	8	9	10	11	12	13	15	18
	23	18	5	50	10	45	8	10	3	1	2	1
Not more than	27	9	10	11	12	13	14	15	19	20	21	23
	2	10	7	100	15	24	1	11	2	2	1	1

Q10. Please specify how many members are on your company's board of directors?

Number of members	7	8	9	10	11
Number of respondents	6	4	10	6	7

Q11. In your opinion, how often should the board of directors meet? And how often does your company's board meet? (please choose one box for each row)

	Every 6 months	Every 4 months	Every 3 months	Every 2 months	Every month	More often
Companies' boards should meet	3	6	93	37	33	2
My company board meets	1	13	20	2	1	

Q12. To what extent do you agree that companies should, are doing, and your company does, the following:

Statement	Companies should					Companies in general do					My company actually does				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. Separate the chairman and CEO roles	5	8	13	32	117	11	30	90	28	13	3	1	5	12	15
b. Have an independent chairman	7	12	36	36	83	24	44	74	20	11	17	3	6	5	5
c. Define the board's authorities and responsibilities and ensure that board members are aware of them	4	3	15	31	122	12	47	83	27	4	1	3	11	13	9
d. Have appropriate standards to evaluate board business	5	4	11	43	112	27	57	74	10	5		5	18	12	2
e. Subject board members to orientation programmes to train and qualify them	7	7	31	41	89	47	69	48	8	1	8	14	11	4	
f. Ensure that board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and the shareholders	2	3	15	41	114	23	69	63	14	4		7	18	7	5
g. Treat all shareholders fairly	2	4	11	33	125	15	75	60	19	4		2	15	14	6
h. Apply high ethical standards	3	1	12	36	123	16	70	63	19	3	1	3	16	11	5
i. Take into account the interests of all stakeholders	3	1	13	39	119	14	59	77	19	4	1	2	16	14	4
j. Exercise objective independent judgement on corporate affairs	2	2	19	52	100	12	57	82	18	4		2	19	12	4
k. Provide access to accurate, relevant and timely information to board members	2	2	11	40	120	10	50	80	23	9		4	14	13	6

Q13. To what extent do you agree that Saudi companies' boards of directors should be, actually are, and your company is, responsible for the following:

	Board should be responsible for:					Boards actually are:					My company's board is actually:				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans	3	2	8	28	134	5	32	73	43	20	1		3	19	14
b. Setting performance objectives	4	1	16	31	119	7	34	71	39	18	2		7	18	9
c. Overseeing major capital expenditure, acquisitions and divestitures.	2	2	19	42	110	11	28	71	46	16		2	5	19	11
d. Monitoring the effectiveness of the company's governance practices and making changes as needed.	2	1	16	38	115	18	52	71	20	8		2	9	16	8
e. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.	2	3	14	37	119	13	39	77	34	10			11	16	10
f. Aligning key executive and board remuneration with the longer term interests of the company and its shareholders	3	3	10	35	124	8	35	70	43	17			10	16	11
g. Ensuring a formal and transparent board nomination and election process.	3	5	9	31	127	21	48	73	25	6	1	5	7	17	7
h. Monitoring and managing potential conflicts of interest of management or board members including misuse of corporate assets and abuse in related party transactions	3		12	33	127	17	53	69	26	8		3	8	18	8
i. Ensuring that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control	3	4	6	32	130	18	43	78	26	8		2	11	16	8
j. Overseeing the process of disclosure and communication	2	3	8	47	114	21	49	70	24	9		2	9	21	5

Q14. To what extent do you think that it is important for Saudi companies to have the following board committees? And to what extent do these committees exist in Saudi companies?

Committee	The importance					The existence				
	1	2	3	4	5	1	2	3	4	5
a. Audit Committee	3	2	7	32	131		9	31	60	72
b. Nomination Committee	3	6	16	53	96	23	38	58	37	13
c. Remuneration Committee	3	4	17	55	96	22	35	58	41	15
d. Executive Committee	4	3	18	39	111	5	16	37	65	48
e. Corporate Governance Committee	5	4	23	42	99	54	57	37	12	10
f. Risk Committee	5	10	33	45	81	66	52	34	11	7
g. Social Responsibility Committee	5	13	49	46	61	78	52	29	8	3
i. *Sharia* Committee	13	11	40	39	71	65	53	29	10	13

Q15. Please indicate which of the following committees your company has, and to what extent are they effective?

Committee	The existence		The effectiveness				
	Yes	No	1	2	3	4	5
a. Audit Committee	34	2	1			21	12
b. Nomination Committee	21	15			4	11	8
c. Remuneration Committee	23	13		1	5	11	9
d. Executive Committee	28	8			2	13	12
e. Corporate Governance Committee	4	32			1	2	4
f. Risk Committee	2	34		1	1		2
g. Social Responsibility Committee	5	31			1	1	3
i. *Sharia* Committee	5	31			1	3	2

D: Disclosure and Transparency

Q16. To what extent do you agree that Saudi companies should be, actually are, and your own company is, disclosing the following:

Statement	Companies should be disclosing:					Companies actually are disclosing:					My company discloses:				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
a. The financial and operating results of the company	3	2	4	19	147	2	13	45	62	51			2	15	20
b. Company objectives	3	3	14	32	122	7	25	70	46	24		1	6	17	13
c. Company future plans	2	3	19	27	124	18	45	77	21	12		5	12	10	10
d. Major share ownership and voting rights	4	6	14	24	125	35	44	63	17	12	4	7	11	6	9
e. Remuneration, qualifications, the selection process, other company directorships and independence	5	9	34	32	95	36	60	59	11	6	5	6	14	9	3
f. Related party transactions	2	8	24	34	107	27	55	58	22	9	2	6	10	10	8
g. Foreseeable risk factors	3	6	22	42	101	42	58	53	13	4	7	6	11	10	3
h. Issues regarding employees and other stakeholders	8	9	40	36	82	50	58	49	10	4	6	9	14	5	3
i. Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.	2	5	27	41	100	36	61	57	12	5	4	5	16	9	2

E: Stakeholders & Accountability

Q17. To what extent do you agree with the following:

	There is an accountability relationship between a company and:					These stakeholders should have a representative on the board				
	1	2	3	4	5	1	2	3	4	5
a. Media	23	30	51	42	30	104	34	22	8	7
b. Academics	27	36	57	31	25	97	35	24	13	6
c. Environmental groups	27	25	48	44	31	89	32	36	10	8
d. The regulatory and monitoring bodies	11	17	26	62	57	70	27	39	19	18
e. The government Employees	10	17	38	57	53	81	28	31	19	15
f. Customers	17	27	28	53	50	91	34	26	14	10
g. Community	19	19	43	44	49	78	29	36	17	14
h. Auditors	13	21	44	46	51	84	34	28	10	18
i. Shareholders	5	8	19	44	98	8	5	16	27	118
j. Financial consultants and analysists	17	23	49	47	39	79	26	40	19	10
k. Lenders	12	17	35	61	49	78	33	38	18	8
l. Suppliers	19	17	40	54	45	94	36	30	9	5
m. Employees	16	16	34	50	58	63	31	45	18	19

Q18. Please specify, approximately, the proportion of your company ownership by the following:

Owner	Percentage of ownership	Do they have representatives on the board	
		Yes	No
a. The Government (Public Investment Fund)		12	22
b. Institutional Investors (Social Insurance)		8	26
c. Institutional Investors (Pension Fund)		8	26
d. Institutional Investors (Fund Managers)		2	32
e. Family Members		29	5
f. Individual Private Investors		29	5
g. Other (please specify)...............			

Q19. To what extent do you agree with the following statements about Saudi companies?

Statements	1	2	3	4	5
a. It is common for Saudi companies to have major shareholders	4	7	15	55	94
b. Major shareholders control and have a direct influence over companies' activities	5	5	25	57	82
c. The ownership structure affects companies' corporate governance practices	4	11	27	68	64
d. The rights of shareholders including minority shareholders are adequately protected by law	13	25	58	57	21
e. The rights of shareholders including minority shareholders are adequately protected in practice	15	50	76	20	13
f. Saudi companies treat all shareholders equitably	26	48	74	19	6
g. An accumulative voting system would assist minority shareholders to choose their representatives on the board	12	21	37	35	69
h. Institutional investors exercise their ownership rights	21	35	57	46	16
i. Saudi companies respect the rights of stakeholders that are established by law or through mutual agreements.	6	41	81	36	9
j. Saudi companies provide equal, timely and cost-efficient access to relevant information for all stakeholders	26	56	68	19	6
k. Saudi companies enable stakeholders to freely communicate their concerns about illegal or unethical practices to the board	25	65	59	22	4

Q20. To what extent do you agree with the following statements?

Statement	1	2	3	4	5
a. Accountability is practiced in Saudi society	38	68	48	19	2
b. Companies, boards and managers are accountable for their acts	32	61	43	21	18
c. Stakeholders exercise their accountability relationships with companies	31	60	53	26	5
d. Accountability mechanisms are in place in companies	37	60	51	20	7
f. Companies should adopt good corporate governance to discharge their accountability	3	10	26	50	86

F: Accountability in Islam

Q21. To what extent do you agree with that Saudi companies should and are doing the following?

Statement	should be					Actually are				
	1	2	3	4	5					
a. Companies are subject to *Sharia* in all their transactions	5	6	23	39	102	16	44	77	30	6
b. Companies, their boards and managers are accountable for their acts according to the Islamic conception of accountability.	4	6	21	40	104	27	53	75	11	7
c. Companies, their boards and managers are accountable to Allah according to the Islamic conception of accountability.	3	5	13	35	119	21	37	75	18	21
d. Companies, their boards and managers are accountable to shareholders according to the Islamic conception of accountability.	3	4	17	44	107	25	47	78	12	11
e. Companies, their boards and managers are accountable to stakeholders according to the Islamic conception of accountability.	2	6	21	45	100	22	44	85	13	8
f. Companies offer the opportunity for stakeholders to participate in making decisions according to the Islamic conception of *Shura*.	10	14	28	43	80	35	50	78	8	2
g. Companies provide the opportunity to stakeholders to ensure that all their interests in the company are protected according to the Islamic conception of *Hisba*.	9	10	32	39	84	31	48	81	10	1

Q22. In your opinion, does *Sharia* conflict with any corporate governance principles?

Yes (4) ☐ No (164) ☐

(If yes, please explain)

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G: Regulatory and legal system

Q23. To what extent do you agree with the following statements:

Statement	1	2	3	4	5
a. The laws and systems in Saudi Arabia are adequate, effective and provide an appropriate environment for corporate governance practices	19	45	58	47	7
b. The laws and systems in Saudi Arabia are adequate, effective and provide an appropriate environment for accountability practices	26	45	66	34	5
c. The judiciary and the courts play a significant role in maintaining high corporate governance practices	40	63	52	14	7
d. The corporate governance regulatory, supervision and monitoring bodies are efficient	33	60	58	20	5
e. The regulatory, supervision and monitoring bodies work well together.	36	61	59	15	4
f. There is a need for establishing a separate and independent body to look after corporate governance issues in Saudi Arabia	21	21	33	53	48
g. Saudi companies comply with laws and regulations	15	44	80	27	10

Section H: The corporate governance framework

Q24. To what extent do agree with the following statements:

Statement	1	2	3	4	5
a. Social factors have a direct impact on corporate governance practices in Saudi Arabia	2	12	32	67	63
b. Cultural factors such as: favouritism, family ties and tribalism, have a direct impact on corporate governance practices in Saudi Arabia	1	12	31	67	65
c. The political situation in Saudi Arabia impacts on corporate governance practices	6	15	37	62	56
d. The economic situation in Saudi Arabia impacts on corporate governance practices	6	13	40	67	49
f. Corruption in Saudi Arabia has an influence on corporate governance practices	6	12	32	65	60
g. The auditing and accounting profession in Saudi Arabia impacts on corporate governance practices	8	12	33	70	53
h. The cost of corporate governance affects the practice of corporate governance in Saudi Arabia	26	27	47	48	28

Please feel free to add any comments that you think are related to corporate governance practices in Saudi companies in general

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Appendix VIII

Group Means, Kruskal-Wallis and Mann-Whitney Tests for All Questions

Q	Groups Means					K-W	M-W									
						P-value	P-values									
	O	R	I	N	M		O-R	O-I	O-N	O-M	R-I	R-N	R-M	I-N	I-M	N-M
Q1a	3.75	4.15	4.03	3.84	3.78	.38	.09	.12	.80	.79	.62	.28	.28	.42	.41	.98
Q1b	3.62	3.80	4.12	3.00	3.52	.00	.39	.00	.01	.74	.25	.01	.35	.00	.02	.07
Q1c	3.4	3.88	4.05	2.88	3.21	.00	.05	.00	.04	.63	.29	.00	.09	.00	.01	.33
Q1d	3.52	3.57	3.91	3.94	3.68	.17	.80	.01	.11	.25	.20	.30	.60	.95	.53	.63
Q1e	3.62	3.73	3.85	3.52	3.52	.50	.66	.12	.72	.85	.28	.50	.98	.20	.40	.78
Q2a	2.68	4.46	3.48	4.36	3.84	.00	.00	.00	.00	.00	.00	.48	.03	.00	.22	.10
Q2b	2.39	3.53	2.81	3.00	3.05	.00	.00	.04	.04	.05	.00	.05	.13	.30	.33	.89
Q3a	4.68	4.96	4.67	5.00	4.57	.00	.01	.28	.01	.46	.08	.39	.00	.05	.12	.00
Q3b	2.27	2.38	2.06	2.15	2.63	.17	.45	.51	.94	.17	.05	.31	.39	.50	.01	.11
Q3c	2.25	2.28	2.22	2.10	2.52	.53	.62	.97	.90	.19	.48	.57	.26	.98	.09	.12
Q3d	2.62	3.15	2.68	2.88	2.84	.35	.06	.73	.31	.35	.10	.48	.46	.46	.46	.94
Q3e	2.31	2.53	2.48	2.16	2.94	.05	.22	.23	.71	.01	.68	.14	.19	.16	.05	.00
Q3f	4.40	4.69	4.58	4.52	3.94	.02	.01	.15	.60	.19	.11	.07	.00	.58	.02	.15
Q3g	4.48	4.42	4.52	4.26	3.66	.01	.69	.48	.20	.00	.36	.44	.02	.09	.00	.12
Q3h	2.79	3.50	3.30	3.31	3.16	.14	.03	.04	.14	.34	.32	.38	.31	.94	.60	.68
Q4a	3.56	3.76	3.58	4.05	3.33	.34	.23	.89	.14	.63	.21	.82	.16	.15	.58	.11
Q4b	1.92	2.23	2.11	1.50	1.93	.46	.47	.38	.23	.90	.91	.13	.55	.07	.51	.42
Q4c	2.90	3.19	3.25	2.76	3.58	.20	.36	.12	.69	.02	.89	.33	.47	.18	.53	.05
Q4d	2.35	2.46	2.61	1.68	2.35	.12	.64	.26	.05	.84	.66	.06	.75	.00	.37	.22
Q4e	2.20	2.60	2.11	2.47	2.38	.66	.40	.23	.53	.69	.71	.35	.96	.25	.67	.62
Q5.1a	4.48	4.00	3.74	4.73	3.21	.00	.43	.00	.33	.00	..22	.18	.01	.00	.06	.00
Q5.1b	4.37	4.00	3.82	4.21	3.21	.00	.38	.02	.27	.00	.41	.93	.01	.40	.03	.00
Q5.1c	4.11	3.23	3.32	3.42	2.73	.00	.01	.00	.02	.00	.83	.75	.22	.85	.08	.08
Q5.1d	3.39	4.00	3.77	3.73	4.11	.07	.02	.09	.28	.02	.29	.38	.74	.94	.17	.25

Q5.1e	3.05	3.61	3.48	3.05	3.05	.16	.05	.10	.95	.90	.50	.07	.13	.17	.19	.91
Q5.1f	3.31	3.53	3.67	3.47	3.42	.65	.44	.15	.69	.86	.76	.67	.59	.44	.34	.75
Q5.1g	3.75	3.80	3.79	3.42	3.63	.62	.58	.93	.20	.64	.56	.12	.40	.22	.68	.51
Q5.1h	3.51	3.80	3.52	3.63	3.78	.74	.26	.99	.97	.40	.32	.33	.91	.90	.43	.48
Q5.2a	4.30	4.20	4.33	4.78	4.31	.25	.61	.64	.02	.91	.81	.15	.63	.05	.65	.03
Q5.2b	4.35	4.08	3.98	4.26	3.73	.15	.65	.11	.35	.01	.52	.81	.14	.69	.23	.11
Q5.2c	4.13	3.40	3.37	3.52	3.42	.02	.03	.00	.05	.01	.90	.85	.94	.72	.99	.84
Q5.2d	3.33	3.60	3.27	3.27	3.44	.86	.46	.68	.79	.92	.26	.41	.59	.88	.68	.87
Q5.2e	305	2.92	2.87	2.94	2.73	.66	.58	.35	.61	.18	.93	.89	.46	.82	.31	.24
Q5.2f	3.12	2.88	3.12	3.10	2.89	.72	.31	.78	.81	.24	.40	.44	.95	.94	.41	.34
Q5.2g	3.44	3.72	3.59	3.21	3.31	.33	.20	.43	.33	.45	.49	.11	.18	.14	.20	.86
Q5.2h	3.09	2.32	2.82	2.52	2.68	.01	.00	.10	.02	.08	.03	.42	.34	.14	.28	.90
Q5.3a	2.64	2.36	3.28	2.36	3.27	.02	.33	.02	.40	.09	.01	.96	.04	.02	.88	.07
Q5.3b	4.05	3.80	3.82	4.31	3.72	.39	.63	.45	.34	.15	.94	.25	.45	.16	.45	.04
Q5.3c	3.81	3.28	3.39	3.73	3.38	.34	.12	.10	.90	.15	.75	.29	.84	.33	.88	.35
Q5.3d	3.52	3.80	3.25	3.26	3.70	.27	.34	.29	.30	.58	.07	.09	.78	.75	.18	.16
Q5.3e	3.28	3.28	3.07	3.10	3.88	.57	.90	.39	.44	.12	.57	.58	.19	.90	.36	.41
Q5.3f	3.33	3.48	3.14	3.31	3.05	.58	.54	.42	.96	.23	.24	.60	.17	.59	.58	.30
Q5.3g	3.42	4.20	3.80	3.26	3.27	.00	.00	.01	.56	.44	.07	.00	.00	.03	.03	.85
Q5.3h	3.07	2.60	2.89	2.52	3.05	.11	.04	.32	.02	.75	.22	.95	.15	.15	.65	.09
Q12.1a	4.07	4.96	4.56	4.47	4.11	.00	.00	.02	.46	.59	.01	.00	.00	.23	.01	.23
Q12.1b	3.96	4.53	4.01	3.72	3.66	.09	.03	.85	.60	.36	.03	.03	.01	.54	.29	.77
Q12.1c	4.14	4.92	4.58	4.73	4.50	.01	.00	.04	.08	.46	.03	.09	.01	.73	.42	.32
Q12.1d	4.07	4.92	4.62	4.57	4.16	.00	.00	.01	.28	.70	.02	.00	.00	.39	.01	.13
Q12.1e	4.09	4.38	4.17	3.78	4.11	.37	.32	.84	.21	.66	.38	.04	.18	.15	.54	.46
Q12.1f	4.27	4.76	4.68	4.42	4.22	.01	.03	.02	.88	.51	.61	.02	.01	.03	.01	.60
Q12.1g	4.29	4.96	4.63	4.57	4.61	.01	.00	.11	.75	.48	.01	.00	.00	.27	.60	.69
Q12.1h	4.31	4.92	4.68	4.57	4.44	.01	.00	.05	.75	.94	.07	.00	.00	.17	.08	.67
Q12.1i	4.31	4.80	4.67	4.57	4.38	.02	.02	.08	.75	.57	.18	.03	.00	.22	.02	.34
Q12.1j	4.24	4.80	4.39	4.47	4.27	.03	.00	.39	.52	.76	.01	.02	.00	.96	.28	.36
Q12.1k	4.25	4.96	4.67	4.63	4.50	.00	.00	.03	.30	.67	.01	.00	.00	.51	.18	.55
Q12.2a	2.73	3.11	3.00	3.27	3.44	.06	.08	.23	.04	.00	.59	.57	.22	.34	.12	.60

Q12.2b	2.64	2.92	2.80	2.47	2.55	.64	.33	.60	.48	.65	.61	.14	.21	.34	.53	.68
Q12.2c	2.50	2.80	2.94	3.00	2.88	.09	.15	.01	.04	.07	.58	.61	.83	.93	.78	.78
Q12.2d	2.41	2.50	2.33	2.63	2.88	.27	.98	.61	.52	.05	.71	.60	.13	.32	.02	.33
Q12.2e	2.18	2.03	2.08	2.15	2.05	.89	.37	.48	.86	.59	.70	.53	.71	.70	.96	.76
Q12.2f	2.30	2.46	2.47	2.63	2.72	.36	.50	.21	.26	.04	.88	.65	.35	.70	.23	.59
Q12.2g	2.32	2.73	2.50	2.10	2.50	.01	.03	.26	.00	.40	.16	.19	.32	.01	.94	.04
Q12.2h	2.37	2.53	2.50	3.10	2.64	.07	.43	.53	.00	.28	.77	.05	.71	.01	.51	.16
Q12.2i	2.35	2.65	2.75	3.10	2.72	.00	.08	.01	.00	.07	.71	.07	.88	.10	.87	.10
Q12.2j	2.37	2.80	2.78	2.94	2.77	.02	.03	.00	.01	.07	.91	.69	.82	.57	.87	.53
Q12.2k	2.54	2.92	3.01	2.94	2.83	.06	.05	.00	.09	.21	.93	.94	.49	.83	.37	.61
Q12.3a	-	-	-	4.00	3.94	.86	-	-	-	-	-	-	-	-	-	.86
Q12.3b	-	-	-	1.94	2.83	.05	-	-	-	-	-	-	-	-	-	.05
Q12.3c	-	-	-	3.84	3.55	.40	-	-	-	-	-	-	-	-	-	.40
Q12.3d	-	-	-	3.26	3.33	.59	-	-	-	-	-	-	-	-	-	.59
Q12.3e	-	-	-	2.26	2.33	.92	-	-	-	-	-	-	-	-	-	.92
Q12.3f	-	-	-	2.26	3.27	.94	-	-	-	-	-	-	-	-	-	.94
Q12.3g	-	-	-	3.68	3.61	.89	-	-	-	-	-	-	-	-	-	.89
Q12.3h	-	-	-	3.57	3.29	.45	-	-	-	-	-	-	-	-	-	.45
Q12.3i	-	-	-	3.63	3.33	.40	-	-	-	-	-	-	-	-	-	.40
Q12.3j	-	-	-	3.52	3.44	.81	-	-	-	-	-	-	-	-	-	.81
Q12.3k	-	-	-	3.57	3.55	.93	-	-	-	-	-	-	-	-	-	.93
Q13.1a	4.33	4.96	4.77	4.78	4.55	.00	.00	.00	.10	.57	.12	.07	.00	.63	.09	.32
Q13.1b	4.49	4.88	4.38	4.77	4.27	.03	.03	.41	.38	.23	.00	.21	.00	.14	.52	.08
Q13.1c	4.48	4.76	4.36	4.57	4.16	.04	.06	.51	.61	.07	.02	.24	.00	.35	.21	.06
Q13.1d	4.32	4.92	4.63	4.63	4.11	.00	.00	.04	.25	.21	.02	.01	.00	.75	.00	.03
Q13.1e	4.29	4.88	4.62	4.73	4.22	.00	.00	.05	.11	.49	.11	.20	.00	.84	.02	.04
Q13.1f	4.35	4.92	4.60	4.73	4.38	.01	.00	.20	.24	.56	.01	.03	.00	.79	.09	.10
Q13.1g	4.35	4.96	4.70	4.47	4.27	.00	.00	.04	.64	.43	.04	.01	.00	.32	.01	.29
Q13.1h	4.29	5.00	4.27	4.78	4.38	.00	.00	.00	.04	.95	.01	.01	.00	.92	.01	.05
Q13.1i	4.37	5.00	4.72	4.79	4.22	.00	.00	.06	.18	.19	.01	.01	.00	.94	.00	.02
Q13.1j	4.29	4.88	4.64	4.78	4.16	.00	.00	.07	.05	.17	.06	.39	.00	.41	.00	.00
Q13.2a	2.92	3.50	3.19	3.63	3.50	.01	.00	.35	.00	.01	.18	.78	.92	.10	.22	.89

Q13.2b	2.92	3.44	3.10	3.33	3.44	.14	.02	.55	.14	.07	.14	.64	.89	.40	.23	.76
Q13.2c	3.07	2.96	3.25	3.26	3.35	.80	.67	.52	.74	.36	.36	.49	.27	.99	.71	.58
Q13.2d	2.41	2.36	2.89	3.27	2.76	.00	.91	.01	.00	.22	.03	.00	.21	.14	.55	.04
Q13.2e	2.94	2.76	2.75	3.47	3.16	.04	.46	.27	.08	.51	.60	.01	.20	.00	.07	.28
Q13.2f	2.87	3.26	3.12	3.52	3.44	.11	.10	.28	.02	.04	.47	.63	.68	.14	.23	.97
Q13.2g	2.50	2.42	2.71	3.00	3.27	.01	.94	.32	.04	.00	.40	.05	.00	.19	.02	.32
Q13.2h	2.38	2.69	2.75	3.36	3.16	.00	.14	.08	.00	.00	.98	.01	.08	.01	.07	.46
Q13.2i	2.46	2.76	2.83	3.10	3.27	.01	.12	.05	.01	.00	.90	.38	.15	.22	.08	.55
Q13.2j	2.38	2.53	2.73	3.31	3.27	.00	.35	.11	.00	.00	.73	.02	.01	.03	.02	.94
Q13.3a	-	-	-	4.26	4.16	.89	-	-	-	-	-	-	-	-	-	.89
Q13.3b	-	-	-	4.00	3.77	.86	-	-	-	-	-	-	-	-	-	.86
Q13.3c	-	-	-	3.89	4.22	.37	-	-	-	-	-	-	-	-	-	.37
Q13.3d	-	-	-	3.88	3.82	.80	-	-	-	-	-	-	-	-	-	.80
Q13.3e	-	-	-	4.00	3.94	.82	-	-	-	-	-	-	-	-	-	.82
Q13.3f	-	-	-	4.05	4.00	.83	-	-	-	-	-	-	-	-	-	.83
Q13.3g	-	-	-	3.47	3.83	.43	-	-	-	-	-	-	-	-	-	.43
Q13.3h	-	-	-	3.84	3.83	.88	-	-	-	-	-	-	-	-	-	.88
Q13.3i	-	-	-	3.73	3.88	.57	-	-	-	-	-	-	-	-	-	.57
Q13.3j	-	-	-	3.84	3.72	.59	-	-	-	-	-	-	-	-	-	.59
Q14.1a	4.22	4.88	4.79	4.94	4.66	.00	.00	.00	.00	.05	.61	.47	.29	.24	.44	.12
Q14.1b	4.12	4.76	4.57	4.15	3.77	.00	.00	.00	.78	.05	.24	.02	.00	.11	.00	.12
Q14.1c	4.12	4.76	4.56	4.15	3.94	.00	.00	.00	.86	.22	.17	.01	.00	.08	.00	.31
Q14.1d	4.03	4.57	4.60	4.89	4.33	.00	.02	.00	.00	.46	.85	.14	.19	.14	.07	.00
Q14.1e	4.05	4.69	4.43	4.57	3.76	.00	.00	.00	.03	.50	.32	.38	.00	.97	.02	.05
Q14.1f	3.94	4.46	4.22	3.94	3.55	.01	.01	.04	.81	.22	.32	.06	.00	.20	.01	.26
Q14.1g	3.75	4.26	3.91	3.57	3.44	.06	.03	.33	.59	.31	.13	.04	.01	.26	.08	.75
Q14.1h	3.77	3.84	4.19	3.26	3.38	.04	.73	.06	.23	.22	.29	.20	.21	.01	.01	.88
Q14.2a	3.77	4.26	4.00	4.94	4.55	.00	.01	.16	.00	.00	.13	.00	.17	.00	.01	.05
Q14.2b	2.94	2.38	2.85	3.31	3.00	.09	.04	.66	.17	.83	.11	.01	.06	.13	.60	.26
Q14.2c	2.82	2.64	3.05	3.47	3.16	.03	.20	.31	.02	.18	.04	.00	.02	.21	.80	.22
Q14.2d	3.76	3.34	3.60	4.47	4.33	.00	.09	.76	.00	.00	.24	.00	.00	.00	.01	.60
Q14.2e	1.96	2.15	2.19	2.89	2.41	.07	.67	.22	.00	.17	.58	.05	.39	.03	.51	.28

Q14.2f	2.11	1.69	2.14	1.88	2.28	.38	.07	.85	.43	.60	.11	.51	.12	.50	.60	.34
Q14.2g	2.07	1.73	1.64	1.77	2.16	.12	.10	.02	.32	.78	.79	.71	.19	.54	.08	.32
Q14.2h	2.09	2.07	2.03	1.66	2.27	.32	.92	.40	.11	.96	.43	.20	.87	.02	.60	.26
Q15.1a	-	-	-	1.00	1.11	.12	-	-	-	-	-	-	-	-	-	.12
Q15.1b	-	-	-	1.26	1.58	.05	-	-	-	-	-	-	-	-	-	.05
Q15.1c	-	-	-	1.26	1.47	.20	-	-	-	-	-	-	-	-	-	.20
Q15.1d	-	-	-	1.05	1.41	.01	-	-	-	-	-	-	-	-	-	.01
Q15.1e	-	-	-	1.89	1.88	.90	-	-	-	-	-	-	-	-	-	.90
Q15.1f	-	-	-	1.94	1.94	.93	-	-	-	-	-	-	-	-	-	.93
Q15.1g	-	-	-	1.78	1.94	.19	-	-	-	-	-	-	-	-	-	.19
Q15.1h	-	-	-	1.78	1.94	.19	-	-	-	-	-	-	-	-	-	.19
Q15.2a	-	-	-	4.42	4.06	.26	-	-	-	-	-	-	-	-	-	.26
Q15.2b	-	-	-	4.18	4.17	.85	-	-	-	-	-	-	-	-	-	.85
Q15.2c	-	-	-	4.17	3.88	.54	-	-	-	-	-	-	-	-	-	.54
Q15.2d	-	-	-	4.41	4.30	.67	-	-	-	-	-	-	-	-	-	.67
Q15.2e	-	-	-	4.25	4.66	.55	-	-	-	-	-	-	-	-	-	.55
Q15.2f	-	-	-	4.33	2.00	.15	-	-	-	-	-	-	-	-	-	.15
Q15.2g	-	-	-	4.25	5.00	.42	-	-	-	-	-	-	-	-	-	.42
Q15.2h	-	-	-	4.20	4.00	.75	-	-	-	-	-	-	-	-	-	.75
Q16.1a	4.53	4.92	4.77	4.94	4.77	.04	.03	.03	.03	.32	.52	.75	.34	.39	.62	.25
Q16.1b	4.43	4.80	4.55	4.57	4.33	.15	.07	.35	.74	.33	.26	.19	.01	.70	.08	.27
Q16.1c	4.46	4.73	4.67	4.31	4.22	.07	.19	.13	.56	.21	.86	.12	.03	.10	.01	.67
Q16.1d	4.45	4.76	4.73	3.94	4.11	.01	.14	.02	.21	.30	.74	.03	.04	.00	.00	.81
Q16.1e	4.37	4.69	4.24	3.21	3.50	.00	.03	.99	.00	.00	.05	.00	.00	.00	.00	.46
Q16.1f	4.33	4.76	4.36	4.10	4.00	.01	.02	.57	.23	.09	.08	.00	.00	.12	.04	.68
Q16.1g	4.31	4.88	4.31	4.10	3.88	.00	.00	.81	.21	.10	.00	.00	.00	.14	.07	.72
Q16.1h	4.16	4.50	3.89	3.52	3.61	.02	.14	.47	.02	.06	.06	.00	.00	.16	.28	.83
Q16.1i	4.24	4.80	4.46	3.94	3.83	.00	.00	.19	.20	.19	.03	.00	.00	.02	.02	.89
Q16.2a	3.37	4.57	3.82	4.26	3.88	.00	.00	.01	.00	.05	.00	.10	.00	.08	.97	.13
Q16.2b	3.07	4.11	3.16	3.31	3.38	.00	.00	.56	.34	.12	.00	.00	.00	.72	.41	.46
Q16.2c	2.62	3.00	2.69	2.78	3.27	.05	.19	.76	.72	.00	.30	.51	.28	.85	.01	.02
Q16.2d	2.43	2.50	2.60	2.47	3.11	.27	.90	.56	.78	.02	.74	.83	.08	.64	.11	.07

Q16.2e	2.46	2.26	2.16	2.26	2.94	.01	.25	.04	.38	.01	.56	.90	.00	.52	.00	.01
Q16.2f	2.42	2.96	2.36	2.88	3.00	.02	.10	.81	.12	.00	.07	.88	.70	.10	.01	.43
Q16.2g	2.22	2.42	2.09	2.38	2.77	.06	.52	.29	.55	.01	.15	.99	.13	.24	.00	.21
Q16.2h	2.27	2.26	2.83	2.44	2.55	.01	.73	.01	.48	.18	.11	.36	.26	.00	.00	.52
Q16.2i	2.50	2.30	2.03	2.61	2.66	.02	.34	.01	.54	.39	.34	.18	.16	.01	.01	.77
Q16.3a	-	-	-	4.42	4.55	.44	-	-	-	-	-	-	-	-	-	.44
Q16.3b	-	-	-	4.15	4.11	.98	-	-	-	-	-	-	-	-	-	.94
Q16.3c	-	-	-	3.52	3.83	.38	-	-	-	-	-	-	-	-	-	.38
Q16.3d	-	-	-	3.10	3.38	.53	-	-	-	-	-	-	-	-	-	.53
Q16.3e	-	-	-	2.68	3.27	.09	-	-	-	-	-	-	-	-	-	.09
Q16.3f	-	-	-	3.50	3.38	.76	-	-	-	-	-	-	-	-	-	.76
Q16.3g	-	-	-	2.73	3.05	.37	-	-	-	-	-	-	-	-	-	.37
Q16.3h	-	-	-	2.73	2.72	.95	-	-	-	-	-	-	-	-	-	.95
Q16.3i	-	-	-	3.00	3.00	.84	-	-	-	-	-	-	-	-	-	.84
Q17.1a	3.38	3.61	3.05	2.31	2.94	.00	.56	.14	.00	.15	.00	.00	.07	.03	.81	.09
Q17.1b	3.37	3.00	2.79	2.31	2.78	.02	.21	.02	.00	.07	.50	.07	.65	.19	.89	.14
Q17.1c	3.22	3.92	2.91	2.52	3.26	.00	.02	.24	.05	.97	.00	.00	.03	.29	.36	.06
Q17.1d	3.77	4.30	3.71	3.63	3.52	.08	.04	.90	.61	.25	.04	.03	.00	.69	.31	.64
Q17.1e	3.86	4.34	3.68	2.89	3.36	.00	.06	.61	.00	.07	.04	.00	.00	.01	.22	.12
Q17.1f	3.92	3.88	3.31	3.05	3.05	.00	.64	.05	.00	.00	.18	.01	.02	.34	.36	.92
Q17.1g	3.76	4.07	3.34	2.73	3.10	.00	.43	.13	.00	.02	.03	.00	.00	.07	.36	.27
Q17.1h	3.77	4.07	3.58	2.73	3.15	.00	.30	.43	.00	.01	.10	.00	.00	.01	.14	.26
Q17.1i	4.17	4.30	4.25	4.42	4.42	.94	.92	.84	.41	.66	.94	.53	.73	.50	.75	.78
Q17.1j	3.66	3.42	3.44	2.78	3.00	.03	.37	.55	.01	.01	.75	.09	.11	.05	.09	.71
Q17.1k	3.86	4.03	3.56	3.16	3.47	.04	.70	.35	.00	.10	.23	.00	.08	.10	.51	.36
Q17.1l	3.67	3.88	3.43	2.94	3.31	.08	.57	.44	.01	.14	.23	.01	.07	.13	.52	.39
Q17.1m	3.98	4.11	3.56	2.94	3.31	.00	.74	.11	.00	.02	.10	.00	.02	.07	.35	.39
Q17.2a	1.96	1.65	1.85	1.05	1.57	.00	.29	.60	.00	.15	.52	.00	.62	.00	.26	.03
Q17.2b	2.22	1.53	1.89	1.26	1.52	.01	.03	.28	.00	.04	.16	.26	.85	.01	.15	.39
Q17.2c	2.12	2.34	1.85	1.31	1.78	.02	.61	.18	.00	.34	.14	.00	.24	.03	.92	.04
Q17.2d	3.16	2.61	2.53	1.31	1.78	.00	.83	.78	.00	.92	.88	.00	.64	.00	.76	.00
Q17.2e	2.09	2.42	2.49	1.21	2.21	.00	.49	.16	.00	.60	.75	.00	.70	.00	.50	.00

Q17.2f	2.38	1.84	2.01	1.05	1.63	.00	.09	.14	.00	.03	.61	.00	.50	.00	.24	.01
Q17.2g	2.62	2.34	2.12	1.52	1.68	.01	.43	.07	.00	.01	.53	.03	.11	.04	.19	.43
Q17.2h	2.40	2.43	2.12	1.15	1.68	.00	.95	.27	.00	.06	.43	.00	.13	.00	.29	.00
Q17.2i	4.50	4.38	4.15	4.73	4.47	.42	.68	.32	.24	.65	.67	.17	.95	.08	.72	.17
Q17.2j	2.11	2.30	2.50	1.31	1.94	.00	.49	.14	.00	.56	.57	.00	.31	.00	.11	.07
Q17.2k	2.42	2.30	2.10	1.31	1.78	.00	.73	.18	.00	.05	.49	.00	.15	.00	.27	.08
Q17.2l	2.07	1.84	1.89	1.05	1.63	.00	.57	.42	.00	.14	.91	.00	.35	.00	.36	.01
Q17.2m	2.74	2.80	2.56	1.21	1.78	.00	.84	.51	.00	.01	.47	.00	.01	.00	.02	.01
Q19a	4.00	4.73	4.44	4.26	4.15	.01	.00	.02	.44	.46	.08	.03	.05	.36	.46	.96
Q19b	4.00	4.57	4.31	4.31	3.63	.05	.02	.23	.42	.30	.11	.21	.01	.94	.04	.11
Q19c	3.98	4.11	4.08	4.10	3.68	.47	.77	.62	.52	.22	.86	.64	.14	.67	.08	.12
Q19d	3.07	3.61	3.01	3.57	3.84	.00	.01	.92	.03	.00	.02	.85	.44	.05	.00	.36
Q19e	2.86	3.03	2.55	2.68	3.21	.08	.52	.07	.67	.27	.05	.33	.66	.29	.01	.18
Q19f	2.50	2.96	2.29	2.57	3.33	.00	.04	.19	.48	.00	.00	.23	.32	.15	.00	.03
Q19g	3.71	3.96	3.71	3.78	3.47	.56	.31	.91	.53	.39	.41	.82	.08	.70	.32	.15
Q19h	2.75	3.30	3.18	2.42	3.31	.02	.06	.04	.31	.06	.62	.03	.89	.01	.74	.02
Q19i	2.63	3.34	3.08	2.94	3.36	.00	.00	.00	.10	.00	.15	.06	.84	.56	.27	.12
Q19j	2.33	2.69	2.51	2.47	3.21	.01	.14	.31	.41	.00	.43	.43	.19	.96	.00	.01
Q19k	2.33	2.57	2.48	2.42	3.10	.03	.41	.41	.56	.00	.77	.72	.12	.91	.01	.01
Q20a	2.43	2.50	2.17	2.05	2.36	.44	.70	.27	.22	.99	.16	.13	.77	.60	.34	.24
Q20b	2.62	2.80	2.63	2.10	2.73	.34	.58	.89	.08	.67	.51	.05	.92	.12	.60	.05
Q20c	2.52	2.34	2.56	2.10	2.89	.15	.54	.86	.16	.14	.43	.47	.05	.13	.17	.00
Q20d	2.35	2.30	2.46	2.21	2.89	.22	.82	.66	.64	.04	.56	.83	.04	.43	.10	.02
Q20e	3.71	4.10	4.41	4.47	4.42	.00	.06	.00	.00	.01	.19	.41	.36	.72	.92	.88
Q21.1a	4.28	4.50	4.37	3.68	4.42	.08	.31	.97	.03	.98	.28	.00	.40	.02	.94	.06
Q21.1b	4.26	4.46	4.46	3.89	4.42	.15	.30	.34	.11	.82	.75	.03	.49	.02	.64	.12
Q21.1c	4.41	4.76	4.56	4.10	4.52	.01	.08	.38	.03	.92	.26	.00	.10	.00	.46	.09
Q21.1d	4.39	4.53	4.48	4.10	4.42	.28	.40	.94	.09	.74	.43	.05	.36	.06	.67	.25
Q21.1e	4.46	4.30	4.41	3.89	4.36	.21	.67	.54	.01	.41	.96	.13	.79	.04	.72	.17
Q21.1f	4.22	3.96	3.89	3.57	3.84	.09	.57	.08	.01	.05	.57	.17	.38	.18	.61	.43
Q21.1g	4.26	3.80	4.15	3.50	3.78	.03	.26	.37	.00	.07	.47	.24	.71	.01	.23	.31
Q21.2a	2.90	2.53	2.67	2.94	3.10	.21	.20	.29	.71	.35	.67	.16	.05	.18	.05	.58

Q21.2b	2.47	2.46	2.37	2.68	3.05	.03	.90	.59	.10	.01	.64	.30	.05	.07	.00	.17
Q21.2c	2.56	3.00	2.91	3.05	3.42	.03	.14	.12	.04	.00	.79	.83	.21	.62	.09	.20
Q21.2d	2.49	2.76	2.50	2.68	3.21	.05	.26	.96	.32	.00	.30	.86	.11	.39	.01	.05
Q21.2e	2.48	2.53	2.58	2.73	3.42	.00	.79	.60	.22	.00	.85	.40	.00	.50	.00	.01
Q21.2f	2.45	2.23	2.25	2.31	2.78	.21	.39	.32	.72	.11	1.00	.70	.03	.72	.03	.10
Q21.2g	2.43	2.23	2.34	2.44	2.89	.12	.39	.68	.89	.03	.64	.40	.00	.68	.02	.05
Q23a	2.53	3.07	2.87	3.31	3.10	.04	.05	.12	.00	.04	.44	.39	.80	.10	.33	.56
Q23b	2.46	2.96	2.65	2.94	2.89	.18	.06	.32	.08	.09	.25	.96	.96	.26	.30	.93
Q23c	2.42	2.34	2.39	1.78	2.52	.16	.73	.67	.02	.81	.88	.04	.66	.03	.62	.04
Q23d	2.35	2.96	2.36	2.21	2.57	.14	.04	.89	.60	.39	.03	.03	.26	.47	.41	.18
Q23e	2.55	2.73	2.36	1.89	2.42	.11	.24	.81	.06	.93	.12	.00	.31	.05	.76	.06
Q23f	3.12	3.15	3.70	4.05	3.73	.01	.99	.02	.00	.11	.06	.01	.10	.33	.65	.10
Q23g	2.46	2.88	3.01	3.26	2.94	.01	.03	.01	.00	.03	.81	.19	.71	.33	.95	.36
Q24a	4.12	4.19	3.77	4.47	3.63	.00	.57	.08	.20	.02	.06	.55	.01	.01	.42	.00
Q24b	4.01	4.34	3.91	4.47	3.63	.02	.16	.64	.08	.09	.08	.73	.00	.04	.19	.00
Q24c	3.96	3.69	3.70	4.52	3.36	.00	.56	.31	.02	.03	.85	.02	.23	.00	.17	.00
Q24d	3.77	4.07	3.63	4.15	3.63	.16	.19	.67	.15	.52	.07	.97	.06	.07	.70	.04
Q24e	3.96	3.73	3.89	4.44	3.63	.15	.44	.59	.12	.22	.67	.05	.69	.03	.34	.01
Q24f	3.92	4.11	3.77	3.89	3.36	.11	.39	.44	.93	.03	.13	.44	.00	.63	.11	.08
Q24g	3.27	2.92	3.25	3.10	2.73	.46	.47	.92	.77	.04	.36	.63	.62	.74	.10	.42