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The Relationship between Corporate Governance and Business Ethics in Saudi Listed Banks

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The Relationship between Corporate Governance and Business Ethics in Saudi Listed Banks

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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 myself, and that it has not previously been accepted for a higher degree.

Mr. Ibraheem A. Alshekmubarak

Signed…………..…………… Date……………..………….

Certificate

We certify that Mr. Ibraheem A. Alshekmubarak has worked the equivalent of eight terms on this research, and that the conditions of the relevant ordinance and regulations have been fulfilled.

Professor Bruce Burton

Signed………………………... Date………………..……….

Dr. Theresa Dunne

Signed………………………... Date………………..……….

Deduction

To my beloved family, my father "Ahmed" (May Allah's mercy be upon him), my mother "Moneera", my wife "Maiy", my daughter "Layla", my son "Ghaith" and my brothers for all their support, love and prayers.

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Abbreviations

AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
ASX	Australian Stock Exchange
BCL	Banks Control Law
BDSC	Banking Disputes Settlement Committee
CMA	Capital Market Authority
CSR	Corporate Social Responsibility
FRC	Financial Reporting Council
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
HSB	Saudi Hollandi Bank
ICO	Islamic Conference Organisation
KSA	Kingdom of Saudi Arabia
LAS	League of Arab States
MOCI	Ministry of Commerce and Industry
MPMR	Ministry of Petroleum and Mineral Resources
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Agency
SSB	*Sharia* Supervisory Board
UN	United Nations
WTO	World Trade Organisation

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Abstract

The Relationship between Corporate Governance and Business Ethics in Saudi Listed Banks

The current thesis explores the relationship between corporate governance and business ethics in Saudi-listed banks using an accountability framework and by examining the perceptions of key stakeholder groups. In order to achieve the study's aims, two methods were employed: semi-structured interviews and a questionnaire survey.

The findings show that corporate governance is now seen as one of the most important concepts for Saudi banks and the nation's financial sector in general. However, there are different views regarding the sufficiency and effectiveness of corporate governance codes. However, and although it is not required by the regulatory bodies in Saudi Arabia, all listed banks also have their own codes of business ethics; the findings show that there is a strong perceived relationship between corporate governance and business ethics, which has a positive impact on the banks' practices, although any meaningful developments in ethical standards will require mandating of the key principles.

Chapter 1: Introduction

Introduction

1.1 Preamble

The mechanisms and key notions underpinning 'good' corporate governance are now widely recognised as having global relevance (Almoataz, 2003). In recent years, there has been a remarkable worldwide increase in awareness of corporate governance principles and the number of published codes that aim to improve corporations' practices and protect stakeholders from possible crises that might be caused by 'poor' systems (Falgi, 2009). Following the economic collapse and financial crises at organisations such as WorldCom and Enron, corporate governance mechanisms have been considered as key for restructuring corporations at all levels (Demirag and Solomon, 2003). The reason for these collapses was not just the rapid loss of investors' confidence, but also the lack of corporate transparency, reliable disclosures and structured corporate governance in general (Ho and Wong, 2001).

In the Saudi Arabian context, as a result of the Saudi exchange collapse at the beginning of 2006, regulators took steps to protect the market and investors from future crises and so, in November 2006, the Capital Market Authority (CMA) issued the first corporate governance code for Saudi corporations (Falgi, 2009)[1]. Whilst such codes are now commonplace, in terms of reforming and enhancing corporate governance practices, Smith (1997) declared that there is an awareness of the need for reform that goes beyond following formal regulations. A focus on business ethics is a key element in this context and Bonn and Fisher (2005) have suggested that an organisation's approach to ethics must be addressed within the framework of

[1] This document will be discussed in greater detail in chapter 2.

corporate governance although they also contend that this is just the first step if an organisation is to develop more effective corporate governance practices. Measures must be adopted to ensure that the behaviour at all levels of the organisation is consistent with the ethical values adopted in the codes of conduct (Bonn and Fisher, 2005). As a result of this concern, stock exchanges around the globe (and transnational institutions such as the OECD) have developed principles of corporate governance that include explicit references to business ethics (Sullivan, 2009).

1.2 Research Significance

Gives the importance global bodies attribute to the inclusion of ethical matters in corporate governance pronouncements it is important to recognise that the provision of corporate governance and its practices is not only significant for internal corporations, but is also necessary for attracting foreign investment in order to promote economic welfare (Alkahtani, 2013). To date, with some notable exceptions[2], there are a dearth of studies that attempt to explore the corporate governance system in a Saudi context. In addition, based on the researcher's knowledge, no study has been published in the Saudi Arabian financial sector that investigates the relationship between corporate governance and business ethics now seen as important. These factors have motivated the researcher to carry out a study that explores the relationship between corporate governance and business ethics in the Saudi banking sector in order to take a first step towards reforming and enhancing the practice of corporate governance in the Saudi financial sector. Using interviews and a questionnaire survey, employees from the top level of Saudi-listed banks and other

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[2] A number of studies have investigated corporate governance in Saudi Arabia from different viewpoints such as: Altwaijry et al., 2002; Almoataz, 2003; Alharkan, 2005; Alajlan, 2005; Falgi, 2009; and Alkahtani, 2013.

key groups of stakeholders have been questioned about their opinions in relation to corporate governance and business ethics in general and how these concepts are related to each other. These issues are explored via an accountability lens, both from an Islamic perspective, although a Western application is also considered.

1.3 Research Questions and Limitations

The main objective of the current study is to narrow the gap in the literature in relation to reforming and enhancing corporate governance in developing nations by exploring the relationship between corporate governance and business ethics in Saudi-listed banks, in an accountability (including Islamic accountability) context. In order to achieve these objectives, the following questions have been addressed:

1. *What is the relationship between business ethics and corporate governance in the Saudi Arabian banking sector?*

2. *What role does accountability, including Islamic accountability, play in this relationship?*

The focus of this study is on the relationship between corporate governance and business ethics in the Saudi Arabian banking sector using an interpretive paradigm, as identified by Burrell and Morgan (1979), and an accountability theoretical framework to interpret the participants' perceptions. Different groups of listed banks' key stakeholders are included, namely: Academics, Board members, Clients, Employees, Managers and Regulators[3]. Semi-structured interviews and a questionnaire survey are employed to explore perceptions regarding different issues related to corporate governance and business ethics in general and the nature of the inter-relationships involved. The potential lines of accountability between the stakeholders and banks make their perceptions key if a holistic understanding of the corporate governance and business ethics relationship in Saudi Arabia is to develop. The study concentrates on issues that dominate the extant literature and other debates, such as the importance, compliance and achievement of strong corporate governance in Saudi-listed banks, including the adequacy of the Saudi Arabian code. The participants are also asked about their understanding of business ethics, as well as the importance and impact of the notion on banks' practices, to determine whether a relationship is perceived between corporate governance and business ethics and, if so, how the inter-relationship works in practice. Accountability - including accountability from an Islamic perspective - underpins the analysis and views regarding its implications for the Saudi banking sector are explored. The impact of *Sharia* principles is also examined in this context.

The research attempts to provide a first step towards enhancing corporate governance practices in the Saudi banking sector by exploring the relationship between corporate governance and business ethics therein. However, the findings of the study are intended to contribute to debates about corporate governance and business ethics in developing countries more generally, particularly Arabian Gulf countries and the wider Islamic world. However, the walk is by no means exhaustive and the author acknowledges that the topic is replete with possibilities for future research.

[3] i.e. the groups most likely to be aware of modern banking practices, see for example, Stodder, 1998; Conroy and Emerson, 2004; Falgi, 2009.

1.4 Structure of the Thesis

This thesis has been divided into eight chapters. The current chapter presents an introduction to the study, outlining the significance of the research and the thesis's methodology, scope, limitations and main research questions.

Chapter 2 provides background information about the Kingdom of Saudi Arabia (KSA), where this research is set. The most direct relevant issues to the study are discussed, including the legal system of the nation and the framework underpinning the nation's financial services sector.

Chapter 3 reviews the most relevant literature in relation to corporate governance and business ethics, including the relationship between the notions. The chapter covers the key issues related to corporate governance, for example, definitions, models and key literature in the topic. Moreover, the definition and explanation of ethics in general, and ethics in the business context in particular, are also reviewed. In addition, the link between ethics/business ethics and religion is discussed, in particular the Islamic context.

Chapter 4 presents an overview of the accountability theoretical framework employed to interpret the study's results. This chapter consists of two main parts, which focus on: (i) the Western notion of accountability; and (ii) accountability from an Islamic perspective.

Chapter 5 considers the methodology and methods that have been employed in this thesis. In relation to the methodological approach adopted, the main research philosophies adopted, the assumptions made about the nature of both social science and society, as well as the study's research paradigms are highlighted. Semi-structured interviews and questionnaire survey methods are highlighted as the two methods adopted in this study.

Chapter 6 analyses the results of the interviews that were conducted with 17 interviewees from Saudi-listed banks between March and June 2012. The discussion focuses on matters such as corporate governance and business ethics in Saudi banks using the accountability framework. Accountability in general, accountability and dealing ethically, and accountability from an Islamic perspective are specifically discussed.

By using the questionnaire survey method, Chapter 7 explores some of the most significant issues raised by both the extant literature and the interviews with a large sample of stakeholders in Saudi-listed banks. This chapter focuses on issues related to corporate governance, business ethics, the Western notion of accountability and accountability from an Islamic perspective. The main findings attained from the interviews and questionnaire survey, the thesis's contribution to knowledge and suggestions for further research are presented in the concluding chapter, Chapter 8.

Chapter 2: Saudi Arabian Context

Saudi Arabian Context

2.1 Introduction

The aim of this chapter is to provide general information about the Kingdom of Saudi Arabia (KSA) where this research is set. The discussion focuses on the issues of most direct relevance to the study including the nation's legal system and its framework of financial regulation.

The remainder of the chapter is structured as follows. Section 2.2 highlights the culture and social system of modern Saudi Arabia, while the political and economic background are described in Section 2.3. Section 2.4 then provides an overview of the Saudi legal system before the notion's system of financial supervision and extant monitoring bodies are discussed in Section 2.5. Section 2.6 concludes the chapter.

2.2 Culture and Social Background

In order to provide a meaningful review of the business environment in the KSA, it is necessary to outline some key background factors that have helped shape the contextual issues explored later in the chapter.

Culture and social system are important environmental factors that affect societal behaviour and the nature of any developments that take place in a specific society (Basheikh, 2002). Violet (1983) indicates that cultural norms and social systems help determine what is adequate in business transactions because the latter is based on the proposition that business transactions are a part of social systems, while technical activities including an interaction between both human and non-human resources.

Historically, the social system in the Arabian Peninsula has been based on clans and tribes as these have provided long-time protection and stability for individuals; social rules of conduct are set down by a small number of families as providers and protectors, with each tribe having a Sheikh who acts as the tribal leader (Al-Naqeeb, 1996; Wynbrandt, 2010). The tribe became the source of regulatory and legal rules for individuals, leading to alliances being made at tribe level; as a result tribes were best placed to resolve conflicts and preserve peace (El Mallakh, 1982). In harsh living conditions, the assurance of survival strengthened peoples’ loyalty to the tribal system, providing it with the main political power in the Arabian Peninsula (Peterson, 1977; Okashah, 2001). Individualism has no part in tribal mentality unless it serves the interest of tribes, leading individuals to act according to the expectations of tribal and family (Malaika, 1993). These relationships between individuals, families and the tribe allowed people to commit strongly to tribal obligations, obligations which are distinctive from those found in Western societies (Berger, 1957). These historical influences have, however, become weaker since unification of the Arabian Peninsula under one flag by King Abdul-Aziz, the point now regarded as the birth of modern Saudi Arabia (AL-Turaiqi, 2008).

In terms of religion in the Saudi context, Basheikh (2002) points out that uncertainty avoidance will lead members of a culture to perceive threats from uncertain and unknown situations. In this context, religion attempts to limit uncertainty and anxiety among people (Basheikh, 2002). Religion is seen in this setting as a way of relating to transcendental forces that are assumed to control people's future. For these and other reasons, religion plays a significant role in the culture of Arab countries particularly in Saudi Arabia (Basheikh, 2002).

Basheikh (2002) highlights some particular features of societies in Saudi Arabia that are more pronounced than elsewhere in the region: (i) Children grow up not only around their parents but also around grandparents, uncles, aunts, servants or other housemates; (ii) If a person belonging to a group has breached society's rules, the whole group will be affected; (iii) The state plays a dominant role in the economic system.

2.3 Political and Economic Background

After great efforts to unite the majority of the Arabian Peninsula under one flag, King Abdulaziz Al-Saud (1880-1953) announced the foundation of the KSA on 23 September 1932 (Al-Angari, 1999; Al-Turaiqi, 2008). As shown in Figure 2.1, the country is located in South-West Asia, covering an area of about 2,100,000 square kilometers (868,730 square miles), with a population of 27 million; annual population growth was 3.2% between 2004 and 2010 (Central Department of Statistics and Information, 2013).

Figure 2.1 Map of the Kingdom of Saudi Arabia

Source: Academic Dictionaries and Encyclopedias (2014)

The governance system in KSA is a monarchy, limited to the male descendants of King Abdulaziz. It is a centralised system, the King being the head of the Ministers' Council, which is responsible for the management of the internal and external affairs of the Kingdom, and also for organising and co-ordinating the various branches of government (Fundamental Governance System, 1992[4]). In practice, this means that all three pillars of government - executive, legislative and judicial - are vested in the King. The Saudi constitution is the Holy Quran and all legislation is subject to Islamic law (Fundamental Governance System, 1992). In particular, Chapter 8 of the Fundamental Governance System states that:

> "Governance in the Kingdom of Saudi Arabia is based on justice, consultation and equality in accordance with Islamic law" (p.6).

In the Islamic world, Saudi Arabia occupies a special position because it contains the holiest Islamic sites, Mecca (the direction of prayer for Muslims) and Medina (the city to which the prophet Mohammed (peace be upon him) emigrated and where he is buried). Moreover, it is the land of divine revelation and the cradle of Islam, which spread from there across the world. Each year, about three million Muslims travel to these holy lands to take part in the *Hajj* (pilgrimage). The religion of Islam has a clear influence on many aspects of life in Saudi Arabia; this dates back to the establishment of the first Saudi state in 1744, when Mohammed Ibn (son of) Saud (the political leader) agreed with Sheikh Mohammed Ibn Abdulwahhab (the religious leader) to set up a state occupying most of the Arabian peninsula, governed by the House of Al Saud (from which Saudi Arabia takes its name) and adopting Islamic law (Al-Rumaihi, 1997; Al-Turaiqi, 2008; and Bowen, 2008). Saudi Arabia is a member of

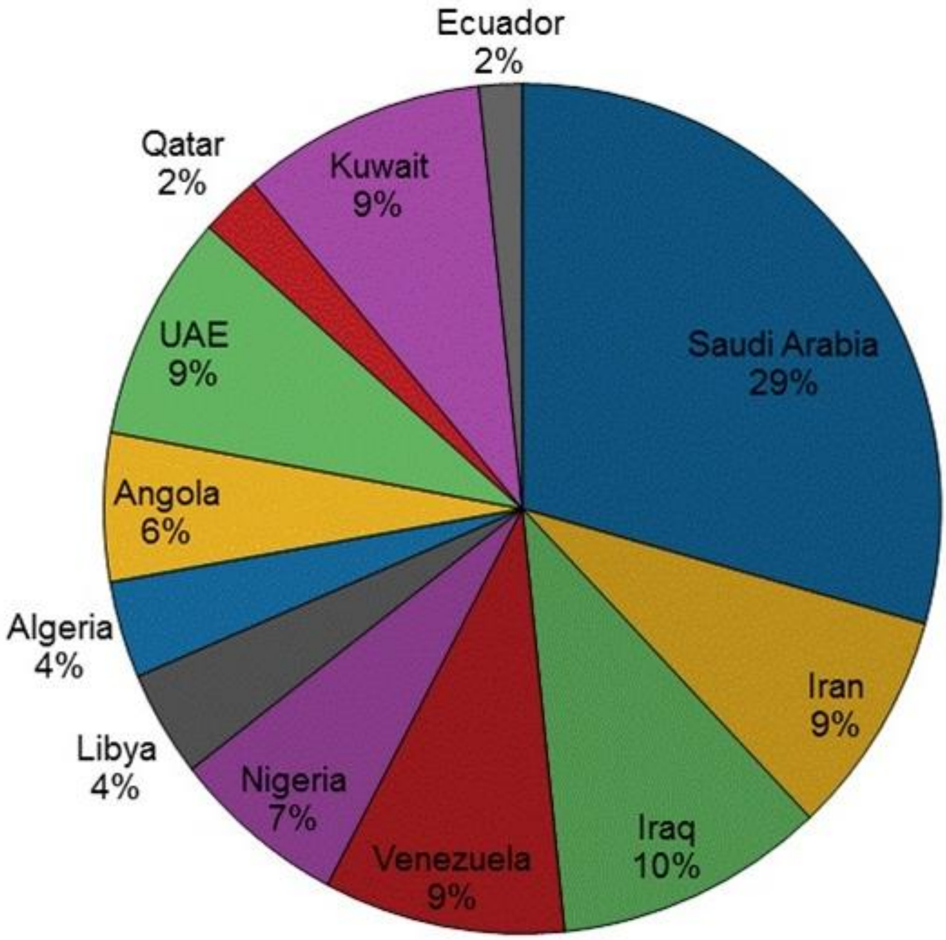
[4] The constitution of the KSA.

several international organisations including the Gulf Cooperation Council (GCC), the League of Arab States (LAS), the Islamic Conference Organisation (ICO) and the United Nations (UN).

Saudi Arabia is a developing country. As of 2014, it held a 25% share of the total Gross Domestic Product (GDP) in the Arab world and is the world’s 25th largest exporter/importer, with foreign trade of US $78 billion (Ministry of Economy and Planning, 2014). The Kingdom has displayed “remarkable political and economic stability” according to the Ministry of Economy and Planning in recent decades, reflecting massive oil exports, which are the main source of national income (90-95% of the total). Saudi Arabia is estimated to hold about a quarter of the world's oil reserves and is likely to continue as the largest producer of oil for the foreseeable future (Ministry of Economy and Planning, 2014). In 2013 Saudi Arabia produced 29% of OPEC’s output (OPEC, 2013)[5].

[5] See Figure 2.2.

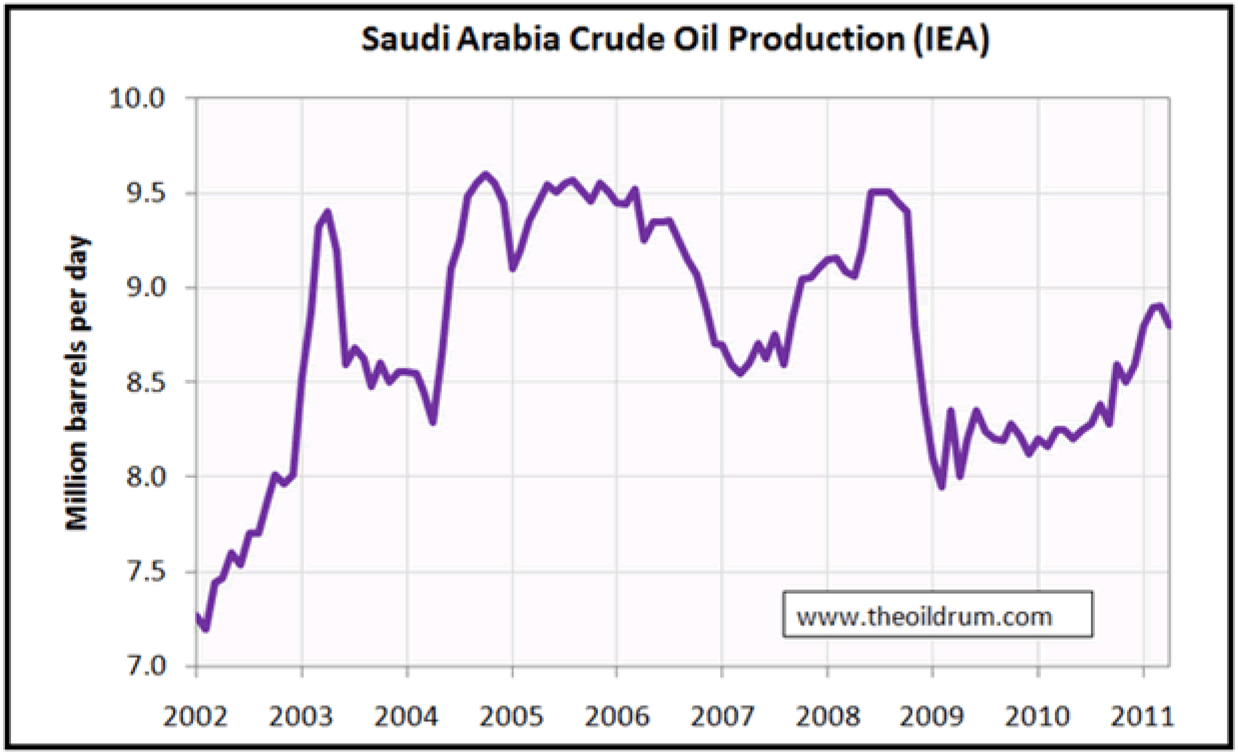
Figure 2.2 Outputs of OPEC Countries in 2013



Note: This figure depicts global oil production proportions greater than 3% in 2013.
Source: OPEC (2013)

The first international shipment of oil from Saudi Arabia was in May 1939, from Ras Tanura Port on the Eastern coast of Saudi (Ministry of Petroleum and Mineral Resources, (MPMR), 2013). Since then, oil has played a significant role in the life of Saudi Arabia with production levels of between 7 and 10 million barrels a day (see Figure 2.3). The MPMR predicts that this level of activity will continue well into the future, as recoverable reserves of oil in Saudi constitute about 260 billion barrels, with undiscovered resources estimated to be around 200 billion barrels. Between 2004 and mid-2005, six new oil and gas fields were discovered in the Kingdom. Taken together, these figures indicate that Saudi Arabia will be able to mass produce oil for more than a hundred years (Cordesman, 2003; MPMR, 2013).

Figure 2.3 Saudi Oil Productions between 2002 and 2011 in Millions of Barrels Per Day



Source: The Market Oracle (2012)

Although Saudi Arabia is a large country, it lacks natural resource such as lakes and rivers, with desert covering about 80% of the land mass. Life in the Kingdom before oil was discovered in 1938 was very simple, and Saudi Arabia was one of the poorest countries in the world. However after the remarkable increases in oil prices over the last four decades the rate of economic development has been rapid, with the government introducing five-year plans targeting development of healthcare and education systems and improving infrastructure in many areas. All of this would have been impossible without oil (MPMR, 2013).

The government recently updated its regulations and systems to fulfill World Trade Organisation (WTO) membership requirements. After a round of negotiations lasting over 12 years, in December 2006 Saudi Arabia became the 149th member of the WTO (Ministry of Commerce and Industry, 2013). In this regard, the Saudi Arabian General Investment Authority (SAGIA) was created by the government, with the aim of improving the investment environment in Saudi Arabia.

2.4 The Legal System in Saudi Arabia

After taking power, King Abdulaziz became interested in the legal system as a key tool for reorganising the country; existing practice was very simple and its procedures suffered from a lack of construction and organisation, so the establishment of an appropriate framework of laws was seen as an urgent priority (Ministry of Justice, 2013). Therefore, King Abdulaziz issued a series of regulations aimed at systematising the workings of the courts and ensuring the independence and hegemony of the judiciary (Ministry of Justice, 2013). In particular, the King stressed that the fundamental basis of the legal system was Islamic legalisation, adopting more specifically the *Hanbli* doctrine, one of the four doctrines of Sunnism[6]. The Judiciary Law, issued by Royal Decree No. M/64 in 1975, described the broad lines of the legal system in the KSA. Article No. I 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 law) and laws in force. No one may interfere with the Judiciary".

[6] The Islamic Sunni party regulations follow four major schools that belong to their scholars' respective philosophies: Hanafi, Malki, Shafeai and Hanbli.

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

a) The Supreme Judicial Council, whose role is supervising the courts as well as looking into issues stipulated by the Minister of Justice or the King. The Council is composed of eleven members: five full-time members (ranked as the Chief of the Appellate Court) who are appointed by Royal Order; five part-time members (ranked as the Chief of the Appellate Court or his deputy), the Justice Deputy Minister, and three individuals who have the longest service as Chief Judges of the General Courts in the major cities. This form is presided over by the Chairman of the Council.

b) The Appellate Court, which is composed of a Chief Judge and a number of judges. A Court panel examines cases of personal status, while another looks into criminal cases and a third oversees all others. The Chief Judge Deputies of the Appellate Court are appointed by the Minister of Justice on the suggestion of the Supreme Judicial Council. The decisions of Appellate Court become final only when approved by the Minister of Justice.

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

d) Summary Courts, similarly composed of one or more judges as per the General Courts.

Articles No. 53 and 54 state that the appointment, remuneration and promotion of judges are effected by a Royal Order based on the decision of the Supreme Judicial

Council, stating that the statutory requirements in every individual case have been fulfilled. Alternatively, according to article No. 87, the Ministry of Justice's role 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".

2.5 Financial Supervision and Monitoring Bodies

In Saudi Arabia, three main bodies supervise and monitor companies and financial institutions: (i) The Ministry of Commerce and Industry (MOCI); (ii) The Saudi Arabian Monetary Agency (SAMA); and (iii) The Capital Market Authority (CMA). The reminder of this section will focus on the respective roles played by each of these bodies in terms of the nation's corporate governance framework.

2.5.1 The Ministry of Commerce and Industry (MOCI)

Since unification, the KSA government has paid considerable attention to the operation of the business and finance sector. Business opportunities have been opened up for businessmen and women under economic conditions that are aimed formally at ensuring freedom of disposition and ownership, enhancing participation in enriching the national economy's resources, and supporting development and growth (MOCI, 2013).

Since its formation, the MOCI has been involved in efforts to expand and develop domestic and foreign trade, adopting initiatives that promote the private sector's role and allowing it to both: (i) engage in effective participation in various economics; and (ii) to supervise commerce and industry chambers, encouraging them to offer the best services to the business community. MOCI has sought to strengthen and develop trade and partnerships with all KSA's allied-countries, therefore ensuring the implementation of trade and food supply policies. The MOCI has also proposed and imposed regulations for trade and business ensuring efficient trade processes that connect the KSA business community with those in other countries (MOCI, 2013).

In addition, at a regulatory level, the MOCI is responsible for supervising, regulating and monitoring all forms of companies, and is required by law to ensure corporate compliance with all relevant regulations. One of the major roles that the MOCI plays is in terms of studying and authorising applications for establishing new joint stock companies and reviewing the related articles of incorporation. Moreover, the MOCI is responsible for registering and 'monitoring' firms' activities and financial reports (MOCI, 2013).

2.5.2 The Saudi Arabian Monetary Agency (SAMA)

2.5.2.1 Role and Purpose

The SAMA was founded in 1952 as the KSA's central bank. The Agency's charter requires it to act as the central government bank, to issue currency, support the value of the Saudi Riyal (Saudi currency) at home and abroad, and to encourage and supervise the development of the KSA's banking system in both the public and commercial sectors. The SAMA is also the KSA's investment authority; in this role, it is responsible for managing the country's foreign assets, inside and outside the country (SAMA, 2013).

During its early years, SAMA's primary task was banking development and the implementation of currency reforms. From 1960 to 1972, SAMA focused on banking regulations, against the background of the full convertibility of the Riyal[7] into other currencies. From 1973 to 1982, SAMA's preoccupation was to containment of inflationary pressure on the economy and managing the nation’s massive foreign exchange reserves. Since the mid-1980s, the priorities of SAMA have been to introduce reform of the financial market with a strong, developed banking system and a secure, efficient payment system, as well as assisting the government in managing public debt (SAMA, 2013). Over the years, with the expansion of the financial system, growth in the economy in general and the associated increase in government’s fiscal operations, the responsibilities of SAMA have changed dramatically. Its monetary policy, conducted in co-ordination with the government’s fiscal policy, has promoted domestic price and exchange rate stability, thus contributing significantly to the growth of the Saudi economy (SAMA, 2013). As the present study is concentrated on the Saudi banking sector, SAMA’s role in regulating the industry is now discussed in more detail.

2.5.2.2 Banking Regulations in the KSA

According to Iqbal et al. (1998), there are three reasons for regulating banks: (i) to ensure the soundness of the financial system; (ii) to increase the information available

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[7] Saudi currency, 1.00 GBP = 6.32 SAR; 1.00 USD = 3.75 SAR (XE, 2014).

to investors; and (iii) to improve monetary policy control. In addition to these, Iqbal et al. (1998) argue that in an Islamic context, *Sharia* supervision is another requirement. Aboodah (1990) identifies two distinct periods in banking regulation in Saudi Arabia. The first of these started at the beginning of the 20th century, when there was no regulation of business activities. This situation lasted from the establishment of the KSA until the emergence of SAMA in 1952 at which point the second identifiable period began (Aboodah, 1990). Until the mid-twentieth century, Saudi Arabia had no formal money and banking system (SAMA, 2013). To the degree that money was used, Saudis primarily used coins having a metallic content equal to their value for storing value and as a medium exchange for some of transactions in urban areas. A few banking functions existed, such as money changing (especially for pilgrims visiting Mecca), and informal connections with international currency markets were in evidence (SAMA, 2013). In 1926, a foreign bank was established (Dutch Trading Company) but its importance was minor (SAMA, 2013). As oil revenues began to increase, foreign and domestic banks were formed. Their business initially consisted mostly of making short-term loans to commercial trading, financing imports and providing senesces to pilgrims (SAMA, 2013).

In 1926, the Dutch Trading Company[8] operated the first bank in the KSA. Its operations started in Jeddah, serving pilgrims arriving from Indonesia, which was under Dutch rule (SHB, 2013). The government recognised that there was a need for other banks, especially after the discovery of oil and, consequently, two other banks were licensed to work in the country[9] (Aboodah, 1990). Currently, twelve private

[8] Currently the foreign partner of the Saudi Hollandi Bank (SHB).
[9] Ahli Bank and French Bank.

commercial banks[10] operate in the kingdom, providing full-service banking to individuals, and to private and public enterprises. Eight of the banks were originally totally Saudi-owned, whilst four were joint ventures with foreign banks. In 1975 the government adopted a program of Saudi participation in ownership of foreign banks operating in the kingdom and in December 1982, the last of these merged with a Saudi bank (SAMA, 2013). More than 1,000 branches now exist throughout the country with a widespread network of automated teller machines in operation (SAMA, 2013). The range of bank activities grew remarkably during the 1970s and 1980s. Beyond providing credit and deposit facilities, they engaged in investment banking, foreign exchange services, securities trading, government finance and development of a secondary government bond-treasury bill market (SAMA, 2013).

[10] Eleven of them are listed and are included in this study, See Table 2.1 for details.

Table 2.1: Saudi Listed Banks

	Banks	Establishment	Total Assets in Thousand (SR)	Overview
1	Saudi Hollandi Bank (SHB)	1926	80,468,261	SHB, the first operating bank in the Kingdom of Saudi Arabia.
2	Saudi American Bank (SAMBA)	1955	205,036,629	SAMBA is one of the region's largest and most acclaimed financial services groups
3	Al Rajhi Bank	1957	279,870,685	Al Rajhi Bank is one of the largest Islamic banks in the world
4	Riyad Bank	1957	205,246,479	one of the largest financial institutions in Saudi Arabia and the Middle East
5	Bank AlJazira (BAJ)	1975	59,976408	BAJ is recognised as one of the leading *Sharia* compliant, fast-growing financial institutions in Saudi Arabia
6	The Saudi Investment Bank (SAIB)	1976	80,495,413	SAIB offers a wide range of retail and commercial banking products and services in addition to investment banking.
7	Banque Saudi Fransi (BSF)	1977	170,056,674	BSF is a leading provider of comprehensive financial services and products.
8	The Saudi British Bank (SAAB)	1978	177,302,000	SAAB is an Associated Company of the HSBC Group, one of the world's largest banking and financial services organisations
9	Arab National Bank (ANB)	1979	173,935,424	ANB is ranked amongst the 10-15 largest banks in the Middle East.
10	Bank Albilad	2004	36,323,308	Bank Albilad has, since its inception, committed itself to the application of the Islamic Sharia in all of its transactions
11	Alinma Bank	2006	63,001,232	Alinma Bank seeks to become an integrated financial institution that operates in complete accordance with Sharia compliant banking standards in all services and transactions.

Note: This table shows some information regarding Saudi-listed banks, taken from their official websites.

The first regulation of currency exchange business, including by the existing banks, took place via the commercial court system, which issued the relevant decree in 1932 (Aboodah, 1990). However, this law was not comprehensive enough to control the banks in the way government desired, and this led to SAMA being established. Aboodah (1990) argues that the establishment of SAMA, effectively began a new banking era in the KSA, because the organisation played such a vital role in improving the nation's financial system. In this context, SAMA paid special attention to the need to enhance the growth of the nation's banking sector including issuance of the Banks Control Law (BCL) in 1966; one of the most significant changes to bank regulation in KSA history (Almuhanna, 1995).

The BCL represents the framework of supervision under which Saudi banks operate and provides SAMA with power over all commercial banks operating in the Kingdom. The BCL has 26 articles relating to commercial banks' operations, from establishment procedures through to daily operations and provisions for orderly closures. The law identifies the types of business that banks can be involved in, the minimum reserve requirement for SAMA and limitations on loans granted (Almuhanna, 1995). As Almehmadi (2004) notes, there is also within SAMA a Banking Disputes Settlement Committee (BDSC) which is made up of three individuals with significant banking experience. This body settles disagreements between the bank and customers by arranging for signed agreements between the parties. This committee only has the right to look at cases related to banking transactions, such as loans, letters of credit and any type of account. When a case falls within its remit, one of the following decisions will be made by the committee:

- Order all agencies of the government to hold any amount due to customers in order to pay the bank.

- Order a hold on a customer’s wealth in Saudi Arabia, whether cash or property.
- An order to prevent a customer from leaving Saudi Arabia.
- If the customer does not cooperate with the committee, then it will order government agencies and banks not to deal with him/her in the future (Almehmadi, 2004, p.36).

Almehmadi (2004) argues that this committee was formed because some customers had refused to pay the interest due to the banks; these customers, after benefiting from the loan, then claimed that interest is prohibited under *Sharia*, and they would not therefore be able to repay it (Almehmadi, 2004). These individuals were supported by the courts in Saudi Arabia who judge cases according to Islamic law only, but the SAMA established the BDSC committee in 1987 to deal with this type of problem directly (Presley and Wilson, 1991).

2.5.3 The Capital Market Authority (CMA)

The Saudi Capital Market Authority (CMA) was established in 2004 and reports directly to the President of the Council of Ministers. It has a legal personality, administrative and financial independence and all authority that might be necessary to discharge its functions and responsibilities. The CMA enjoys the facilities and exemptions enjoyed by all Saudi Arabian public agencies, but it does not have the right to engage in any commercial activities, borrow any funds, take a special interest in any project intended for profit, or to own, acquire or issue any securities (Capital Market Law, 2014). These regulations are imposed to ensure that the CMA discharges its responsibilities objectively and fairly and in so doing, promotes the KSA’s Stock Market (Capital Market Law, 2014).

To attain these objectives, the CMA is charged with the following:

- Regulating and improving the Saudi Stock Exchange, by enhancing trading systems and developing procedures that will decrease risks related to security transactions.
- Regulating securities' issuance and trading practices.
- Regulating and supervising the activities and works of parties subject to the control and supervision of the CMA.
- Protecting investors in securities from unsound and unfair practices, or practices involving deceit, cheating, fraud, or manipulation.
- Seeking to achieve efficiency, equality and transparency in the transactions of securities.
- Regulating and monitoring information disclosures and ensuring that all relevant information is disclosed to participants in the market, whether they are shareholders or stakeholders.
- Regulating public offers and purchase requests of shares (Capital Market Law, 2014).

In pursuing these goals the CMA has powers under the Capital Market Law (2014) that include the following:

1. Set plans and policies, conduct studies and issue necessary rules.
2. Issue and amend the formal Implementing Rules as necessary to enforce legal regulations.
3. Approve securities' issues.
4. Provide advice and recommendations to government authorities in respect of matters that will contribute to Exchange development and investor protection.

5. Suspend the activities of the Saudi Stock Exchange for a period of not more than one day (and longer in cases) where the CMA or the Finance Minister deem it necessary.
6. Approve, cancel or suspend the listing of any Saudi security.
7. Prohibit or suspend the issuance or trading of any securities on the exchange.
8. Determine the maximum and minimum commissions to be charged by brokers.
9. Establish the conditions and standards required of auditors.
10. Determine the contents of the annual financial statement and related documents.
11. Define and explain the provisions and terms set out in the Regulations of Capital Market Law.
12. Issue decisions and instructions, and set out the procedures deemed necessary for the implementation of the provisions of the regulations.
13. Issue instructions, establish internal rule frameworks and set out the procedures necessary for the management of the CMA.
14. Approve the policies, directives and rules of the Saudi Stock Exchange.
15. Prepare directives and rules relating to the control and supervision of entities subject to the regulations.
16. Approve the establishment, liquidation and merger of investment funds (and related operating rules, such as investment fund governance and decision making), their organisational structure, accounting system, operating rules, liquidity requirements and risk limits.
17. Appoint a licensed auditor to audit the financial statements of the CMA.

18. Grant the necessary licenses to be issued in accordance with the regulations and their Implementing Rules (Capital Market Law, 2014).

Importantly, the CMA is expected to work with SAMA in relation to measures that it plans to undertake and which might influence the nation's monetary situation (Capital Market Law, 2014). As regards the CMA's board, it should consist of five members all of whom should be Saudi citizens and working on a full-time basis. The members of the board are appointed, and their financial benefits and salaries determined, by royal order; this provision extends to the Chairman and Deputy Chairman. The term of board membership is five years, renewable once. The board sets the internal rules of the CMA and outlines the conduct expected when auditors, advisors and other appointed experts carry out the functions and responsibilities entrusted to the CMA (Capital Market Law, 2014)[11]. Board members and employees of the CMA are not allowed to engage in any other job or profession, including occupying a post or a position in any public or private institution, nor provide advice to them (Capital Market Law, 2014). One of the most significant regulations issued by the CMA in the context of the present study is the corporate governance code applying to the KSA, which will now be discussed in more details.

[11] Any individual who becomes an employee or a board member of the CMA must immediately disclose to the CMA the securities they own or are at any relative's disposal - and disclose any change thereon - within three days of becoming aware of such a change. Any individual who becomes an agent for the CMA must also make this declaration in relation to the work entrusted to him/her, in the manner specified in the CMA's rules (Capital Market Law, 2014).

2.5.3.1 The Corporate Governance Code in Saudi Arabia

After the Saudi market crashed in the beginning of 2006, the CMA was tasked with developing a set of good practice rules and the resultant document: "Corporate Governance Regulations in the Kingdom of Saudi Arabia" was issued in November 2006[12]. The CMA states that the code was introduced in an attempt to reduce the impact of rumours and fraudulent practices on the nation's stock exchange, particularly insider trading (CMA, 2014). This code aims to ensure that listed companies in the Saudi market comply with best governance practices and protect the rights of both shareholders and stakeholders. Although a number of these regulations are not compulsory, companies are required to disclose in the annual report of the board the regulations that are/are not applied, and explain the reasons for non-compliance. The CMA does not give listed companies the right to ignore the compulsory parts of the code, but they are entitled to waive the non-compulsory regulations provided that they clearly state the reason for the non-implementation. Thus, when it comes to compulsory articles of the corporate governance code, the listed companies have to comply; otherwise, the CMA can either fine the firm or bring them before the Committee for the Resolution of Securities Disputes (Alkahtani, 2013). The code contains three major topics: (i) the rights of the shareholders and the General Assembly; (ii) disclosure and transparency; and (iii) the board of directors (CMA, 2014). One of the main purposes of the code is to protect the rights of not only shareholders but also stakeholders in general; however, business ethics are not mentioned anywhere (CMA, 2014).

[12] See these regulations in Appendices 2.1.

2.6 Conclusion

This chapter has provided detailed information about the KSA, with a focus on the legal system and the bodies that supervise and monitor the operations and governance of major companies and financial institutions, i.e. the issues most relevant to present study. Having set out the contextual background to the research in this chapter, Chapter 3 reviews the literature related to corporate governance and business ethics in general and in the Islamic context pertaining to the KSA in particular.

Chapter 3: Literature Review

Literature Review

3.1 Introduction

The subject matter of this thesis encompasses a wide range of areas in social science, including ethics, religion, corporate governance and accountability. This chapter aims to discuss elements of these vast literatures in so far as they relate most directly to the objectives of this thesis and it was necessary to make a number of decisions regarding the scope of the literature review given the volume of material potentially available. The chapter therefore concentrates on the literature most directly relevant, for example, studies examining corporate governance, business ethics, Islamic teachings and the links between them. Section 3.2 outlines the key issues relating to corporate governance that are of most relevance to the study. A brief definition and explanation of the broad notion of ethics is provided in Section 3.3 while ethics in a business context is explored in detail in Section 3.4. Section 3.5 explores the notion of a link between ethics and religion, with this analysis situated in an ethical context in Section 3.6. Business ethics in an Islamic context is considered in Section 3.7 before Section 3.8 explores the links between governance and ethical notions while Section 3.9 highlights this link in an Islamic context before Section 3.10 concludes. It is acknowledged that the studies discussed here are only a partial reflection of the vast literature referred to earlier, but should provide the reader with understanding of the context within which the present research was conducted.

3.2 The Modern Notion of Corporate Governance

Before exploring the literature examining the relationship between corporate governance and business ethics, a range of topics underpinning the modern governance concept are highlighted, including defining the notion of 'corporate governance', corporate governance models and corporate social responsibility as a core element of corporate governance.

3.2.1 Defining the Notion and Role of Corporate Governance

Recent years, have seen growing public interest in corporate governance as a result of the scandals at high profile corporations such as Enron and the associated abuses of managerial power[13]. The rising number of corporate crises and failures has sparked discussion about the role of large corporations in society and raised questions about their ethical standards, management decisions and corporate governance practices (Kiel and Nicholson, 2003; and Sun, et al., 2011). Corporate failures, such as that at Enron, have raised concerns over the effectiveness of existing governance and corporate accountability practices. Consequently, in academic journals, there has been a growth in the number of papers investigating corporate governance (Machold, et al., 2008).

One of the first detailed reports on modern corporate governance was provided by the UK's Cadbury Committee which defines corporate governance as:

> "… the system by which companies are directed and controlled" (Cadbury Report, 1992 p. 15)[14].

[13] See for example, Chambers (2010).
[14] This definition is still used in UK corporate governance code.

The Organisation for Economic Co-operation and Development (OECD, 1999. p 11) defines and describes corporate governance as follows[15]:

> "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).

Unlike the definitions used in the relevant UK and US codes, the OECD formulation explicitly mentions stakeholders. From a stakeholder perspective, a good corporate governance system should determine the accountability of the company towards a wide range of stakeholders (Solomon, 2010). Here, Bain and Bland (1996) suggest that a robust corporate governance system should add value to as many organisational stakeholders as possible. Solomon (2010), who takes a broad accountability perspective, 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).

An early definition of corporate governance, by Tricker (1984), has a similar emphasis, but is less explicit in terms of the interested parties:

> "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

[15] The OECD definition has been used to underpin corporate governance codes in a number of developing nations. See for example, Shikaputo (2013).

> accountability and regulation of interests beyond the corporate boundaries" (Tricker, 1984, p. 61).

There are therefore a wide range of definitions of corporate governance reflecting various perspectives on the purpose of business. However, accountability is key in most versions, with the difference between them often relating to whom that accountability is due; in particular, some restrict the accountability duty to shareholders, while others have a wider standpoint, comprising all stakeholders (Elkelish, 2007). Solomon (2010) argues that, although the narrow shareholders-based approach is compatible with the theoretical framework of the stakeholder approach, the interests of the shareholders can only be fulfilled by taking account of the interests of stakeholders, and corporations can be more successful in the long-term if they are accountable to all of their stakeholders. This reasoning suggests that companies can maximise their value by extending their accountability to a wide range of parties, with improving their corporate governance systems part of the process (Solomon, 2010).

Sullivan (2009) argues that, in order for an effective relationship to be maintained between a company's managers and its capital providers, high levels of trust must exist. He adds that, to gain sufficient levels of trust, four principles of corporate governance need to be in place: (i) Transparency, i.e. the directors must make clear why every material decision was made, to both the capital providers and other stakeholders; (ii) Accountability, whereby the directors should be accountable to the stakeholders and for their decisions by submitting themselves to appropriate scrutiny; (iii) Fairness, with equal consideration given to all stakeholders by the directors and management, entailing fairness, justice and the avoidance of biased interests; and (iv)

Responsibility, the directors should carry out their responsibilities with honesty, integrity and probity (Sullivan, 2009).

Bonn and Fisher (2005) state that corporate governance is concerned with the processes by which an organisation is directed, controlled and held accountable. They view the notion as dealing primarily with the responsibilities and rights of an organisation's management, its shareholders and other stakeholders with an emphasis on balancing these interests with the organisation's economic goals and society's interests as a whole. Sullivan (2009, p.10) summarises this line of thinking very clearly:

> "Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society".

Bonn and Fisher (2005) claim that Cadbury's definition suggests that corporate governance is a concept with implications for an organisation's approach to social responsibility and business ethics, in addition to ensuring that all regulatory duties and responsibilities are fulfilled. Similarly, Andreadakis (2010) contends that corporate governance offers a structure through which a company's objectives can be set, and the means of achieving those objectives and monitoring performance determined (Andreadakis, 2010). Andreadakis suggests that the three key notions underpinning corporate governance are compliance, accountability and ethics. In the majority of corporate governance definitions, however, the notion of ethics is omitted and this makes the definition of corporate governance appear incomplete according to

Andreadakis. Moreover, companies are expected to create and preserve a respectable business reputation and to have a positive effect on the whole community as well as on their own working environment; this is what constitutes ‘good’ corporate governance (Andreadakis, 2010). Andreadakis goes further in this context and argues that the role of any strong corporate governance system is to provide companies with enough freedom to evolve and grow but, at the same time, to ensure that this freedom operates within an effective accountability framework. It is essentially a question of finding the right balance between being competitive and remaining accountable, but good corporate governance also underpins market confidence, efficiency and integrity, thereby promoting financial stability and economic growth (Wanyama et al., 2009; Andreadakis, 2010). The existence of a robust governance structure adds great value to a company and raises the likelihood of significant financial achievement in this context. It is not only a matter of putting restrictions on the conduct of the company, but is equally about creating a culture and environment that encourages high ethical standards (Andreadakis, 2010; Wanyama et al., 2013). The relationship between corporate governance and business ethics is returned to at the end of this chapter.

3.2.2 Corporate Governance Models

Two models of corporate governance dominate the literature in the area: the ‘outsider’ model, which is used in Anglo-American countries such as the US, UK and Canada, and the ‘insider’ model, which has played a major role in countries such as Germany, France and Japan. La Porta et al. (2000) and Rosser (2003) point out that the outsider model places great importance on: equity finance; the strong legal protection of shareholders; dispersed ownership; strong bankruptcy regulations; a lesser role for employees, creditors and other stakeholders in the company management; strong disclosure requirements; and significant freedom to merge with other organisations. In contrast, the insider model is characterised by: a high reliance on bank finance; the weak legal protection of minority shareholders; concentrated ownership; a central role for stakeholders in the companies' ownership and management; weak disclosure; and limited freedom to merge (La Porta et al., 2000; Rosser, 2003). Table 2.1 summarises the characteristics of the two models.

Table 3.1: Comparison of the features of Insider and Outsider Governance systems

	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 characterised more by exit than by voice

Source: Solomon (2010).

3.2.3 Corporate Social Responsibility

Most debates regarding the link between ethics and corporate governance now point to the issue of Corporate Social Responsibility (CSR) as a key area for discussion (e.g. Solomon, 2010). CSR is commonly identified as the economic, ethical and legal activities of a business as adapted to society's values and expectations (Carroll, 1979;

Andrews, 1987). Joyner and Payne (2002) argue that the term ‘corporate social responsibility’ is used more widely in the management literature than in the business ethics literature. Furthermore, it has been suggested that the ethical responsibility of firm’s executive is to meet the expectations of society regarding proper, conscientious behaviour (Joyner and Payne, 2002).

One key concept in CSR theory is the ethical responsibility of the organisation, which is influenced by society’s values (Carroll, 1979); however, ethical or unethical organisational activities can in turn influence societal evaluations. Today, the demand for ethical behaviour and social responsibility by corporations and their management is stronger than ever (Joyner and Payne, 2002; Drennan, 2004). Solomon (1997) suggests several reasons for this; first, the long term financial success of American business has generated much greater attention on the firms’ concerned activity among the public. Second, as the new ‘nobility’, corporate business is the privileged class and thus society makes high demands of this group. Finally, Solomon points out that businesses are now the most powerful institutions in the world; partly as a result, the social responsibility remit has enlarged to incorporate areas previously considered the government’s domain; e.g. education quality, funding and facilities for basic research, support of the arts, world hunger and poverty, urban planning and development as well as unemployment issues. In general, the more powerful businesses are in the world, the greater responsibility they must bear for the wellbeing of the world (Solomon, 1997, p. 204). The CSR concept is an example of where the wide variety of social affairs now widely recognised as being impacted by corporations (Drennan, 2004).

Boatright (2003) points to the now wide-spread acceptance of the premise that businesses have responsibilities that go beyond the maximisation of profit and that they are expected to make a positive contribution to society. Businesses are typically expected by society to make a profit, obey the law, behave in certain ways and conform to society's ethical norms (Bonn and Fisher, 2005). Not only do many of these behaviours and practices, by definition, go beyond legal requirements, but they seem to be continuously expanding (Carroll, 1999). Underpinning the arguments laid out in this section is the notion of ethical behaviour as an aspect of firm behaviour that cannot be ignored; the discussion now turn to this issue.

3.3 Defining Ethics

The term ethics comes from the Greek word *ethikos* (Sullivan, 2009). Beekun (1997) defines ethics as:

> "The set of moral principles that distinguish what is right from what is wrong."(p. 2).

It is a normative field because it prescribes what one should or should not do (Bucheery, 2001). Sullivan (2009) provides several related definitions of ethics in this context; first, he argues that the notion of ethics relates to the question of what is 'good' and 'bad', with moral obligation and duty central to the issue. Second, ethics can be shown to encompass a particular set of moral values or principles. Sullivan contends that in some regions ethical standards are unique to a specific culture, whereas in others they might be part of the common cultural heritage of all nations. Third, Sullivan argues that ethics can be seen as the principles of conduct governing both an individual and a group, while fourth, and in line with tradition, he suggests that ethics can be viewed as representing a branch of philosophy, and is related to the development of market economy thinking (Sullivan, 2009). More generally, Pomeranz (1998) states that ethics can be seen as comprising normative judgements about social conduct; such judgements might reflect consideration of matters of 'good' and 'evil' for members of society, but would not necessarily be enforced by legal penalties. Here, Pomeranz argues that whilst crimes naturally involve ethical violations, not all ethical violations represent crimes. Similarly, Carmichael (1997) believes that ethical questions are concerned with the moral judgements involved in making decisions about what is morally good and bad, or morally right and wrong. This reasoning assumes that the moral standards that affect human well-being are not established or changed by authoritative bodies' decisions, but are based instead on impartial considerations that override self-interest (Carmichael, 1997).

This thesis restricts itself to exploring ethics from a business perspective, concentrating in particular on the relationship between ethics and corporate governance in an accountability context. It is acknowledged that there is a vast interdisciplinary literature on ethics, but the focus here is on business ethics from a corporate viewpoint. Although some studies (e.g. Wanyama, 2006) have alluded to ethical constructs within corporate governance, this study attempts to tease out that relationship in greater detail within the Saudi banking environment. To this end, the concept of business ethics will now be explored in greater detail.

3.4 The Notion of Business Ethics

Bucheery (2001) defines business ethics as:

> "… the application of theories of right and wrong to activity within and between commercial enterprises, and between commercial enterprises and their broader environment." (p. 9).

In a recent study, Knight (2005) asserts that in talking to a stranger about the subject, most students of business ethics are faced with jokes about 'ethics in business', implying that the phrase is an oxymoron and that business has its own behavioural rules which may not be considered 'ethical' within other frameworks. It is now often argued that the notion of business existing to make a profit is uncontroversial (Carr, 1993; Joyner and Payne, 2002). Indeed, it is sometimes suggested that it pays business to divert from ethical best practice if profit is the ultimate goal (Carr, 1993). To clarify this point, Burke and Black (1990) argue that the question: "what has ethics to do with business or profits?" can usefully be asked.

It is regularly claimed that ethics comprises a set of codes or moral principles that aim to inhibit the fulfilment of selfish interest. However, in this context Ghosh et al. (2011) argue that profits and ethics do not necessarily work against each other and it is possible to identify specific situations where pursuing actions that an individual believes to be "proper" (i.e. ethical) leads to financial gains at the corporate level[16] (Burke and Black, 1990; O'Neil and Pienta, 1994). To answer the question of why businesses should engage in ethical practices, Friedman (1962) states that a business has a fiduciary responsibility to its various stakeholders. This view implies that

[16] Dealing ethically is the way to build a trust between corporation and society which leads to maximise the financial gains (Ghosh et al., 2011).

businesses must contribute to society and the whole community in an ethically symbiotic way (Joyner and Payne, 2002), as business cannot survive without societal interaction and society cannot progress without engaging with business. Thus, business must acknowledge the existence of society, while the growth of society requires the implementation of more ethically responsible business practices (Joyner and Payne, 2002).

Joyner and Payne (2002) suggest that businesses will engage in ethical practices because the motivation to guide a business is related to the desire to do the ‘right’ thing. People who work in business recognise their existence in society and therefore acknowledge that their corporations must also perform in an ethical manner (Joyner and Payne, 2002). Similarly, both Ouchi (1981) and Ghosh et al. (2011) portray profits as the reward for firms that continue to help its employees to grow, provide true value to customers and behave responsibly as a corporate citizen.

Holme (2008) highlights some specific advantages claimed for the engaging of ethics in business, for example, that the satisfaction of employees arises from ‘fair’ management decisions. Holme argues that although what is fair could be defined as the minimum needed to obey legal requirements, the notion of ethics implies that much more is required. Holme notes trust as another advantage, presenting the relationship between the supplier and the organisation as an example. In this context, the stronger level of trust that the organisation has with its supplier, the better the relationship and therefore the better the business. Based on this reasoning, Holme concludes that, recognising an organisation or part of a community, market participants will decide to invest or not according to the organisation's reputation for ethical behaviour in society (Holme, 2008).

Bucheery (2001) notes that the term 'business ethics' covers a wide range of activity, and no concise list can fully reflect the issues it raises. However, Bucheery points to the following as being amongst the most relevant: the safety of working practices; financial accounting transparency; making prompt payments to suppliers; recruitment fairness; the degree of permissible aggression between competitors; and relations between businesses, consumers, local communities and national governments. Many of these issues can be understood to have a bearing on distinct, recognised groups, with their own stakes in a business; e.g. consumers, employees and shareholders.

Global corporations have the power to shape the climate of the business in which they operate; in particular, 'best practice' companies can be proactive agents of change by agreeing to raise their ethical standards (Kaufmann et al., 2005). In a departure from this point of view, Conroy and Emerson (2004) highlight that the business ethics field has received increasing attention from academia, the corporate world and the public in general over the past few decades. Most recently, the behaviour of Enron, WorldCom as well as other high-profile scandals[17] involving the falsification of financial data have brought the notion of business ethics to the forefront of regulator, academic and media attention. These cases show that unethical behaviour is costly to firms, their employees, and their investors (Stodder, 1998; Conroy and Emerson, 2004). As a result, there is growing acknowledgement that good ethical practices can have a positive impact on firms' economic performance (Joyner and Payne, 2002).

[17] For more details about these cases see Mallin (2013).

Regarding the issue of how leaders might encourage and enhance ethical behaviour within their organisations, Solomon (1997) argues that the network culture of corporations - and the enormous power of peer pressure - shapes the culture of the corporation, including its ethics, more than individual values. Different businesses therefore introduce different cultures, and different cultures define different ethics, different values and different lives. However, in small corporations, the culture - and thus the ethics and values of the organisation - are strongly shaped by the founders (Joyner and Hofer, 1992).

The modern debate on business ethics has highlighted the moral tensions inside corporations that are likely to exist between an employee and an employer; the relationship between the corporate employer and the individual employee implies the obligation of the employee to obey his/her employer's instructions (Knight, 2005). Solomon (1993) emphasises this issue regarding the conflict between the roles of individual (or family) and employee or business, arguing that ethics in business should ultimately pay more attention to individual responsibility. In addition, Solomon proposes that a "contextual" view of business ethics should be adopted, but in a holistic way, acknowledging that an employee is also a member of a community. Relatedly, Desjardins (1993) suggests that if corporations treat their employees well, this will contribute towards breaking down the barrier between one's employment life and one's personal life. Holme (2008) describes the way in which managers take the opinions of their employees into account. He shows how managers can guarantee that their staff have all of the information they require in order to do their work, and how conflicts of interest are resolved. The notion of ethical business, translated into the behaviour of management, can make the difference between satisfaction and frustration amongst the employees, with a consequent effect on the firm's performance.

Regarding the question of how to actually promote ethical behaviour in the business field, Conroy and Emerson (2004) note that in survey after survey corporate leaders have recognised that students should be encouraged to develop ethical standards, prompting bodies such as the Association to Advance Collegiate Schools of Business (AACSB) to include ethical considerations within its body of required knowledge (Conroy and Emerson, 2004). Evidently, talk of ethics, integrity, values and responsibility in the business community is no longer merely acceptable, but is an increasingly practical requirement (Stodder, 1998).

As can be seen from this brief overview of the business ethics literature, much of the research has focused on the ethical decisions of students; in contrast, research in the corporate context is fairly limited and this research attempts to fill this void. As this study is conducted in Saudi Arabia where religion plays a pivotal role in society it would be remiss to not discuss the role played by religion in the context of any discussion of ethical notions.

3.5 Ethics and Religion

Bucheery (2001) argues that rewarding of compliance and punishing of breaches are required for enforcement of an ethical code. However, in some markets, very few formal contracts exist; there is instead a high degree of trust among regular participants (Bucheery, 2001); traders are excluded from the market and loses their investments in human capital if they are discovered to have acted unethically.

However, this enforcement mechanism typically applies only when the consequences of being caught are very great (Bucheery, 2001).

Religion has played a key role in encouraging ethical behaviour via the notion of an omniscient being with the power to reward and punish behaviour (Noreen, 1988). Noreen (1988) argues that the Catholic Church worked as a civilising force at the inception of the Dark Ages. The historic function of Christianity was to re-establish the character and moral basis of society by providing a punishment and reward framework for social order (Noreen, 1988). Noreen (1988) goes on to assert that this civilising function is common to Christianity, Judaism and Islam. The practicability of a natural (non-religious) morality is rejected by all three religions.

The role played by religion in affecting debates about ethics is well documented (Conroy and Emerson, 2004) and beyond the scope of the present thesis. Both in specific and broader studies (including student cheating, insider trading environmentalism), religiosity is associated with higher ethical standards (Allmon et al., 2000; Conroy and Emerson, 2004). In attempting to explain why religion might affect moral attitudes, Kohlberg (1981) argues that religion is a conscious response to the quest for the ultimate meaning of moral actions and judgment. As such, the main function of religion is not necessarily to provide moral or ethical prescriptions, but is instead to emphasise moral action and judgment as meaningful human activities.

Recent research in the ethics context has pointed to the fact that the main monotheistic religions have universal moral tenets, reflected in the holy book teachings of Christianity, Judaism, and Islam (Ali et al., 2000), and other Biblical traditions that offer instructive moral direction (Friedman, 2000). Conroy and Emerson (2004) report that students who fear failure have a considerably lower willingness to behave unethically. The authors extend their findings by postulating that believers in God are less willing to behave ‘badly’ because they believe that they will later be questioned by God about their unethical thoughts or attitudes. This concept is similar to a view outlined much earlier by Smith (1976):

> “Religion gave a sanction to the rules of morality, long before the age of artificial reasoning and philosophy. That the terrors of religion should thus enforce the natural sense of duty, was of too much importance to the happiness of mankind for nature to leave it dependent upon the slowness and uncertainty of philosophical researches”. (p. 273)

Whatever the theoretical foundations, the empirical results linking ethics and religion have encouraged the incorporation of the latter traditions into business ethics debates, (Calkins, 2000), and the next section focuses on this area directly.

3.6 Business Ethics and Religion

Calkins (2000) surveys the recent history of Western business ethics and shows how the notion of ethics has neglected its religious traditions and become construed more narrowly. Calkins argues that this narrow focus has complicated the understanding of ethics in business education and helped to weaken the distinctiveness of higher education institutions.

Calkins’ study is divided into three parts. The first part suggests that business ethicists are inclined to focus narrowly on purely social scientific and philosophical approaches to ethical dilemmas. In failing to recognise the variegated and rich religious histories explored in part two, business ethicists fail to appreciate the operative ethical perspectives of business people and the informative legacy of institutional responses to change in general (Calkins, 2000). To recover these losses, in part three Calkins describes how business ethicists can look to religions to recognise better the large institutional mechanisms and the motives that lead people to act morally. Calkins concludes that religion enriches moral discussions of business practices. The analysis is not intended to suggest that a religious perspective is mutually exclusive with an anti-intellectualist stance, nor does it imply a reduction in the usual academic rigor of business ethics. Calkins does, however, argue that the faith of religion can work in harmony with human reason in the business ethics realm (Calkins, 2000).

The impact of the spirituality and religion power and authority mechanisms underpinning business ethics have been studied by Jackson (1999) and Ali et al. (2000). While Jackson (1999) discusses spirituality and its impact in a broad sense, Ali et al. (2000) go beyond this to highlight the effect of the Ten Commandments on Christianity, Judaism and Islam. Jackson points out that spirituality can play a key role in establishing a foundation for moral imagination in business ethics; it also provides a deeper foundation for business ethics principles than does any legalistic framework (Jackson, 1999). However, in practice Jackson contends that the business ethics notion is in danger of becoming a commodity without a spiritual infusion.

According to both Jackson (1999) and Ali et al. (2000), the global economy's ultimate end is to serve humankind. Ethical behaviour is required to encourage an acceptance of the need for firms and the people who work in them to display integrity in a world that is full of "illusion and deception" (Jackson, 1999, p.64). It can only do this by modelling a strong integrity of its own, one which is not afraid to embrace a set of defining truths (Jackson, 1999). Business ethics cannot be something that the leaders of corporations consider from time to time. It cannot have as its central mission an attempt to produce organisational mission statements, irrespective of behaviour in the ground. Instead, Jackson argues that hard questions must be asked on a regular basis and become part of the organisation's cultural foundation.

While Jackson (1999) admits that it is important to respect different cultural and ethical traditions when operating a business in different countries around the world, he argues that there are fundamental moral truths which are grounded at a spiritual level. However, he suggests, these tend to be difficult to operationalise in terms of ethical standard development and implementation at the corporate lead. In fact Jackson concludes that, more often than not, coded directives are not enough and a manager, in order to act ethically, needs to exercise moral imagination. Being in touch with the principles and values of spirituality helps to motivate the moral imagination and can introduce a greater depth of understanding of many of the ethical problems that take place in international settings (Jackson, 1999).

Ali et al. (2000) go beyond spirituality to discuss the Ten Commandments in Christianity, Judaism and Islam and their impact upon business ethics. This analysis suggests that both business ethics and management students view the Ten Commandments as offering a moral template for individual and group behaviour; the Ten Commandments should therefore be regarded as general moral guidelines for personal and business conduct (Ali and Gibbs, 1998; Ali et al., 2000). More generally, Ali et al. (2000) argue that religion gives power and authority a social justification that is difficult to overlook in many cases. Indeed, ignoring this reality might make the search for understanding the workplace and organisation a difficult task. In this context, Ali et al. indicate that, as a basis of power, authority has been sanctioned over centuries by all religions, although it has manifested itself differently over time. For better or worse, religion continues to play a considerable role in understanding and clarifying power and authority structures (Ali et al., 2000).

In their study, Ali et al. (2000) emphasise that the utterance of the Ten Commandments - or the pronouncement of the specific principles and values of any religion - does not always translate into action. The point they make here is that the Ten Commandments (or similar principles and values) can lay a general moral foundation for the use of power and authority in organisations. Commitment to these principles and their views in organisational life is a personal matter and, in modern organisations, people tend to act arbitrarily when it comes to their personal commitment (Ali et al., 2000). In this regard, Allmon et al. (2000) evaluate the factors that impact on the ethical orientation of business students and those that impact on students' perceptions of ethical classroom behaviour using a sample of 227 business students from Australia and the United States. In general terms, perceptions of classroom behaviour were found to be a surrogate for future business behaviour perceptions[18]; while a number of factors, such as gender, country of origin and personality, were related to ethical orientation of the latter, only age and religious orientation had much impact on the perceptions of ethical classroom behaviour. However, the study suggests that in the business field ethical lapses may be predicted by the ethical oversights (i.e. cheating) of students who are planning to make business

[18] See also Conroy and Emerson (2004).

their career. Allmon et al. (2000) argue that cheating represents a behaviour that can significantly impact business, and so ethical models and theories must be developed to allow current and future business leaders to enhance their information gathering and information processing capabilities in ethical situations. Allmon et al. argue that teaching of “principled thought” processes and ethical principles would move individuals towards a more idealistic and principled approach to business. However, external control and stimulus for ethical behaviour is suggested as being required, possibly along the lines of other organisational control systems, without demeaning either individuals or human nature in general (Allmon et al., 2000).

Conroy and Emerson (2004) surveyed students at two universities in the southern United States to test two hypotheses: (i) whether religiosity affects ethical attitudes and (ii) whether courses in ethics, religion or theology affect ethical attitudes. The findings indicate that, significantly, religiosity is correlated with ethical perceptions, although completion of an ethics or religion course is not (Conroy and Emerson, 2004). Similarly, religiosity was found to be a stronger predictor of students’ ethics than was exposure to an ethics curriculum. Conroy and Emerson conclude that promoting active participation in college students’ religion of choice is the best way to improve ethical attitudes.

3.7 Business Ethics and Islam

Before proceeding to discuss the notion of business ethics from an Islamic perspective, the key principles underpinning Islam are discussed.

3.7.1 Islamic Principles

Islam is an Arabic word that means submission and obedience (Bigger, 1990). The religion of Islam thus involves submission to Allah, the (only) creator of the whole universe and the contents thereof. According to Islam, Allah has sent messengers from time to time in this world to preach the governing principles of a good, peaceful life both in this world and hereafter. These governing principles which, since this is Allah's will, should be submitted to by humanity are known as Islam (Bigger, 1990). The essential laws and injunctions of Islam, as revealed to the Prophet Mohammed (peace be upon him), are accurately preserved in the Holy Quran (Bigger, 1990). The Holy Quran deals with various aspects of human life, such as the relationship between Allah and human beings, worship, knowledge, moral and spiritual values, social justice, trade, commerce, political principles, law and international relationships. The Quran reflects the life of the Prophet Mohammed (peace be upon him) (Bigger, 1990), while the sayings of the Prophet are known as *Hadith*, which are explanations and clarifications of the Quran.

Islam has five pillars, i.e. five basic principles, or specific acts of worship. The pillars are as follows[19]:

1- *Iman* (declaration of faith);

> "I bear witness that there is no one worthy to be worshipped except Allah, and I bear witness that Mohammed is His servant and messenger" (Bucheery, 2001, p.13).

[19] The five pillars here are summarised from Bucheery (2001). See Also, Lippman, 1982; Esposito, 1998; Ali et al., 2004; and Kamal-ud-Din, 2010.

2- *Salah* (prayer): it is a prescribed duty for every Muslim to pray five times a day to Allah, from puberty untill death. The designated times are: (i) between dawn and sunrise; (ii) after midday (iii); before sunset; (iv) after sunset; and (v) before dawn. Islam argues that prayer reminds worshippers of Allah's presence and his greatness, and induces high moral and physical discipline. It also helps ensure that the performer avoids evil deeds and inculcates humility towards Allah.

3- *Sawm* (fasting during Ramadan[20]): this fast takes place from dawn to sunset during the whole month of Ramadan; every Muslim after they reach puberty must refrain from food and drink as well as intercourse with their spouse. More generally, worshippers are required to refrain from all types of evil, so that a sound conscience and strong sense of morality develop. *Sawm* teaches the worshipper to be kind to the needy and poor, and to share willingly the suffering of the have nots.

4- *Zakah* (welfare contribution): this is an obligatory payment by Muslims from their annual savings. Literally, it means purification, and is an annual payment of 2.5% of an individual's cash and jewellery resources. A separate rate applies to animals, mineral wealth and crops. *Zakah* is neither a tax nor a charity donation: the aggregated receipts can be used for any of society's needs, while charity is optional. However, *Zakah* can only be spent on helping the poor and needy, the oppressed, debtors, the disabled and for other welfare purposes, as defined in the Quran and *Sunnah* (prophet's teachings). *Zakah* is one of the fundamental principles of an Islamic economy and aims to ensure an equitable society where everybody has a right to share

[20] The ninth month of the Islamic calendar.

and contribute. According to Islamic teachings, *Zakah* should be paid on the basis that individuals merely act as trustees, with all wealth and property belonging to Allah.

5- *Hajj* (pilgrimage to the House of Allah): this is an annual event, compulsory for Muslims who have the means to perform it at least once in a lifetime. It is a journey to the House of Allah in Mecca, Saudi Arabia, in the month of *Dhul al-Hyjah.*[21] *Hajj* represents the unity of mankind; Muslims from every nationality gather in humility and equality to worship Allah. The pilgrim, dressed in the ritual clothing of *Ihram*[22], has the unique feeling of being in the presence of Allah, to whom he belongs and to whom he must return after death.

Detailed guidelines are provided in Islam via the Quran for all individuals to follow. The guidance is comprehensive and covers all aspects of life, including the social, political, economic, moral and spiritual realms (Bucheery, 2001). The Quran reminds humans of their purpose on earth, and their obligations and duties towards themselves, family, fellow human beings, community and the Creator. Humans are given essential guidelines about a 'purposeful' life and are then left with the challenge of putting these high ideals into practice[23]. The religion of Islam is based upon accountability relationships and presents a life code for the individual Muslim and the whole community (*Ummah*). It is concerned with arranging the relationship between humans and Allah (Al-Qahtani, 2002).

[21] The twelfth month of the Islamic calendar.
[22] The unique uniform for the Hajj.
[23] In Islam, the sacred and secular are not separate parts of humans; they are united in human nature (Bucheery, 2001).

Organising relationships among human beings and their communities receives particular attention in Islamic *Sharia* law (Al-Qahtani, 2002). In this context, there is an Islamic statement whereby religion represents 'treatment' (Al-Qaradawi, 1973). This treatment involves all relationships, including those with family, neighbours, society, and the environment, as well as those relating to business, economics, politics, ethics and other issues which occur in any human society (Al-Qaradawi, 1973). Within *Sharia*, these transactions have gained great recognition. *Sharia* identifies and monitors these relationships and specifies the participants' rights and duties. All Muslims are expected to follow the regulations of *Sharia* to maintain their obligations; a failure to follow *Sharia* may lead to deviation from Allah's commandments for humans' welfare during both their life and hereafter (Al-Qaradawi, 1973). As a result, in light of the framework of Islamic rules, *Sharia* is taken to cover all of the main principles that shape the way in which the interaction between people should take place (Al-Qaradawi, 1973).

In Islam, there is no difference between the behaviour that is expected of the firm and the behaviour of any other member of society (Ighbal and Mirakhor, 2007). As the firm itself does not have a conscience, the managers' behaviour becomes the firm's behaviour and their dealings are subject to the same high standards of ethical and moral commitment expected of a Muslim (Ighbal and Mirakhor, 2007). Asri and Fahmi (2003) argue that in human beings' lives, their worldview plays a paramount role; every single human action is affected by it. Different worldviews will shape different human qualities; for instance, Islam concentrates upon the practice of justice, equality, truthfulness, transparency, the protection of minorities, accountability and adequate disclosure, just as it prohibits all forms of exploitation in all walks of life, including business dealings (Malekian and Daryaei, 2010).

3.7.2 Ethics in Islam

The principles governing the Islamic ethical system are to be found in the Quran and *Sunnah*[24]. These principles constitute the *Sharia* and have to be obeyed in all cases (Gambling and Karim, 1991). Many of the teachings of Islam are stated in fairly general terms, and every Muslim should exercise discretion (*ijtihad*) when implementing these teachings to the fullest. This is not just a personal matter, however; the purpose of, and criteria underpinning individual, behaviours should be based on the interests of the whole community (*ummah*). This flexibility enables Muslims to adapt to changing environments and conditions (Gambling and Karim, 1991). It follows that Islam has always had a scholarly body who are held to be experts in *Sharia* complexities (Gambling and Karim, 1991).

For Muslims, ethics is *Sharia* and divine law guides all aspects of Muslims' life, including the way of thinking and acting of individuals towards others in everyday life (Triyuwono et al, 2000). Beekun (1997) concludes that, within an Islamic context, the term most closely related to ethics in the Quran is *khuluq* which translates into English as ethic; the Quran also employs a comprehensive set of terms to describe the concept of goodness: *khayr* (goodness), *qist* (equity), *adl* (justice), *birr* (righteousness), *tagwa* (piety), *haqq* (right and truth) and *maruf* (approved). Pious actions are described as *salihat* and impious actions are described as *sayyiat* (Beekun, 1997). Beekun suggests that the relationship between man and his Creator is

[24] The Prophet's teachings.

emphasised by the moral code embedded in Islamic ethics. The ethical code of Islam is enforceable at all times because its Creator and Monitor is closer to humans than their jugular vein, according to the Quran, and has perfect and eternal knowledge (Beekun, 1997).

In explaining the Islamic ethical code, actions can be categorised according to their degree of lawfulness or unlawfulness. Five such classes are indicated by Beekun (1997) as follows[25]:

1- *Fard*: representing actions that are mandatory for every Muslim. For example, praying (*salah*) five times a day, fasting during Ramadan, and *Zakah* are among the compulsory actions for all Muslims.

2- *Mustahabb*: indicating actions that are not compulsory but highly recommended for Muslims, such as supererogatory fasting beyond Ramadan.

3- *Mubah*: relating to actions permissible in the sense that they are specified neither as mandatory nor as forbidden, such as travelling, gardening and so on.

4- *Makruh*: i.e. actions that are not absolutely forbidden, but are strongly discouraged. The *makruh* are less objectionable than *haram* (forbidden), for example with regard to some kinds of food.

[25] Summarised from Beekun (1997). For details, see for example, Hamidullah and Allāh (1974); Denny (1985); Endress and Hillenbrand (1988); David (2003); and Brown (2009).

5- *Haram*: these are actions that are prohibited and unlawful. Such acts are likely to incur legal punishment in this world as well as the punishment of Allah in the Hereafter.

Bucheery (2001) notes the five key axioms of ethics in Islam which are unity, equilibrium, free will, responsibility, and benevolence; he expands on these as follows:

1- The Unity of Allah: this is reflected in the concept of *tawhid*. Unity has these lasting effects on Muslims:

a) Since a Muslim views everything in the world as belonging to Allah, the same Lord to whom they themselves belong, they cannot be biased in their thinking and behaviour.

b) Since Muslims are persuaded that only Allah can assist them and only Allah has the power to take away their life, they will act bravely in doing what is ethical and Islamic.

c) The most significant effect of *la ilah illa* Allah (there is no god except Allah) is that Muslims believe that Allah knows everything, open or hidden, and that nothing can be hidden from the Lord. As a result, Muslims avoid what is bad, and engage in what is good.

2- Equilibrium: The property of equilibrium is more than a natural characteristic. It is a dynamic concept which every Muslim must strive towards in his or her life. To maintain a sense of balance between those who have and those who have not, Allah stresses in the Quran the importance of giving and condemns the practice of conspicuous consumption; for example:

> "And spend in the Cause of Allah and do not throw yourselves into destruction and do well. Truly, Allah loves the good-doers"
> (Quran: 2: 195).

Simultaneously, Allah describes those who will be rewarded with the highest place in heaven as:

> "Those who, when they spend, are neither extravagant nor niggardly, but hold a medium way between those extremes. And those who invoke not any other god along with Allah, nor kill such person as Allah has forbidden, except for just cause, nor commit illegal sexual intercourse and whoever does this shall receive the punishment. The torment will be doubled to him on the Day of Resurrection, and he will abide therein in disgrace. Except those who repent and believe in Islamic Monotheism, and do righteous deeds; for those, Allah will change their sins into good deeds, and Allah is Oft-Forgiving, Most Merciful. And whoever repents and does righteous good deeds; then verily, he repents towards Allah with true repentance".
> (Quran: 25: 67-71).

3- Free Will: humans have been granted the free will to steer their own lives as the trustees of Allah on earth. Despite the fact that individuals are completely regulated by the law governing Allah's creation, they have the ability to think and judge, to adopt whatever course of life they wish and, most importantly, to act in accordance with whatever code of conduct they choose. Here Allah says:

> "And say: the truth is from your Lord. Then whosoever wills, let him believe; and whosoever wills, let him disbelieve"
> (Quran: 18: 29).

Once someone chooses to become a Muslim, they agree to behave according to the code that Allah has revealed for their individual and social life.

4- Responsibility and Accountability: unlimited freedom implies an absence of responsibility or accountability. Humans need to be accountable for their actions in order to meet the dictates of *adl* (justice) and unity that is seen in Allah's creation. Allah stresses this concept of moral responsibility for one's actions in the following terms:

> "Whosoever works evil, will have the recompense thereof, and he will not find any protector or helper besides Allah. And whoever does righteous good deeds, male or female, and is a true believer will enter Paradise" (Quran: 4: 123 – 124).

Bucheery (2001) described the fairness of Islam by clarifying that a person is not responsible for his/her actions: (i) if he/she has not reached puberty; (ii) if he/she is insane; or (iii) if he/she is acting while asleep. Responsibility in Islam focuses on both the individual level and the organisational and societal level.

5- Benevolence or kindness (*ihsan*): is defined as:

> "An act which benefits persons other than those from whom the act precedes without any obligation" (Bucheery, 2001, p.18).

Kindness is encouraged in Islam, and the Prophet (peace be upon him) said:

> "The inmates of Paradise are of three types: one who wields authority and is just and fair; one who is truthful and has been endowed with power to do good deeds; and the person who is merciful and kind-hearted towards his relatives and to every pious Muslim, and who does not stretch out his hand in spite of having a large family to support" (Sahih Muslim, 845, p.72).

3.7.3 Business Principles and Ethics in Islam

Within an Islamic law framework, each person is given freedom of action, subject to the requirement that the actions of individuals do not violate others' rights (Pomeranz, 1997).

Gambling and Karim (1991, p. 28) stress that:

> "Islam rejects the possibility of a separation between religious and temporal affairs. However, this does not mean that Islam calls for a theocratic state, at least in the sense of one that is dominated by a priestly caste. Priests, as understood in other religions, do not exist in Islam. All people are equal in the sight of Allah, and have direct access to him".

As stated above, in Islam there is no separation of cultural, political, business and social life. Muslim scientists, leaders, innovators, engineers, teachers and businesspeople must pay attention to ethical matters in their work (Saleem, 2009). For example, businessmen/women are required to behave in accordance with the principles of Islam in their business dealings. In this context, Allah says in the Quran:

> "And whatever matter you may be engaged with and whatever portion you may be reciting from the Quran, and whatever deed you may be doing, We are Witness of it, when you are deeply engrossed in it, and not so much as the weight of an atom in earth or heaven is hidden from your Lord, neither anything smaller than that or greater, is in a manifest book" (Quran: 10: 61).

The Islamic religion therefore relates directly to all aspects of life, including how to conduct commerce and trade. Critically in the context of this thesis's research focus, business in Islam must be operated in accordance with *Sharia* values and rules, e.g., on the basis of honesty, fairness and justice towards others (Abu-Tapanjeh, 2009; and Branine and Pollard, 2010). Islam is therefore much more than a faith; it is an indivisible unit, a legal system, a political system, an economic system and a way of life in general (Wilson, 2006; Rizk, 2008; and Branine and Pollard, 2010). Like other activities, the economy is governed by moral mechanisms and rules implemented in order to achieve progress through the optimal use of resources and the protection of human values (Rizk, 2008). Rules are included in the Quran not only about manners and hygiene, marriage and divorce, but also concerning politics and commerce, interest and debts, and contracts and wills (Rizk, 2008). Significantly, *Sharia* represents the duties required by Allah of human beings with respect to Allah and other human beings (Kennedy, 1993 and Rizk, 2008).

As business has to be conducted in a social context, clearly there have to be rules governing behaviour, and a divinely inspired code is provided by *Sharia* law for devout Muslims to follow (Yusoff, 2002). In this context, Chapra (1992) argues that business success should not be viewed in material terms, but rather judged by the level to which the believer has been able to achieve Islamic goals.

Hussain (1999) suggests that the paramount rule governing business under Islam is honesty and fair dealing as the absolute owner of everything both on earth and in heaven is Allah, and human beings are just His agents. Muslims are supposed to conduct their business activities in accordance with *Sharia* law, which encourages being fair, just and honest to everyone involved in the business; business people are hence required to adopt 'elevated' moral conduct, in order not to deceive, betray or exploit their fellow believers. Also, Muslims should not undertake business activities for profit-making purposes only (Hussain, 1999). Simultaneously, Muslims are encouraged to work productively rather than be lazy. Underpinning these ideas is the notion that any system without a moral underpinning and appropriate ethical foundation will not promote strong governance (Abu-Tapanjeh, 2009). The development of human character for the Moslem has to be seen in terms of gaining experience in carrying out the will of Allah, and through that achieving a deeper understanding of His intent in the business sphere (Shehu, 1998; and Branine and Pollard, 2010).

More generally, in Islam all aspects of life are governed by ethics. The conditions for everlasting success or *falah* are the same for all Muslims whether in conducting their affairs of business or in carrying out their activities in general (Beekun, 1996). The *tawhid* is the key principle governing business philosophy; here Allah is considered to be the sole creator of the world and in Islam the people should co-operate in carrying out His will (Rice, 1999; and Branine and Pollard, 2010). In business, this concept implies trust and honesty and a relationship between employers and employees that reflects the fact that - even if not materially equal on earth - both groups are part of the same brotherhood and spiritually equal before Allah (Bassiouni, 1993). In Islam faith, or *iman*, is the fundamental motivating factor for believers. Hence, decisions in business transactions are guided by *iman*, which in practice means following the law of *Sharia*, and engaging in what is permitted (*halal*) and avoiding that which is forbidden (*haram*) (Alawneh, 1998). Thus, the maker of business decisions has free choice, but the principles of *Sharia* provide a framework for the proper exercise of that choice (Ali and Gibbs, 1998).

Rahman (1994) argues that business activities generally must be inspired and guided by the *tawhid*, as well as the concepts of *tawakkal* (trust in Allah) and *ihsan* (goodness), while being regulated within those boundaries by a legal framework committed to values - some of them mentioned earlier - such as the ban on *riba* (interest), the prohibition of *ihtikaar* (hoarding) and other malpractices. In fact, a large number of concepts and values in Islam define the extent and nature of business activities. There are many positive values, such as *iqtisad* (moderation), *amanah* (honesty), *infaq* (spending to meet social obligations), *adl* (justice), *ihsan* (kindness *par excellence*), *sabr* (patience) and *istislah* (public interest). In contrast, there are values which are negative, and thus to be avoided: *zulm* (tyranny), *iktinaz* (the hoarding of wealth), *israf* (extravagance), *bukhl* (miserliness) and *hirs* (greed) (Rahman, 1994). Similarly, *halal* (permitted) is an economic activity within the positive parameters whereas *haram* (forbidden) is negative and must therefore be moderated. Production and distribution actives regulated by the code of *halal-haram* must adhere to the notion of *adalah* (justice). Collectively, these concepts and values, along with the main *Sharia* injunctions, provide a framework for a just commercial and business system (Lewis, 2006).

From this point of view, there are two unique features that guide Islamic business. First, it is governed by Islamic law which relates to all aspects of an individual’s life. Therefore, every Muslim’s action must conform to *Sharia* and Muslims must observe the ethical standards as set by Islam (Bhatti and Bhatti, 2010). Second, one should consider the effect that *Sharia* and certain Islamic economic and financial principles have on corporate practices and policies; for example, the institution of *Zakah*, the ban on *riba*, prohibitions on speculation, and an economic system based on profit and loss sharing all have an important role to play in the governance and operation of corporations (Lewis, 2005).

Given the principles outlined above, Beekun (1996, p.34) attempts to outline some key guidelines for business people; these include: loving Allah more than your trade; honouring one's word, being truthful; being consultative; being honest; being fair and just; being patient; being trustful; being friendly; being equitable; being generous; not offering bribes and avoiding fraud. Lewis (2006) argues that a Muslim business person should have high moral values and not set out to mislead or exploit others. Price fixing and monopolies are prohibited and the market should be free of manipulation, so that in business transactions people will not be exploited by the elite (Lewis, 2006). Lewis suggests further that Muslims engaging in commerce and trade should behave equitably; for example, vendors should not hide any flaws in the products they are selling, nor lie about the weight or quality of the goods. Dealing in stolen goods is prohibited and hoarding is forbidden when the purpose is to force up the price in scarce times and so profit at the expense of others. Equally, products should not be harmful, with investment and trade only being undertaken via activities which are not prohibited under Islam; such prohibitions relate to gambling, pornography, alcohol and anything that is harmful to society (Lewis, 2006). On the other hand, agriculture and employment are specifically encouraged due to the perceived dignity of labour, as is the prompt payment of a fair wage (Lewis, 2006).

A number of recent studies have examined the direct theoretical relationship between Islam and business ethics. For example, Rizk (2008) explores an Islamic perspective on business ethics by comparing a range of relevant published works with Islamic teachings. Rizk (2008) also argues that the *Sharia* perspective provides the basis for a reliable Islamic approach to business ethics. Rizk (2008) clarified that the teachings of ethics should lead individuals to obtain the capacity to formulate a process that assists them in arriving at their own decisions. With the divine aspect as a guideline, individuals will be assisted to take consecutive steps toward higher moral reasoning. It is widely argued that ethics based on the principles of Islam will determine the choices of individuals, focusing not only upon profit maximisation, but also upon social welfare maximisation (Pramanaik, 1994; and Rizk, 2008).

Wilson (2006) examines the implications of Muslim beliefs for corporate governance, business organisation and business ethics. Similarities are drawn between the Christian concept of stewardship and Muslim responsibilities in terms of their guardianship of resources and divine responsibility. Wilson reports that multinational businesses are more likely to operate successfully in the Islamic world if they pay attention to the beliefs of their Muslim employees, clients and suppliers rather than ignoring religious and cultural issues. In Islam, as in the other divine religions, there are ethical concerns over wealth distribution, and recognition that material wealth can distract believers from the achievement of *falah*, which means success both in this life and the next (Beekun, 1996; and Wilson, 2006). Regarding the wealth issue from an Islamic perspective, Saeed (1996, p. 20) explains that:

> "Wealth is considered a trust and a test, where failure to use it wisely, especially to alleviate the hardship of the poor is detrimental to the person who holds that wealth".

The teachings of Islam do not oppose the accumulation of family wealth and, indeed, view inequalities in the socioeconomic system as inevitable, but those who are entrusted with plentiful resources have a responsibility to Allah to manage them well for society's benefit as a whole (Wilson, 2006). For this type of outcome to occur, managers need to appreciate the ethical norms of different cultures in order to gain an understanding of the cultural environment in which the firm must operate (Al-Khatib et al., 1995). This idea has been discussed by Rice (1999) who focused on the ethical principles which relate to business and which are involved in the Islamic religion. The main purposes of Rice's study are: (i) sharing the Islamic perspective on business ethics, which, he argues, is not well known in the West and may motivate further thinking and discussion on the relationships between business and ethics; and (ii) providing some knowledge of Islamic philosophy in order to assist managers in dealing with cultural differences (Rice, 1999).

Islamic goals are not primarily materialistic in nature, but are based instead on human wellbeing concepts and a 'good' life, and stress brotherhood/sisterhood, socioeconomic justice, and a balanced satisfaction of both material and spiritual needs (Chapra, 1992; Rice, 1999). Rice (1999) also emphasises that business activity in Islam is considered to be a socially useful function; great importance is attached to views relating to the goals of a business enterprise, as well as consumption, ownership and the conduct code of various business agents. Because Islam provides a practical program for life, scholars note that an Islamic socio-economic system should contain detailed goals for specific economic variables such as the circulation of wealth, fair trading, interest, taxation, and consumption (Chapra, 1992). The *Sharia* notion also relates to business relationships between employers and employees, buyers and sellers, and lenders and borrowers (Rice, 1999). Notably, there is no difference between Muslims and non-Muslims in the *Sharia* rules concerning commercial dealings. For example, it is unlawful to undercut another's price whether offered by a Muslim or non-Muslim during a stipulated option to cancel period (Rice, 1999).

Abuznaid (2009) highlights the merits of business ethics from an Islamic perspective by using descriptive, analytical and comparative investigation. The study's findings reveal several factors that affect the ethical behaviour of Muslims, including at the legal, organisational, and individual levels. However, there are certain factors that affect the unethical behaviour of managers; for example, the stage of formal development, family influence, peer influence, personal values and personality, life experiences, situational factors, and societal factors (Beekun, 1996; and Abuznaid, 2009). Also, Abuznaid (2009) suggests that the most significant ethical qualities that should be manifested in a Muslim manager are honesty, trustfulness and a consultative nature, although he also highlights some of the common moral issues in Islam and other religions, such as no theft, fraud, lying, or deceit. However, as mentioned above, in Islam, ethical concerns are not limited to business dealings and practices; the business person has free choice, but Islamic principles provide a framework for the appropriate exercise of that choice (Ali and Gibbs, 1998).

Abuznaid (2009) contends that, unlike other religious ethical systems that emphasise the transience of this life, and value mediation, Islam stresses that piety is not achieved by disregarding the life of this world, but through active participation in all affairs of the latter. A Muslim is expected to participate in life with the proviso that any material growth and enhancement must lead to social justice and the spiritual elevation of both the nation and himself (Beekun, 1997). Beekun (1996) and Abuznaid (2009) outline some factors that influence ethical behaviour in Islam, such as: (i) Legal interpretations; in secular societies, legal interpretations are based upon contemporary and often transient standards and values, whereas these values and standards in Islamic societies are guided by *Sharia*. Beekun (1996) highlights one result of these different approaches whereby while at one time it was both legal and ethical to discriminate against minorities and women in hiring in the United States, discriminating against these groups has been made illegal. On the other hand, Islamic principles give women inalienable and permanent rights, and on any basis have never discriminated against minorities (Beekun, 1996). (ii) Organisational factors; ethical codes are gaining in popularity in many institutions (Abuznaid, 2009). Although such codes can enhance the ethical behaviour of participants in organisations, their use is sometimes inappropriate (Beekun, 1996). (iii) Individual factors; individuals have different values and there are factors affecting one's ethical behaviour such as the stages of moral development, family influence, peer influence, personal values and morals, and life experiences (Beekun, 1996 and Abuznaid, 2009). (iv) Situational factors; since indebtedness is likely to lead to unethical performance, debtors are urged to repay their debts promptly, and Muslim lenders are encouraged to show leniency towards debtors (Beekun, 1996).

Beekun (1997) suggested a sample of ethical code for Islamic businesses[26]:

We will behave Islamically towards:	
Our Customers:	Our primary responsibility is to provide the best quality product to those who make use of our products and services. We must work to decrease our costs in order to charge reasonable prices. Orders will be processed speedily and without errors. We will neither misrepresent nor deny our products or services to any customer on the basis of race, religion or national origin.
Our Suppliers and Distributors:	We will work with our suppliers and distributors to maintain consistency in quality and service. We will ensure that they make a fair profit. We shall neither offer nor accept any premium, prize or un-Islamic inducement in our transactions with our suppliers and distributors, or any other stakeholder.
Our Employees:	Every employee will work in safe and clean conditions. They will receive fair and adequate compensation. They will have ample opportunities to develop their skills. They must feel free to make suggestions, criticize or complain. We will safeguard their rights to privacy, protect them from any type of harassment and respect their dignity at all times. The company will clearly communicate to all employees what is expected of them. In all negotiations we will act in good faith. Every employee shall take responsibility to ensure that their actions are in agreement with Islamic values and the Code of ethics of his company.
Our Competitors:	We will not engage in monopolistic behaviour and preclude others from competing with us. We will complete fairly without engaging in un-Islamic tactics.
Our Stockholders:	We must work to ensure a fair return to our stockholders. We will only engage in what is halal and stay away from the haram. We will manage our research and development projects wisely. We will compensate our employees equitably. We will maintain appropriate reserves for difficult times We will not waste company resources on false needs. When we behave according to our code of ethics, we should be able to provide our stockholders with an Islamically acceptable rate of return.
Our Community:	We support the community we live in as well as the world ummah. We will be good citizens, paying our fair share of taxes and contributing to the welfare of the needy and the destitute. We will protect our environment and natural resources.

According to Beekun, managers should identify the key stakeholders of the company, and the organisation's responsibility to each in accordance with the Islamic moral code. In addition, formulate a management policy for responding to unethical behaviour and for encouraging ethical conduct. Finally, annual evaluation of the code

[26] See p.32.

should take place to see if gaps still exist or any ethical issues have emerged (Beekun, 1997).

3.7.4 Corporate Social Responsibility in Islam

In a recent paper, Almoharby (2011) gives an account of how the processes and interactions in trade and the economic affairs are regulated by Islam. The author provides insights on business ethics and social responsibility from an Islamic perspective by surveying the literature on these two issues. Almoharby explains that, in Islamic teaching, business and money-making activities must have social, economic and religious functions. While they recognise business and commerce as making an improvement to human wellbeing, Islam does not advance this support if the activity negatively affects business persons and societies (Almoharby, 2011). Almoharby further suggests that the ongoing worldwide financial crisis shows that business ethics practices are in desperate need of overhauling, he argues that while it is widely acknowledged that business rests on the platforms of enterprise, expertise and hard work, the crisis proved beyond any doubt that it is also widely - and increasingly - premised on greed. Almoharby Therefore concludes that ethical elements from an Islamic perspective are fundamental for modern organisations in order to achieve their business objectives relating to social responsibility.

Specifically regarding social justice, Wilson (2006) emphasises that central to Allah's will is the *adalah* or justice concept and this has an impact on business activity. Injustice may involve employee exploitation by company management or a monopoly overcharging consumers or abusing market power to short change suppliers (Tayeb, 1997). In this context, a relevant message in the Quran is that:

> "No bearer of burdens can bear the burden of another; that man can have nothing but what he strives for" (53:38–39).

Kamla and Rammal (2013) explain that Islam enjoins justice in all walks of society and human life, while Kamali (2001, p.xi) maintains that examining the evidence of the Quran on justice:

> "Leaves one in no doubt that justice is integral to the basic outlook and philosophy of Islam, within or beyond the *Sharia* itself".

Justice is at the core of *Sharia* and its success depends upon its ability in achieving this (Kamali, 2001). These notions have led many Islamic economists to conclude that:

> "The Islamic paradigm gives primary importance to moral values, human brotherhood, and socio-economic justice" (Chapra and Ahmed, 2002, p. 57).

Social justice is perceived as a core aspect of the Islamic faith, with major income and wealth inequalities widely seen as, contrary to *Sharia* principles (Kamla and Rammal, 2013). The Quran, in a number of verses, emphasises peoples' fraternity, their unity of origin and equality in the Creator's eyes (Kamali, 2001). Kamla and Rammal (2013) explain that the issue of poverty in communities has been addressed through encouraging charity and enabling poor people to become self-supporting. They add that one of the most significant tools for Muslims for ensuring the redistribution of wealth and transfer from the rich to the poor is *Zakah*, as outlined earlier.

This section has focused on discussing business ethics together with insights from Islam documenting and illustrating some of the key overlap between Islamic teachings and the western concept of ethics. The next section will focus on corporate governance and links with ethics.

3.8 Corporate Governance and Business Ethics

This thesis is primarily focused on corporate governance and the role of business ethics in an Islamic context. Thus it is imperative that the literature on corporate governance and business ethics is reviewed. The discussion in this section focuses first on the role played by codes and standards. Before turning to the literature that has explored the topic in a developing market context.

3.8.1 The Role of Codes and Standards

Although Bonn and Fisher (2005) argue that corporate governance has obvious CSR dimensions, it is the way that ethics matters are dealt with at the governance level that is the general focus of their work and other related analysis. In other words, the emphasis is on organisational approaches to ethics at the corporate governance level. The need for an organisation to make clear the behaviour expected of its board members is widely recognised. In this regard, Bonn and Fisher (2005) provide examples such as the Corporate Governance Council of the Australian Stock Exchange (ASX), which advises organisations to explain the ethical behaviour standards required of company directors and key executives and encourages adherence to these standards. The ASX proposes the establishment of a code of conduct that identifies the necessary directorial and executive practices that are necessary to protect the ethical integrity and reputation of the company; this includes the need to outline individuals' responsibility to report unethical practices (Bonn and

Fisher, 2005). There are some specific areas where the ASX requires the conduct code to pronounce: for example, conflicts of interest, fair dealing, corporate opportunities, confidentiality, compliance with laws and regulations, and encouraging the reporting of unethical behaviour. Indeed, the ASX (2003) has identified ten principles of corporate governance, two of which refer to ethics. The first promotes 'ethical' and 'responsible' decision-making and the second recognises 'legitimate' stakeholders' interests.

The UK's Financial Reporting Council (FRC)[27] has developed many sets of guidelines for corporate governance that impact on individuals' ethical behaviour; for example, the Higgs Report on non-executives of 2003 states that the board should set the values and standards for a company and ensure that its responsibilities to its shareholders and other stakeholders are understood and met. The report outlines that integrity, probity and high standards of ethics are a prerequisite for all directors (Bonn and Fisher, 2005). Cleek and Leonard (1998) argue that one obvious way for a board to make broad principles more workable in practice is to produce an ethical code of conduct for all employees in addition to the board and top executives. This type of approach suggests that the attitude of organisations towards ethics must have its foundation in a robust framework of corporate governance. However, Cleek and Leonard (1998) argue that this is just the first step; specifically, these authors identify the objectives of an ethics code as: (i) raising social responsibility; (ii) improving management; (iii) introducing guidelines for the acceptable behaviour of employees; (iv) helping organisations to obey the government's guidelines; and (v) improving the corporate culture. This discussion highlights the need to ensure that an ethical code of

[27] The Council of the Stock Exchange, the Accountancy Profession and the Financial Reporting Council created a Committee on the Financial Aspects of Corporate Governance, which introduced its Code of the Best Practice in 1992 (Alkahtani, 2013).

conduct encourages ethical behaviour within an organisation, instead of existing on paper only (Wanyama et al. 2009; 2013). The implementation of an ethical code of conduct to protect business performance necessitates the establishment of proper structures and processes for the monitoring of ethical behaviour; this includes identifying the indicators of performance which can be employed to present reliable information about the ethical performance of the organisation (Kitson and Campbell, 1996). The indicators of performance should not simply be extensions of the financial reporting system of the organisation; non-financial measures, such as the organisation's reputation and community perception, should also be included (Kitson and Campbell, 1996).

3.8.2 Reform and Development

The last two decades have seen the development of awareness of the need for reform in many areas of business activity, especially in the sphere of corporate governance (Mallin, 2013). Although most directors now recognise that ethics are a priority issue, they often have problems in conceiving how they should deal with it in their day-to-day decision-making (Smith, 1997). In fact, there is a widely shared view that the leaders of corporations should actually lead by speaking out more often on ethical matters and making appropriate ethical pronouncements that take current community priorities into account (Smith, 1997). In addition, directors should set an example to others by upholding the highest standards of personal conduct and giving priority to human values (Smith, 1997).

Shah (1996) notes that much of the business ethics literature concentrates upon transforming individual ethics at the corporate level. Shah suggests that such transformation was much easier in the days when businesses were relatively small and contracting structures allowed them to operate more "humanely" than is the case with today's monolithic corporations (Shah, 1996). Obviously, in a small business scenario, there is greater transparency, making individual unethical actions and their adverse impact much more visible; in modern public corporations, where the average number of employees is in the thousands and ownership and management are divorced, the situation is very different (Shah, 1996). Shah's study focuses on analysing institutional characteristics and the extent to which these limit our ability to develop the ethics of corporate business from simple considerations of individual morality. Shah finds that institutional morality cannot exist independently of individual morality and suggests that attempts should be made to reform the institutional structure and environment of corporations in order to instill an ethical conscience. In particular, Shah (1996) suggests that there are real limitations to the applicability of the ethical norms of individuals to large corporations. The main problem is that rather than being a community of individuals, a corporation is an institution with unique, but complex, responsibilities and legal rights, governed by stakeholders and markets in general (Shah, 1996). This environment reduces the impact ethical behaviour can have as there is little way in which individuals can see their own personal actions impact on the totality of the corporate enterprise (Shah, 1996). Shah concludes that some radical institutional reforms are necessary in order to correct this lack of corporate conscience, such as creating more personal identity for employees and increasing the transparency of individuals' actions.

Developing this theme, Bonn and Fisher (2005) argue that the implementation of ethical conduct codes to drive the performance of business requires the establishment of appropriate structures and processes for improving and monitoring ethical behaviour. This, they argue, would entail identifying the key performance indicators needed to supply reliable information about the ethical performance of organisations. These indicators should not just be extensions of the financial reporting system of the organisation, but must include non-financial measures such as community perception and the reputation of the organisation (Bonn and Fisher, 2005). Bonn and Fisher identify a number of considerations that need to be addressed by boards of directors if they want to integrate ethical concerns successfully into the corporate governance structures of their organisations. First, boards need to identify their current attitudes, values and beliefs and evaluate whether they are appropriate for their organisation. Second, boards should carefully examine their behaviour towards ethical issues. Finally, boards need to evaluate the policies, current strategies and procedures of the organisation and investigate whether they encourage ethical behaviour and reflect the ethical values of the organisation (Bonn and Fisher, 2005).

In this context, bodies such as the stock exchanges and the OECD have developed principles of corporate governance that include reference to business ethics (Sullivan, 2009). Bonn and Fisher (2005) suggest that an organisation's approach to ethics must be addressed within the framework of corporate governance. However, this is viewed as just the first step if the organisation is interested in developing more effective corporate governance principles; measures taken must ensure that the behaviour of the organisation is consistent with the ethical values adopted in the codes of conduct for all levels of the organisation (Bonn and Fisher, 2005). According to Sullivan (2009), this type of integrated approach towards corporate governance and business ethics should assist with implementing high standards of ethical behaviour throughout the organisation.

Nordberg (2007) explores how ethical frameworks underpin conventional corporate governance models in an attempt to provide guidance to directors, especially to those independent, non-executives who, he argues, increasingly act as the (moral compass) of the corporation. Nordberg suggests that an ethical system based on shareholder value is impracticable as well as having deep theoretical flaws. For different reasons, he argues that stakeholder theory is flawed as well; for example, he claims that it fails at the theoretical level because it struggles with determining the difference between means and ends (Nordberg, 2007). In contrast, he suggests that agency theory can assist the director in finding solutions to major corporate governance problems such as how to keep managers from diverting the funds of the corporation for private purposes (Nordberg, 2007).

In terms of corruption and its relationship with corporate governance, Potts and Matuszewski (2004) note that the Ethics Resource Center (ERC), a long-standing non-profit organisation in the United States, has usefully addressed the organisational ethics issue and considered it to be a core concept within the corporate governance notion and the struggle against corruption. The ERC takes a broad view of corporate governance and business ethics issues by advising companies to go beyond the legislative and regulatory requirements in order by building effective programmes through which the ethical values of companies can be communicated. Companies must ensure that those values are understood and applied in difficult situations; however, the ERC acknowledges that this will not occur without the active support of the company's leadership (Potts and Matuszewski, 2004). Sullivan (2009) emphasises that companies are increasingly recognised as victims, and anti-corruption efforts are seen as integral to good corporate governance; he argues that fair economic environments, free of corruption, are central to the sustainable growth of business, economic and national development[28]. Many global collective action initiatives and international conventions now exist that set high standards of accountability and transparency in corporate and public governance (Sullivan, 2009). Significantly, such standards are supported by growing convergence in ethical values that sets the terms for doing the 'right' thing in both the public and private sectors (Potts and Matuszewski, 2004). Notwithstanding this trend, Sullivan (2009) argues that, for corporations, differences in institutional quality across countries make the challenge of dealing with corruption more complicated. Businesses operating worldwide find themselves working with supply chains that have different governance structures, so they face varying legal requirements as well as different experiences of corruption and the approaches to dealing with it (Sullivan, 2009); this thereby creates particular problems for those companies that are willing to remain transparent and accountable in environments with weak rule of law (Sullivan, 2009).

Sullivan (2009) argues that corporate governance is a central mechanism in accounting for the sustainability and quality of a free and fair business environment as well as a proven anti-corruption tool. Clearly, strong corporate governance requires a system of institutions that govern and control the relationship between creditors, owners, investors, and managers, but also operates as an incentive for reform aimed towards the recognition of best practice in legal and regulatory frameworks (Potts and

[28] See also Shikapotu (2013) who focused on corporate governance practices in Zambia.

Matuszewski, 2004). Corporate governance, as an anti-corruption tool, introduces standards and mechanisms of accountability, transparency, and compliance with regulations and laws (Potts and Matuszewski, 2004; Sullivan, 2009). The ethical behaviour of company leaders and decision-makers underlies much of what companies do (and fail to do) in establishing 'good' mechanisms of governance and combating corruption (Sullivan, 2009). In this regard, ethics has to be considered as a set of values and principles by which a company identifies the nature of its mission and operations, leading the behaviour of its board of directors, management and employees at all levels (Sullivan, 2009). This includes leadership's commitment to adapt and embody the ethical values of the company in all decisions and operations; companies need working solutions that are built around the ethics idea and which tie together the reforms of corporate governance and anti-corruption initiatives (Sullivan, 2009). More radically, recent studies by Wanyama et al. (2013) and Shikaputo (2013) both explicitly suggest that in developing countries the issue of corruption is critical and any attempts to build 'better' governance systems in such environments will fail unless this issue is addressed first.

Some researchers, such as Joyner and Payne (2002) and Ghosh et al. (2011), concentrate upon the CSR issue (discussed earlier in a broader governance context) and its relationship with ethics. Joyner and Payne (2002) evaluate the concepts of business ethics and CSR to illustrate the increased emphasis on both these issues in recent years. The study examines, using interviews and content analysis, two organisations that have successfully dealt with these issues and finds a link with the firm's financial performance that can be either direct or indirect. However, these linkages may not cause the changes in the financial performance noted; on one hand, it appeared possible to assign an exact dollar value to "socially responsible" action, but on the other, the contacts made through the behaviour of social responsibility resulted in contracts being awarded at a later date (Joyner and Payne, 2002). Ghosh et al. (2011) concentrate on the relationship between ethics and corporate social responsibility in a different way. They point out that 'ethics versus profit' is an old debate that resurfaces from time to time, but it does involve social welfare and individual gain. The authors suggest that, contrary to conventional thinking, profit and social responsibility can work together, and ethics and profits are not inimical to each other. At times, it may appear that individual optimum choice conflicts with social optima, and at times these ends can seem mutually complementary. In the case of conflict between these two objectives, one has to be picked up in preference to the other. If the maximum good of the many is considered better than the maximum good of the one, the former must be the superior choice (Ghosh et al., 2011).

3.9 Corporate Governance and Business Ethics in the Islamic Context

Despite the increasing Islamic banking presence in the global financial market and the rapid growth of Islamic banks and windows since the mid-1970s, little has been written on governance structures and processes from an Islamic perspective (Alnasser and Muhammed, 2012). Alnasser and Muhammed (2012) argue that the financial conditions in Islamic banks and windows require additional items to be included in the financial reports, such as *Zakah*. More generally, the need for investment and financing undertaking by Islamic banks and windows to be in line with *Sharia* and the expectations of the Muslim community is often portrayed as an ethical issue (Hassan, 2009). In this regard, the banks involved have an obligation towards all of their stakeholders and related parties, which may extend beyond the financial interest to embrace ethical, religious and other values when good corporate governance is required (Hassan, 2009). In addition, the staff should act in accordance with Islamic principles and adhere to the teachings of Islam. The accounting standards used by banks in an Islamic context should emphasise the need for interest free operations, a principle which is generally seen as the most important ethical issue in this context (Alnasser and Muhammed, 2012).

According to Chapra and Ahmed (2002), the objective of corporate governance in the Islamic context is to ensure ethical behaviour towards all stakeholders, thus ensuring fairness, and greater transparency and increased accountability. Also, by incorporating higher standards of minorities' protection against expropriation, the increased transparency, disclosure and effective accountability within *Sharia*-based corporate governance bodies will promote compliance with *Sharia* injunctions and business ethics (Khaliffa, 2003; Ibrahim, 2006). More specifically, Ibrahim (2006) argues that, corporate governance in an Islamic context requires, the absence of: market manipulation; transactional opaqueness; short selling; and excessive financial exposure is essential, because such practises have been considered by Islamic scholars to be immoral and unethical.

Two specific notions shape the nature of corporate governance from an Islamic perspective. The first one is *Sharia*. As noted earlier, every action of Muslim life must conform to *Sharia* and observed ethical standards must be derived from Islamic principles. These principles - as explained earlier - define what is true, fair and just, the priorities of society, the nature of corporate responsibility and certain specific governance standards. Second, certain Islamic financial principles and business ethics have a direct impact upon corporate policies and practices (Lewis, 2005). Significantly, Nasr (2002) points out that there no governance system can influence organisational behaviour unless it is embedded in an appropriate ethical or moral climate.

This concern about the integration of business ethics into the corporate governance debate in the Islamic context is clearly stated in the guiding principles on corporate governance for institutions offering only Islamic financial services, published in 2006 by the Islamic Financial Services Board (IFSB). In this document, the IFSB (2006) state that good ethics, strong morals, unshakable integrity and honesty of the highest order have been strongly promoted by Islam.

If a broad definition of corporate governance, such as "a set of organisational arrangements whereby the actions of the management of a corporation are aligned as far as possible with the interests of its stakeholders" (IFSB, 2006., p. 16) can be agreed upon, then it may transpire that there are more similarities than differences between the 'conventional' and Islamic approaches to good corporate governance, particularly in ensuring fairness, transparency and accountability (Hasan, 2009). A major difference would be that the Islamic approach has religious values and requirements related to *Sharia* entrenched within it (IFSB, 2006).

Finally, in considering an Islamic view of the broad definition of corporate governance, it is often perceived to promote an interpretation beyond those who participate in the governance of the corporation to the religion of Islam itself (Hasan, 2009). Therefore, the corporate governance model from a *Sharia* viewpoint considers Islam to be the supreme stakeholder. The concept of Islam as the main stakeholder affects the corporate governance structure where it identifies *Sharia* and its ethical purposes as the governing law of all corporate affairs, requiring the establishment of the *Sharia* Supervisory Board[29] as part of any firm's corporate governance system (Hasan, 2009).

3.10 Conclusion

This chapter has reviewed the key elements of the prior literature examining the issues central to this thesis, namely corporate governance, business ethics and Islam. Rather than try and describe every study in each field, the discussion has focussed on those most relevant to a study such as this which brings elements of these fields together as the basis for a detailed empirical study. Having presented the most relevant contextual literature, the thesis continues by detailing the theoretical framework underpinning this work.

[29] For further details, see chapter 4.

Chapter 4: Theoretical framework

Theoretical framework

4.1 Introduction

Having reviewed the literature relating to business ethics and corporate governance, it is clearly evident that accountability is as an important part of the modern corporate governance debate (Shikabuto, 2013). This chapter provides an overview of the accountability theoretical framework which is the lens employed in the current study in order to explore the relationship between corporate governance and business ethics in Saudi-listed banks. The chapter identifies a number of basic themes in the previous discussions that relate to corporate governance and business ethics, and explores these notions' relations with accountability in an Islamic context and more broadly. The remainder of this chapter is structured as follows. Section 4.2 focuses on the issues of accountability in general terms, before the relationship between accountability and: (i) corporate governance; and (ii) business ethics is explored in Sections 4.3 and 4.4 respectively. Section 4.5 then discusses accountability from an Islamic perspective, highlighting three key elements: (i) *Shura* (consultation); (ii) *Hisba* (verification); and (iii) the *Sharia* Supervisory Board. Section 4.6 concludes the chapter.

4.2 Accountability

The accountability concept has been recognised by human beings since ancient times. For example, legal documents have been found showing that around 2000 BC, the Babylonian king, Hammurabi, was concerned with the accountability of those working on behalf of others (Gray and Jenkins, 1993).

Currently, as a result of the complexities of business, and in addition to the general trend of separation between ownership and control, agency theory has emerged to clarify the relationships involved where an owner delegates authority to management (Gray and Jenkins, 1993). In such cases, the management should operate the resources of the organisation in a way that fosters the interests of the former, and thereby discharge their accountability to the owners of organisations. However, the modern accountability notion is usually seen in wider terms, with explicit acknowledgement of firms' impact on society and the community as a whole. Stakeholders such as employees, creditors, suppliers, customers, society, the government, the environment and others are affected by the decisions and performance of the firm, so management should: (i) be accountable to such parties; and (ii) have a responsibility to provide them with detailed information regarding orgnisational behaviour and performance (Gray and Jenkins, 1993). Dealing ethically is increasingly seen as part of being accountable to all stakeholders (Afifuddin and Siti-Nabiha, 2010), and the detailed discussions in the literature chapter indicate the importance of business ethics for corporations included in modern debates on the issue.

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) who describe accountability as:

> "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).

Perks (1993) states that any theoretical framework for accountability must be concerned with questions such as who is accountable, to whom, how and for what. The central premise of accountability according to the above definitions, is that the responsible party is required to provide an account to the interested parties, so this duty become key (Perks, 1993). The actions which are taken to serve the stakeholders' interests should be justified and explained in this account. This reasoning indicates that, for an accountability relationship to exist, there are two parties: the accountee, who represents the principal (such as the board of directors, shareholders or other stakeholders) who entrusts a task to the accountor, who is responsible for notifying the accountee of the current status of the accountability mission in order to discharge that accountability[30]. In some situations, accountors can act as accountees and vice-versa, depending on the precise nature of the relationship involved. For instance, while employees are accountable to their managers to perform their obligations satisfactorily, management is accountable to their employees in terms of providing them with a safe workplace environment (Gray et al., 1996). According to Robinson (1971), there are three accountability bases. The first is programme accountability, concerned with how the corporation's activities are carried on and whether it meets the goals set for it or not; second is process accountability, which examines whether the procedures used to perform a firm's operations were sufficient and whether the latter were carried out as promised; finally, fiscal accountability aims to establish whether items purchased were used for their intended purpose and whether the funds were expended as stated.

[30] These parties to an accountability relationship might be individuals, groups or organisations (Gray et al., 1996)

Most formulations of corporate governance are seen to imply the need for a clear statement about working conditions to both shareholders and stakeholders (Solomon, 2010). The accountability outcomes might take a diversity of forms according to the purpose of the report and the identity of the beneficiary because the required information is likely to differ according to the needs of these different accountees (Solomon, 2010)[31]. Such reports aim to meet the requirements of the shareholders and stakeholders (Solomon, 2010). Certainly, they may play a vital role in any communication processes in the company; therefore, reliable reports offer important reassurance to all parties who deal with the company, concerning matters of interest to them. For instance, the board of directors will want to know whether the performance of the company has been enhanced and to what extent its goals have been attained. In contrast, from the owners' point of view, the focus is on profitability maximisation and the attendant rises in share price. The company's overall financial situation will typically concern creditors and suppliers while employees take into account the strength of the company and its ability to offer them financial security and a safe working environment. The community will look at the services provided to it by the company (and how seriously the company cares about its operations' social aspects), while environmental bodies will ensure that the company is considering environmental issues (Gray and Bebington, 2000). Gray and Bebington (2000) argue that while a corporation has the right to use communication channels such as annual reports to assist in disseminating information, the receiver has the right not to believe its conclusions.

[31] Financial reports, environmental reports, corporate social reports, sustainability reports and others are obvious illustrations of accountability products (Solomon, 2010).

The accountability relationship can be seen as a bond linking parties, whether such parties are persons or institutions and, in order to produce a disciplined accountability relationship, it is important for the bond to be clearly defined (Stewart, 1984). Stewart (1984) suggests that although this view of accountability has been constructed for the purposes of public accountability analysis, it can be employed for all forms of accountability, including commercial and managerial. In this regard, 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".

Monks and Minow (2004) contend that accountability is not just a choice for the company, but is instead a commitment by a company to fulfil its responsibility towards the society in which it operates. Accountability can therefore be seen as a contract between the corporation and interested parties, enforced by rules such as company law, civil law, regulations, internal procedures, professional standards, conventions, ethical and corporate governance codes and customs (Monks and Minow, 2004). Such contracts should work effectively as a framework for the current study, where the focus is on the relationship between corporate governance and business ethics in Saudi-listed banks. Monks and Minow (2004) specify two classes of laws organising the relationship between a corporation and the interested parties: the first is public law, imposed by legislative bodies and offering minimum standards. Maximum flexibility is permitted when organising the relationships between the corporation and interested groups. The second class is private law which emerges from agreements between the corporation and others. Gray and Jenkins (1993) differentiate between two accountability codes by stating that while internal codes are formulated to deal with a particular relationship, external codes have been established for general relationship categories and are imported in specific relationships; internal codes are therefore usually explicit, whereas external codes tend to appear as primarily implicit in nature.

Monks and Minow (2004) argue that, in order to preserve legitimacy and credibility, each company should design effective systems to ensure their mechanisms for discharging accountability are competent, reliable and independent. The authors suggest further that it is best for a corporation to develop its own accountability in ways that satisfy all interested groups in order to avoid the requirement for external interference (see also Gray and Bebington, 2000). In the absence of such measures, stakeholders - and the company itself - could face severe losses as a direct result of the defects in accountability systems (Keasey et al., 1997).

'Proper' accountability intends to ensure that there is no misuse of organisational resources, in addition to preventing mismanagement that may harm the interests of others (Stewart, 1984). Therefore, in order to attract global capital, it is essential for both companies and countries to meet transparency and accountability demands (Monks and Minow, 2004). A stronger concentration on the accountability and transparency of the corporation can be a sufficient mechanism for enhancing the confidence of investors (Gray and Bebington, 2000).

Gray and Bebington (2000) claim that, despite the fact that a major corporate concern with respect to accountability is likely to be the economic activities that most interest the providers of finance, there are other stakeholders who have the right to information which extends beyond the financial affairs of the corporation; therefore, reports on matters such as the social and environmental impact may have importance here. In this context, voluntary initiatives can be significant in practice, with some notable advances evident but, given that accountability is often now viewed as dealing with complex environmental and social matters, there is bound to be a need for legislation regarding accountability. From the corporate side, there should be no unwillingness to adhere to such regulations as these represent the mechanisms supporting the discharge of their accountability (Gray and Bebington, 2000).

Beetham (1994) argues that accountability depends on public knowledge of what activities a corporation or a government is engaged in. Significantly, such perspectives may gain more awareness within a democratic society where the rights of all groups are protected.

Here, Keasey et al. (1997) suggest a note of caution 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 approach a firm is likely to adopt when attempting to increase accountability will depend upon the agency relationships at work (Perks, 1993). As a result, those who work as a representative of the principals would be in favour of enhancing accountability in ways that make the agents more accountable to them, while representatives of the agents would prefer less accountability, since accountability tends to increase their responsibility to others and restrict their freedom (Perks, 1993). The next two sections focus on the relationship between accountability and both corporate governance and ethics.

4.3 Accountability and Corporate Governance

Solomon (2010) notes that there has been a huge upsurge in the amount of research focused on corporate governance in a wide variety of disciplines and contexts; indeed, research is now focusing on accountability to a broad constituent group (Dunne, 2003). As a result of the growing inter-connectedness amongst these approaches, corporate governance has been turned into an interdisciplinary subject which might require an anti-traditionalist and interdisciplinary reasoning (Gilson, 1996).

In traditional thinking, agency relationships are the root of corporate governance; i.e. the focus is on ensuring that the owner’s assets are employed efficiently in their interest by entrusted controllers. This relationship between management and finance providers underpins agency theory and the need for accountability which many scholars perceive as a starting point for debates about corporate governance (Jensen and Meckling, 1976; Byrd, et al., 1998). According to Brennan and Solomon (2008), a significant role has been played by agency theory in the choice of a theoretical framework, especially in the corporate governance field. Agency theory principles can provide the basis for strong corporate governance if the suppliers of finance are rewarded accordingly and appropriately (Shleifer and Vishny, 1997).

Similarly, Gamble and Kelly (2001) contend that the debate on corporate governance has been marked by an argument about the rights of shareholders versus the rights of stakeholders. The supporters of the stakeholder perspective argue that the accountability of the firm might legitimately be extended to constituencies such as employees or local communities. However, although some important references are made to the issue of accountability within the contemporary literature, the debate has tended to concentrate on the issue of what governance systems best enhance economic efficiency and produce returns for the owners (Gamble and Kelly, 2001). The UK's Hampel Report of 1998 states that the balance between shareholders and stakeholders needed to be redressed in favour of the former. The report (1998) argues that:

> "The importance of corporate governance lies in its contribution both to business prosperity and to accountability. In the UK the latter has preoccupied much public debate over the past few years. We would wish to see the balance corrected. Public companies are now among the most accountable organisations in society. They publish trading results and audited accounts; and they are required to disclose much information about their operations, relationships, remuneration and governance arrangements. We strongly endorse this accountability and we recognise the contribution made by the Cadbury and Greenbury committees. But the emphasis on accountability has tended to obscure a board's first responsibility to enhance the prosperity of the business over time" (p. 7).

Regarding the broad notion of corporate governance and accountability, Gray et al. (1996) suggest that the broader governance notions identify rights and responsibilities. The corporation is seen from such a framework not as an economic aggregation of individuals but as an entity, related as an organic system to the political and social world. Burton (2000) argues that managerial focus in this context is on the responsibility notion, where corporations are responsive to all stakeholders. Significantly, Burton argues that trust and participation are more important and effective than control (Burton, 2000). Furthermore, according to Keasey and Wright (1993), accountability is required to allow the principal to monitor, evaluate and control agents' behaviour within organisations; responsibility for corporate governance practices rests with the board of directors, who control the company on behalf of shareholders and are in turn expected to account for the actions and use of resources. In this regard, the theory has been recognised as clarifying controversies surrounding the relationship between directors and shareholders in the modern corporation. Conventionally, corporate governance has been perceived as a mechanism for resolving the principal-agent conflict (Brennan and Solomon, 2008). This approach influenced early authors on corporate governance, who advocated it as a cure for the tension between company owners and management; most reforms of corporate governance, particularly in developed countries, are constructed with a view to defusing this tension (Vinten, 2001). Thus, agency theory is relevant to any debates on corporate governance as it influences the composition of boards and, in general, the balance of power between management and capital providers (Cadbury, 2002).

Bovens (2006) argues that accountability is now perceived as a 'good' governance element in the public and private sectors also and has become the focus of much attention. Likewise, accountability is widely viewed as a sub-set of governance (Keasey and Wright, 1993). The Audit Commission (2009) defines good governance and accountability as:

> "Ensuring the organisation is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner" (p.3).

Thus, accountability is seen as a vital for strong governance and in this sense, it has widely been suggested that accountability underpins economic development (Pope, 2000; and Sun, et al., 2011). In an Islamic context, Falgi (2009) was the first author to explore corporate governance within an accountability framework following the issuance of the Saudi Corporate Governance Code in 2006. Falgi found that stakeholders view corporate governance from a very narrow agency perspective, and that such a narrow view reduces the amount of accountability employed by companies towards all stakeholders including society. The author reports that the only recognised accountability relationship that exists is that between management and the board of directors. However, the relationship between accountability and ethics is not explored in detail in the earlier study. It is to this issue that the current study now turns.

4.4 Accountability and Ethics

Accountability can be viewed as an ethical order that includes a system of reciprocal obligations and rights (Afifuddin and Siti-Nabiha, 2010). This means that the groups are bound up not only in calculable and narrow ways, but must meet the ethical and spiritual goals of the organisation and take a broader view than is commonly understood (Afifuddin and Siti-Nabiha, 2010).

Zadek (1998) claims that ethical accounting provides one of the few mechanisms for corporations to fully understand and integrate the new accountability and governance patterns, with a model of business success centred on deepening stakeholder relationships and recognition of financial and non-financial interests. However, corporations need to know the ethical views of stakeholders and trends therein in order to be fully accountable to them (Zadek, 1998).

Shearer (2002) stresses that we urgently need to reconsider the ethical dimensions of economic life to explore anew the sufficiency of financial accountability. Shearer addresses prior ethical considerations on which the theories and practices of financial accountability must rest. Such consideration is vital, for any moral responsibility theory must eventually rest on ethical considerations regarding the financial entity's nature, including its relationship to the human community within which it operates. Ultimately, it is a moral responsibility notion that grounds the accountability of the entity with respect to the community, and therefore the practices of accounting that are undertaken to discharge this accountability (Shearer, 2002).

Corporations become moral community members through providing an account of an activity which is essential if these entities are to act other than in their own interests. However, according to Shearer (2002) if businesses succeed in discharging accountability to broad human and environmental groups, then they must have a way of distinguishing these purposes from their self-interests. In sum, to attain a broader obligation to accountability on the part of agents, what is needed is an ethic that is incapable of incorporation into the logic of economics (Shearer, 2002).

Greenfield (1996) presents accountability as an ethical issue by suggesting that organisations can succeed if they consider the following ethical values in their daily operations and decisions: (i) commitment beyond the self; (ii) commitment to the public good; (iii) tolerance; (iv) diversity; (v) social justice; (vi) respect for individuals' worth and dignity; (vii) prudent resource application; (ix) law obedience; (x) commitment beyond the law; (xi) honesty and openness; and (xii) accountability to the public. Greenfield (1996) adds that, to be accountable for all actions, acting always in the public good and observing the highest ethical behaviour principles are more than lofty aspirations.

Regarding individuals and employees, Beu and Buckley (2001) argued that there are times when individuals face an ethical dilemma in that they may want to do the right thing based upon their own values, but are overwhelmed by the forces of society to comply with the values of their prevailing culture (Beu and Buckley, 2001). This would lead to the belief that, by developing high quality relationships and raising the understanding of normatively acceptable behaviour, accountability would lead to more ethical actions. Beu and Buckley argue that ethical behaviour by employees is significant to all corporations' viability, indeed, one way to ensure that employees perform 'properly' is for the organisation to require that the employees be held accountable for all of their actions (Beu and Buckley, 2001).

In an accountability framework, employees are seen in a social context and their behaviour is evaluated and observed by an audience and compared to some standard or expectation. Thus, accountability and ethics fit well together as both are social control methods and should be studied together (Beu and Buckley, 2001). Consequently, when the organisation members facing an ethical dilemma view unethical actions as something that must be done in order to assist those who are close to them, they will be more likely to engage in that behaviour if they are not held accountable for it (Beu and Buckley, 2001).

Whilst this thesis is situated in this broad accountability context, the study is conducted in an Islamic setting; Islam itself incorporates specific notions of accountability and so the next section explores this perspective in detail.

4.5 Accountability from an Islamic Perspective

One of the most significant issues considered in economic systems is the motivation for undertaking economic activities; that is, what is the person's purpose in carrying out particular economic activities? (Malekian and Daryaei, 2010). Is he/she trying to receive materialistic and physical benefits or is his/her attitude a non-materialistic one? With respect to the body of literature on people's economic behaviour in Islamic society, one may certainly say that the materialistic motivation to share in economic activities is given low priority and the role of non-materialism is primary (Malekian and Daryaei, 2010).

Lewis (2006) states that one of the fundamental objectives of an accounting system is to assist accountability. Those in charge of the economic resources must provide an account of their stewardship, irrespective of whether the sources and transactions in question are those of a private sector entity or a government organisation. This stewardship function has been a key feature of organised human activity from the earliest recorded times (Whittington, 1992). Originally specified at the individual property owner level, currently accountability is usually illustrated in terms of accounting by management, either public or private, to aid efficient resource allocation by providing information, for the ex-post monitoring of performance or ex-ante decision-making (Whittington, 1992).

Yet, accountability also has broader economic objectives and social purposes, and no more so than under Islam, where religion, economics, politics and social affairs, including accounting, fall under the divine legal jurisdiction of Islam, *Sharia*. As noted earlier the literal meaning of *Sharia* is 'the way to the life source' and, in a technical sense, it is now employed to refer to a legal system that is in keeping with the code of behaviour laid down in the Holy Quran and the *Hadith* (prophet's saying (peace be upon him)), which are the authentic tradition (Lewis, 2006). Calder (2002, p.458) defines Islamic law as:

> "A hermeneutic discipline which explores and interprets revelation through tradition".

The Holy Quran and *Sunnah* (the Prophet's teachings) clearly define: (i) what is considered true, fair and just; (ii) the preferences and priorities of society; (iii) the roles and responsibilities of corporations; and (iv) in certain senses, specific accounting standards for accounting practices. In the Holy Quran, for instance, in different verses, the word *Hesab* is repeated more than eight times (Askary and Clarke, 1997). *Hesab* or account is the accounting root, and the references in the Holy Quran mean to 'account' in its generic sense, relating to an obligation to account to Allah for all aspects of human endeavor, for which every Muslim is accountable. All of the resources available to individuals are made in the form of a trust, where individuals are the trustees of what they have received from Allah in the form of goods, property and even less tangible assets. The extent to which individuals must use what is being entrusted to them is specified in the *Sharia*, and the individuals' success in the hereafter depends upon their performance in life. In this sense, every Muslim has an account with Allah, in which all actions, either good or bad, are recorded and this account will continue until death; on their judgment day, Allah then shows everyone their account (Lewis, 2006; Malekian and Daryaei, 2010). Thus, the basic similarity between accounting and *hesab* in Islam lies in every Muslim's responsibility to carry out his/her obligations as described in the Holy Quran. Similarly, in a business enterprise, both the management and the capital providers are accountable for their actions within and outside their firm. Accountability in this context means accountability to the *umma* (community) or society at large. In good faith, Muslims cannot compartmentalise their behaviour into secular and religious dimensions, and their actions are always bound by *Sharia*. Accordingly Islamic law embodies an all-encompassing set of practices and duties, including worship, prayer, morals and manners, along with implicit individual moral tenets that need to be incorporated into business practices and commercial transactions in general (Al-Jirari, 1996).

In Islam, overarching guidelines should be implicit in the implementation and monitoring of any framework (Askary and Clarke, 1997). If the political authority does not attend to the task seriously the moral norms, which in a Muslim society are derived from *Sharia*, may not be reflected in statute, and the laws might not be implemented effectively. It is the responsibility of the political authority to check morally objectionable behaviour, such as dishonesty, fraud and unfairness which is harmful to the development of the socio-economy (Askary and Clarke, 1997).

As discussed above, Muslims believe that they will be held to account for whatever they do in their lives in the hereafter. In Islam, in order to seek the promised rewards in the hereafter, Muslims must fulfill the will of Allah. Thus, it requires every deed and word in life to be in line with the teachings of Islam (Malekian and Daryaei, 2010). Generally, the Islamic economic system aims to allow people to earn their living in a profitable and fair way without exploiting others, so that the whole of society will benefit. Islam also emphasises community welfare over individual rights (Malekian and Daryaei, 2010). According to the rules of *Sharia*, the accountor is accountable for all his/her actions and can be questioned if there is any depravation or negligence (Al-Jirari, 1996). *Sharia* requires agents such as managers to ensure that all their performances and actions are in favour of the various groups who are affected by their business. In order to activate the accountability mechanisms within Islamic society, three significant concepts must be adopted: *Shura* (consultation); *Hisba* (verification); and *Sharia* via a *Sharia* Supervisory Board (SSB) (Abdul Rahman, 1998); these three concepts provide a legal framework to monitor and hold the agent to account and are now discussed in more detail.

4.5.1 *Shura* (Consultation)

Shura means consultation. The holy Quran mentions *Shura* as a significant concept thus:

> "And consult them on affairs of moment. Then, when thou have taken a decision, put thy trust in Allah."(3:159)

> "Those who respond to their Lord, and establish regular prayer; who conduct their affairs by mutual consultation; who spend out of what We bestow on them for sustenance." (42:38)

The *Shura* group or Consultative Council had its origins in the earliest times of Islam, where it comprised a council of tribal elders (Branine and Pollard, 2010). Originally, it constituted an informal deliberation forum where decisions were arrived at through discussing new problems. Throughout these deliberations, the problems in question were opened up for general discussion. The Council Members were invited to articulate their personal opinions, and these were sifted through until a consensus was reached. In accordance with the moral principles, Islam introduced improvements (Bhatti and Bhatti, 2010). And so, the basic message of *Surat* (part of the Quran) *Ash-Shura*, to live truly in forbearance and mutual consultation, and rely on Allah, contains governance's essence from an Islamic perspective. Those who wish to serve Allah must ensure that their behaviour is open and determined by mutual consultation between those entitled to a voice; in business affairs, this relates most obviously to the relationship between the interested parties or partners and in state affairs, between ruled and rulers (Malekian and Daryaei, 2010). Since the Quran clearly mandates that any decision including more than one party requires consultation on the basis of *Shura* principles, the participants are encouraged in Islam to work together frankly and freely when arriving at decisions (Baydoun, et al., 1999). The institution of a *Shuratic* decision-making process clarifies how choices in business and other activities can comply with Islamic moral values. Decision-making is based on significant trust from Allah, and Islam requires from those holding this trust truthfulness, consultation, justice and a consensus-seeking spirit among the participants during group decision-making. On the *Shura* basis, others must be encouraged by their leaders to participate in decision-making. An employee would be expected to contribute his or her knowledge to the organisational formulation and implementation vision, and the procedures of consultation should be applied to all affected including the shareholders, workers, suppliers, customers and the community (Baydoun, et al., 1999).

4.5.2 *Hisba* (Verification)

The universality of Islamic teachings engendered the early establishment of institutions whose role was to maintain Islamic societal cohesion as a whole and ensure trade and business accountability (Kamla, 2009). In Islam, ultimate business and economic ends are for Allah, and the means employed should not diverge in any way from *Sharia* or Islamic law (Falgi, 2009; Kamla, 2009). An approved social behaviour code was introduced by the Prophet Muhammad, and his companions were later appointed, when the *umma*, or Islamic community, expanded in the early days of the Islamic state to institutionalise and perpetuate the codes, and preserve and ensure compliance with *Sharia* principles (Falgi, 2009). One of most significant institutions in this regard was the *Hisba*, whereby societies and the whole community were to be protected from fraud and exploitation (Wilson, 2002). During the early Abbasids period (between the seventh and eleventh centuries), the *Hisba* was established to ensure compliance with the *Sharia* requirements, with its holder called the *muhtasib*[32] (Lewis, 2006). *Hisba* seeks to enhance essential Islamic elements including the outlawing of discrimination on the basis of class, race or gender, which ensures equality for all Muslims. This includes obligations which ensure the prevention of monopolies, price controls, the protecting of the natural environment and the maintenance of public utilities and government resources (Gambling and Karim, 1991). Abdul Rahman (1998) explains that the functions of *Hisba* were Islamisised by entrusting its holder with obligations in the Holy Quran to encourage good behaviour

[32] The one who is on top of the *Hisba* institution.

and discourage bad behaviour; the *muhtasib* was therefore responsible and accountable for enforcing Islamic behaviour in terms of activities in the market and community affairs in general, including honesty and accuracy in business dealings. Traditionally, duties carried out by the *muhtasib* include: the use of correct measures and weights; fair trading rules; auditing illegal contracts; checking business frauds; keeping the market free and preventing the hoarding of necessities (Abdul Rahman, 1998). In Islamic society *Hisba*, like the institution of *Shura*, is a long-standing tradition that can be seen to represent a core Islamic corporate governance element. The institution's role became significant during the religion's expansion, as the number of commercial and business activities increased, exemplifying the nature and extent of the acceptance of an ideal system of sacred law in early Islam. Nevertheless, the *Hisba* institution survives in terms of every Muslim's right, irrespective of the presence or absence of an officially appointed *muhtasib*, to come forth as a private prosecutor or enforcer of Islamic governance standards (Abdul Rahman, 1998). For Gambling and Karim (1991), the role of the *Hisba* and *muhtasib* concepts in governance models in early Islam provides encouragement for accounting today, contributing to discussions surrounding a social accounting form where accountability in business and transparent reporting on financial, social and environmental impacts of business are called for. The *Hisba* concept can also contribute to discussions surrounding the role of accounting regulatory bodies, whose purpose should be to ensure that the operations of business organisations are in line with the public interest (Gambling and Karim, 1991).

4.5.3 The *Sharia* Supervisory Board

The *Sharia* Supervisory Board (SSB) and the internal controls which support it comprise the central tenet of the corporate governance framework from an Islamic perspective (Safieddine, 2009). The SSB is seen as vital for two key reasons. First, those who deal with an Islamic bank need assurance that it is transacting in compliance with *Sharia*. Should the SSB report that the bank management has failed to follow *Sharia* law, it will quickly lose the confidence of the majority of its investors and clients (Suleiman, 1998). Second, several Islamic scholars argue that strict adherence to the principles of the Islamic religion will act as a counter to the motivation problems outlined above (Suleiman, 1998). In effect, Islamic religious ideology acts as its own incentive mechanism for decreasing the inefficiency that arises from moral hazard and asymmetric information (Suleiman, 1998).

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has issued Governance Standard No. 1 on the SSB: Composition, Appointment and Report. According to this standard, every Islamic financial institution will have an SSB which:

> A. “is an independent body of specialised jurists in fiqh almua’malat (Islamic commercial jurisprudence).
>
> B. is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic financial institution in order to ensure that they are in compliance with Islamic *Sharia* rules and principles.
>
> C. can issue fatwas and rulings which shall be binding on the Islamic financial institution.
>
> D. shall consist of at least three members who are appointed by the shareholders upon the recommendation of the board of directors (not including directors or significant shareholders of the Islamic financial institution),

E. shall prepare a report on the compliance of all contracts, transactions and dealings with the *Sharia* rules and principles,

F. shall state that the allocation of profit and charging of losses related to investment accounts conform to the basis that has been approved by the SSB.

G. shareholders may authorise the board of directors to fix the remuneration of the *Sharia* Supervisory Board" (AAOIFI, 1998, p.76).

The management of an Islamic financial institution is responsible for ensuring that it conducts its business according to Islamic *Sharia* law and principles. The responsibility of the SSB is to form an independent opinion on *Sharia* compliance (AAOIFI, 1998, p.76).

Remarkably, the AAOIFI standard does not contain any information about the duration of the membership of SSB nor the procedures and possibilities for dismissal and reappointment (Safieddine, 2009). Despite the AAOIFI standard, the specific criteria and rules for the selection and appointment of SSB members (regarding, for instance, the relative weight of their Islamic and secular qualifications, their scholarly reputation and general popularity, their main income occupation and source, the duration of their SSB membership, their doctrinal strictness or intellectual flexibility, the criteria for reappointment etc) as well as the qualitative and quantitative dimension of their financial and non-financial rewards are not well documented in sources available to the general public (Bakar, 2002). Empirical research on the selection procedure of SSB members and their qualifications (before, during and after the membership) is still lacking. Moreover, there are no case studies on the reasons for and consequences of multiple SSB memberships by individual scholars (Nienhaus, 2007). Following the AAOIFI guidelines, the board of directors proposes the candidates for the SSB and determines their remuneration. Frequently, the management has a strong influence on the board of directors' decisions. Therefore, it is plausible to assume that the top executives will have a strong influence on the SSB composition and on the financial and non-financial rewards for SSB members (Nienhaus, 2007).

Nienhaus (2007) also argues that as an independent body the SSB is not subject to instructions by the board of directors, the shareholders or even the management. SSB members are free to state their opinions and to sanction or reject banking practices, techniques, dealings, contracts and transactions. This, however, does not mean that they are totally unaffected by social, political, economic and intellectual trends and developments. Additionally, it has to be taken in account that the appointment of SSB members had an initial motivation to be accepted (whatever that motivation was, whether scholarly reputation, financial reward, the sake of Islam or public visibility) (Safieddine, 2009; Bakar, 2002). If SSB membership does enhance the achievement of individual goals, it is a plausible statement that the members of the SSB are interested in a continuing membership leading to a reappointment. This creates a factual dependence on the shareholders who appoint SSB members and on the board of directors which nominates them (Safieddine, 2009). Furthermore, if managerial interests are represented by the board of directors, the members of the SSB have to take these into consideration. As long as management is encouraged by the board of directors and the shareholders, it is unlikely that the SSB members will ignore management's interests when they apply their interpretation of *Sharia* principles to the contracts, transactions and activities of their Islamic bank (Bakar, 2002). This does not mean that the SSB members will always find ways to accept any new financial product or transaction that is presented by the management. It must be a prime concern of the SSB that the Islamic institution character is recognised by the general public, but the SSB must also bear in mind the institution's survival and commercial success (Nienhaus, 2007). A changing external environment can motivate changes in SSBs' attitudes towards financial innovations which imply new governance issues. Indeed, the SSBs' attitude has changed over the years, from being rather restrictive to becoming quite permissive (Nienhaus, 2007).

4.5 Conclusion

This chapter has provided an overview of the key literature on accountability, the study's theoretical underpinning. The focus was on three strands of the literature; firstly, the relationship between accountability and corporate governance. Secondly, how accountability relates to ethics and moral responsibilities. Finally, since the current research is set in an Islamic context, accountability from an Islamic perspective was discussed. Having explored the theoretical underpinning of the thesis the next chapter outlines and discusses the methodological and method-related issues and choices that flow from this.

Chapter 5: Research Methodology and Methods

Research Methodology and Methods

5.1 Introduction

After clarifying the Saudi context in chapter 2, reviewing the key literature in relation to the focus of this study in chapter 3, and outlining the theoretical framework of the research in chapter 4, this chapter addresses the methodology underpinning this study as well as providing a discussion of the methods employed for collecting the primary research data. Regarding the methodological approach of this study, section 5.2.1 introduces the main research philosophies, while the assumptions about the nature of social science will be identified in section 5.2.2, and the last section explains the assumptions about the nature of society and the research paradigms. Research methodology and paradigm will be presented in section 5.3. Both methods employed in this thesis - semi-structured interviews and questionnaire surveys - will be clarified in section 5.4. Section 5.5 concludes the chapter.

5.2 Research Methodology

Research is a method of investigation which is widely considered to be a scientifically-valid approach to academic enquiry. In a business context, research has been defined by Lewis and Thornhill (2003) as:

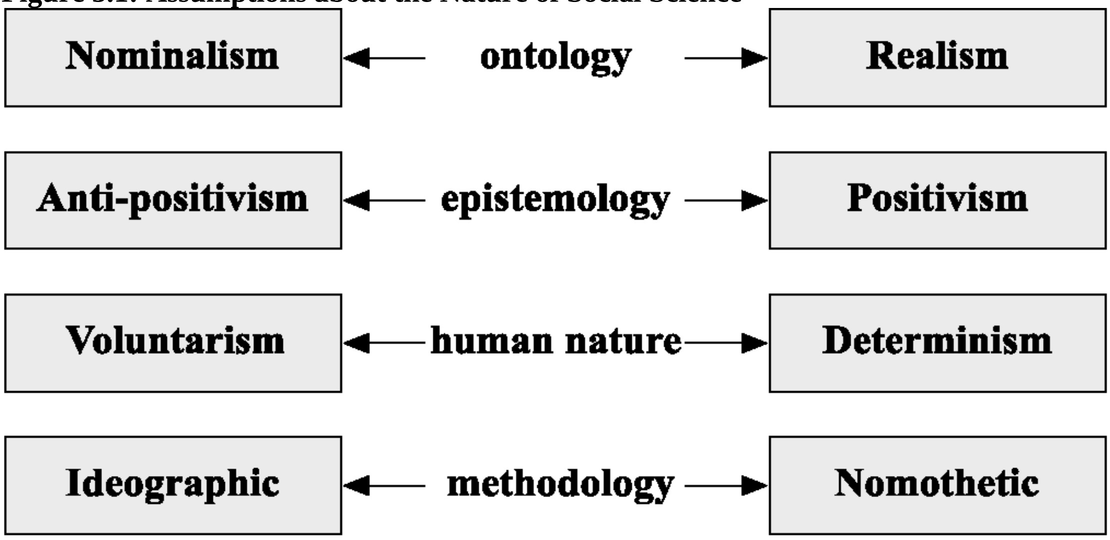
> "...something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge."(p.3)

According to this definition, a research project should combine two core elements, the first being the desire to add to knowledge and the second relating to a systematic research plan (Saunders et al., 2007). Research includes multiple stages, which might vary depending on the discipline concerned, but in all cases is likely to be conducted through the processes of reviewing the literature, collecting and analysing data by using appropriate methods and then presenting the results (Saunders et al., 2007). This chapter discusses the details of these processes in so far as they are relevant to the present study. The next section begins the discussion by outlining the philosophical assumptions about the nature of social science that underpin the thesis.

5.2.1 Assumptions about the Nature of Social Science

Burrell and Morgan (1979) determine four assumptions that are related to the nature of social science: ontology, epistemology, human nature and methodology. Each assumption represents two philosophical positions regarding its subjective or objective dimension. While the subjective dimension includes perspectives such as nominalist, anti-positivist, voluntarist and ideographic, the objective contains realism, positivism, determinism and the nomothetic approaches. These assumptions and their current academic status will be specified in this subsection (See Figure 5.1).

Figure 5.1: Assumptions about the Nature of Social Science



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

5.2.1.1 The Subjective and Objective Dimensions

According to the subjective approach, social phenomena are nothing but the results of the actions of social actors and are in a constant state of revision (Saunders et al., 2007). The subjectivists believe in free will whereby people are free to make decisions that change their life course (May, 2005).

By contrast, the objective dimension reflects the perspective whereby social entities exist in a reality that is external to the social actors (Saunders et al, 2007). This meaning is clarified by Bryman (2004), who stated 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).

The subjectivist sees social entities as social constructions built on the perceptions and actions of the social actors, while objectivists look at them as an objective entity, having a reality that is external to the social actors (Bryman, 2004).

According to Maedche (2002), ontology can be defined as:

> "A philosophical discipline, a branch of philosophy that deals with the nature and the organisation of being" (p. 11).

Ontology is concerned with research assumptions about the world, its operation and the commitments leading to such views (Saunders et al., 2007). In addition, it assists in choosing processes that can establish what kinds of knowledge are legitimate and adequate (Gray, 2004), and questions whether a social phenomenon is a 'thing' in its own right or just a representation (Corbetta, 2003). Accordingly, ontology can be classified into two positions, realism and nominalism.

Saunders et al. (2007) clarified that realism is the ontological site that postulates that what the senses show us as reality is the truth. Additionally, objects exist independently of the human mind. Realism can be seen as similar to positivism in two respects: (i) realism as positivism holds that there is an external reality on which researchers place their attention (Bryman, 2004); and (ii) both realism and positivism adopt a scientific approach to develop knowledge, which supports the collection and understanding of the data (Bryman, 2004; Saunders et al., 2007). Two types of realism have been considered: empirical or direct realism and critical realism.[33]

[33] Direct realism can be illustrated as what you see is what you get. Critical realists assert that there are two significant steps in experiencing the world: the first is the thing itself and the sensations it delivers, whereas the second step is the mental processing which goes on to join with the senses after the sensation. In the direct view of realists, the first step is enough (Saunders et al., 2007).

In contrast, the nominalist perspective assumes that the social world is not real and has no real structure; it is no more than labels, concepts and names which are employed to structure reality, because what is known about reality is generated from consciousness and the cognition of individuals (Burrell and Morgan 1979).

Nominalism incorporates the view that reality is a subjective construction of one's mind, thereby denying the notion of there being a 'real' structure to the world (Husserl, 1970). The current study presumes that reality is constructed through the perceptions of those involved in Saudi-listed banks, and so, the nominalist position underpins this work.

Epistemological assumptions are linked to knowledge. Also, epistemology demands an understanding of what it means to know, whereas ontology concentrates upon understanding (Gray, 2004). Epistemology is particularly concerned with recognising the constituents of knowledge (Saunders et al., 2007), and also with raising the question about what is or what should be known (Bryman, 2004). In addition, epistemology is concerned with the ways of attaining and collecting knowledge. Therefore, epistemology has been described by Ryan et al. (2002) as a justified true belief or the study of the nature of belief, the problem of justification and the truth's basis. Cooper (1999) presented the aims of epistemology, which are:

a) Understanding concepts, such as belief, certainty, doubt, justification, memory, evidence and knowledge;

b) Enquiring into the criteria for such terms' application, particularly the criteria for identifying the limits and scope of human knowledge.

Moreover, 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 position of the natural scientist that deals with social reality observation, whose final product might be law-like generalisations, similar to the products of the natural and physical sciences (Saunders et al., 2007). Positivism has been defined by Bryman (2004) 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).

In a positivist perspective, a true belief is dependent on our perception, which is a result of a value free and independent reality (Ryan et al., 2002).

From the perspective of an anti-positivist, the social world is relativistic and there is only one way for individuals to understand it, which is to become involved in the activities that are to be studied (Burrell and Morgan, 1979). In addition, researchers who adopt an anti-positivist perspective are not looking for underlying regularities or laws of social affairs as in science (Burrell and Morgan, 1979). While positivism typically employs methods such as experiments, anti-positivism typically uses other methods, such as interviews and observations of participants. A questionnaire survey of perceptions will be employed in this research but, arguably, such a survey and its analysis is not incompatible with an antipositivist approach. The current work does not intend to create law-like generalisations or predict what occurs in the social world; nor is it looking for regularities or causal relationships among the component elements of the social world. Consequently, this thesis adopts an anti-positivist approach.

The third assumption about the nature of social sciences concerns the nature of human beings, which considers the relationship between humans and their environment. It is essential for the social sciences to aim to understand that the activities of human beings are predicated upon an assumption about human nature, given the fact that the life of human beings is essentially the object and subject of the enquiry (Burrell and Morgan, 1979). There are two extreme standpoints concerning human beings' roles in social life, which are determinism and voluntarism. From a determinist viewpoint, human beings and their experiences are a product of their environment and are thus conditioned by their external circumstances. In contrast, voluntarism asserts that man is entirely autonomous and free willed (Burrell and Morgan, 1979).

This research aspires to explore the relationship between corporate governance and business ethics within Saudi-listed banks. These banks are a key sector within the Saudi business environment and are undoubtedly influenced by this environment and by its activities and experiences. As a result, this thesis will eliminate the extreme positions of voluntarism and determinism and adopt a moderate viewpoint between the two perspectives of human nature. According to a strict interpretation of Burrell and Morgan (1979), such a position might not be possible, but Chua (1986) argues that determinism and voluntarism represent extremes on a continuum and so adopting an intermediate position might be helpful. This approach allows for consideration of the influence of both voluntary and situational factors in accounting for human beings' activities (Chua, 1986).

In term of methodology, Saunders et al., (2007) claim that methodology is used to refer to the way of undertaking and conducting research, including its philosophical and theoretical assumptions and their implications for the methods of research. The viewpoints considered above on ontology, epistemology and human nature have a direct influence on the research methodology, since they have an impact on the ways of investigating and attaining knowledge within the social world (Burrell and Morgan, 1979). Ideographic methodology rests on the principle that the social world can be understood only by attaining first-hand knowledge of the subject under investigation, whereas a nomothetic methodology means conducting research depending on systematic techniques and protocols. The ideographic approach utilises subjective accounts analysis by investigating cases and involving oneself in everyday life actions. In contrast, the nomothetic approach adopts scientifically rigorous standards to test research hypotheses, and employs quantitative techniques of data analysis to reach its goals (Burrell and Morgan, 1979). This research leans towards an ideographic methodology. In order to understand the relationship between corporate governance and business ethics in Saudi-listed banks, this study investigates the perceptions of the participants concerning the status quo, in a relatively open fashion, to allow previously unexplored viewpoints to emerge.

5.2.2 Assumptions about the Nature of Society

Dahrendorf (1959) distinguished between two kinds of approach to sociology; while the first concentrates on explaining the nature of equilibrium and social order, the other approach is more concerned with issues of conflict, change and coercion in social structures. This distinction is best described as the order conflict debate and is illustrated by Burrell and Morgan (1979) in Table 5.1.

Table 5.1: 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) argued that it is a mistake to treat order and conflict as entirely separate. Cohen (1968) suggested that theories could include order and conflict elements in their models and that one need not essentially incline towards one or the other. Furthermore, the subjectivist movements (e.g. ethnomethodology, phenomenology and action theory) became much more attractive; consequently, the order conflict debate has subsided under the impact of issues relating to the methods and philosophy of social science (Burrell and Morgan, 1979).

Thus, Burrell and Morgan (1979) discussed how the distinction of order conflict is a complicated one and propose regulation and radical change as replacement concepts.

The regulation radical change model (as shown in Table 5.2) has two dimensions. The sociology of regulation is concerned with emphasising society's underlying cohesiveness and unity. 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 5.2: The Regulation Radical Change Dimension

The sociology of regulation is concerned with:	The sociology of radical change is concerned with:
The status quo	Radical change
Social order	Structural conflict
Consensus	Modes of domination
Social integration and cohesion	Contradiction
Solidarity	Emancipation
Need satisfaction	Deprivation
Actuality	Potentiality

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

On the other hand, radical change sociology looks for explanations of radical change, modes of domination, deep-seated structural conflict and structural contradiction. Burrell and Morgan (1979) defined 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).

In the current research, regulatory assumptions regarding the nature of society have been adopted as this thesis does not attempt to challenge or change the status quo, but is concerned instead with exploring the previously wider-researched issue of the relationship between corporate governance and business ethics in Saudi-listed banks.

5.2.3 Research Paradigms

The term ‘paradigm’ has been employed in the social sciences since the 1960s and refers to the perspective which is adopted by researchers to motivate and direct a given science (Corbetta, 2003). Saunders et al. (2007) offered the following definition:

> “A paradigm is a way of examining social phenomena from which a particular understanding of these phenomena can be gained and explanations attempted.” (P. 118).

Corbetta (2003) emphasised the significance of paradigms for the sciences and stressed that any science without a paradigm requires criteria and orientation of choice, so that all issues, techniques and methods are equally legitimate.

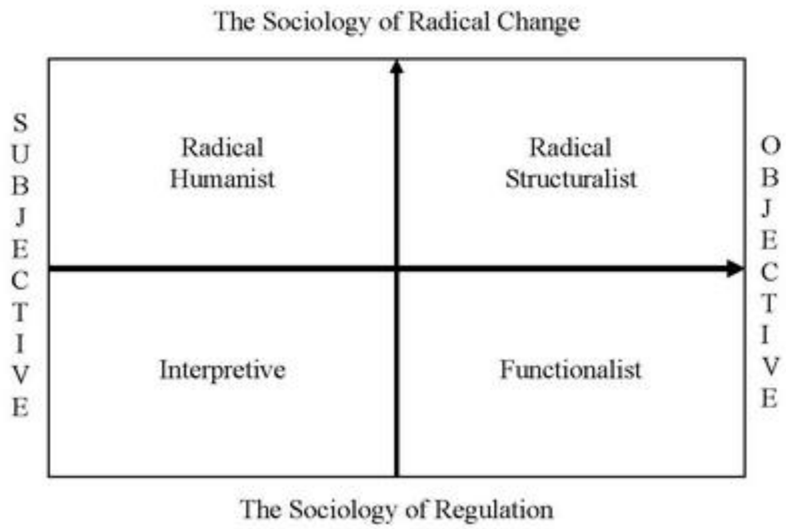
Jackson and Carter (1991) admitted that there is no doubt that the four paradigm model provided by Burrell and Morgan (1979) makes a significant contribution to social science research. Their book was considered to be a substantial instrumental guide, clarifying and summarising key ontological and epistemological positions (Saunders et al., 2007). Burrell and Morgan (1979) affirm that a paradigm assists in clarifying the assumptions underpinning consistency in research regarding the researchers’ views of science and the nature of society to provide a good understanding of how other researchers achieve their goals. It also helps to assist in planning and designing the research in order to aid researchers to consider where they stand and to plan further guidelines in relation to their conceptions and attitudes.

Bryman (1988) asserts 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, how results should be interpreted, and so on." (p. 4).

As shown in Figure 5.2, according to Burrell and Morgan, paradigms have four dimensions, which are subjectivist and objectivist (horizontal axis), and radical change and regulation (vertical axis). The regulation dimension is intended to illustrate current practice and how the affairs of organisations are regulated; it also offers suggestions for enhancement consistent with the current situation. In contrast, the perspective of radical change concerns critical attitudes when investigating an organisation; radical change is also concerned with providing an opinion about the transactions that should be undertaken in the organisation's dealings and gives suggestions about making a considerable change to the extant situation. Obviously, the radical change viewpoint is much more critical and judgmental than the regulation stance (Saunders et al., 2007).

Figure 5.2 Social Research Paradigms



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

As a result of this division by Burrell and Morgan (1979), four paradigms emerge which are radical humanist, radical structuralist, functionalist and interpretive. The subjectivist and radical change perspectives are represented by the radical humanist paradigm; it seeks to change, potentiate and emancipate the status quo and to defeat all barriers facing this emancipation (such as ideology, psychological compulsions, power and social constraints) (Goles and Hirschheim, 2000).

An opposing ontological position is represented by the radical structuralist paradigm which is objectivist in its stance. It aims to attain fundamental change by concentrating on organisational structure and it analyses organisational phenomena as patterns of conflict and power relationships (Saunders et at, 2007).

Functionalism is the other objectivist dimension and it adopts a regulation perspective. The functionalist paradigm offers a clarification of why a particular organisational issue arises and provides recommendations set within the structure of the organisational situation (Saunders et al., 2007). The clarification reflects the individual elements' interaction with the social system to form an integrated whole (Goles and Hirschheim, 2000).

The interpretive paradigm represents the subjectivist and regulation dimensions. It seeks to understand and explain the essential meanings of the social world. Burrell and Morgan (1979) 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).

According to the interpretive concept, the differences between human beings in their roles as social actors should be well understood by researchers. This highlights the differences between studying objects and people; the researcher not only interprets their own social roles in accordance with the meanings provided by them to these roles, but also interprets others' social roles in accordance with their own set of meanings (Saunders et al., 2007).

Two intellectual traditions in particular raise Interpretivism, 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" (p.18).

Symbolic interactionism is the second intellectual tradition that makes use of interpretivism; Saunders et al. (2007) assert that this involves a continual interpretation process of the social world around us in that we interpret others' actions with whom we interact and these interpretations lead to the adjustment of our own actions and meaning. Saunders et al. (2007) clarify that an interpretivist researcher has to adopt an empathetic approach, additionally; the researcher will face serious challenges when seeking to enter the social world of the research subjects, and also to understand this world from their perspective.

Although the framework of Burrell and Morgan has gained general acceptance among social science researchers, there has been some criticism. For instance, Chua (1986) suggests that a weakness of Burrell and Morgan's framework occurs due to their employment of mutually exclusive dichotomies. She also points to: (i) their misreading of Kuhn as advocating the choice of the irrational paradigm; (ii) the latent relativism of reason and truth which their framework supports; and (iii) the dubious nature of the differences between the humanist and radical structuralist paradigms.

5.3 Research Methodology and Paradigm

The objective of this research is to explore and provide a general understanding of the relationship between corporate governance and business ethics in Saudi-listed banks. An accountability theory perspective is employed to explore this relationship. Nominalism is the ontological position underpinning this research, as reality is treated as being constructed through the perceptions of those involved in Saudi-listed banks, with interviews and questionnaire survey the methods explored to attain this information.

In terms of epistemology, an anti-positivist position is adopted as the research assumes that knowledge is based on personal experiences; corporate governance and business ethics concepts in Saudi-listed banks are therefore explored by gaining insights directly from the individuals involved. As a result, the current study does not examine, or attempt to predict, relationships between different variables to understand the social phenomena concerned, but attempts instead to achieve direct insights from individuals who are involved with banking practices. Consequently, an ideographic methodology that emphasises qualitative tools such as interviewing relevant participants is adopted. However, questionnaire surveys are also employed in order to gain and analyse data from a larger sample of key stakeholder groups that can in turn be employed to interpret any similarities or differences in practices that emerge. The use of mixed methods such as semi-structured interviews and questionnaire survey can assist in reducing potential bias and enhance the reliability and validity of empirical results (Patton, 1990; Denzin, 2009).

As regards human nature, this study explores the relationship between corporate governance and business ethics in banking practices as perceived by real people. Accordingly, the current thesis adopts a moderate viewpoint between the voluntarism and determinism perspectives of human nature. Finally regarding the nature of society, the research adopts regulatory assumptions as this thesis does not attempt to challenge or change the status quo, but is concerned instead with understanding the relationship between corporate governance and business ethics. Having outlined the methodological positioning of this study, the chapter continues by discussing the specific research methods adopted.

5.4 Research Methods

In the light of the study's methodological standpoint and in order to achieve the objectives of this research, a mixed methods approach is adopted, making use of both qualitative (semi-structured interviews) and quantitative (a questionnaire survey) methods for collecting the primary research data. The next subsection will discuss the rationale for a mixed-method approach while the following sections discuss the two methods in greater detail.

5.4.1 Mixed-Methods Research

Beiske (2002) points out that in any modern research of an interpretive nature a large number of data collection methods are available. These methods range from observations, interviews and questionnaires through to case studies. Given this thesis interpretive approach, it emphasises two data collection methods, semi-structured interviews and questionnaires (Beiske, 2002). Although a mixed methods approach in a single research study might lead to conflicts between the techniques adopted (Arnon and Reichel, 2009), the overall benefit of employing more than one method of data collection in the same study is no longer a matter of dispute, but is instead often suggested as best practice (Creswell and Clark, 2007). In this context, Gillham (2000) argues that the mixed-method approach to research is essential as it provides greater authority to the findings, particularly if the results of different methods fit together. The combining of different methods has the obvious advantage of technique complementation; for instance, the potential depth limitations of questionnaires can be addressed appropriately by structured interviews (Beiske, 2002; Saunders et al., 2007). Additionally, Bryman (1988) claims that a multiple methods approach has the propensity to provide a more complete picture of a phenomenon. Semi-structured interviews and questionnaires surveys are often employed together to produce corroborative results irrespective of differences in data collection methods, analysis and interpretation (Harris and Brown, 2010). These benefits have motivated the use of mixed methods in prior literature on corporate governance in Saudi Arabia (e.g. Falgi, 2009) and so a mixed methods approach appears appropriate for this thesis. Having outlined the case for the use of more than one research tool, the focus now turns to the specifics of those adopted here.

5.4.2 Semi Structured Interviews

The current study employs semi-structured interviews as one of the methods of gathering empirical evidence on the corporate governance and business ethics practices of Saudi-listed banks. This method has been employed in order to understand the perceptions, knowledge, beliefs and experiences of top level employees of Saudi-listed banks. The use of interviews has been argued to be a valuable method in gathering relevant and reliable evidence related to research questions (Saunders et al., 2007) and is in line with the methodological assumptions of this research set out in earlier. Using a qualitative tool such as semi-structured interviews is argued to be an effective approach in order to understand complex phenomena (Eisenhardt, 1989) such as the relationship between corporate governance and business ethics in Saudi-listed banks. Other interview methods are structured, unstructured and focus group interviews. Interviews, in general, are considered to be a useful method to enable the researcher to attain a rich insight into interviewees' opinions, biographies, experiences, values, attitudes, aspirations and feelings (May, 2005). The differences between structured and unstructured types of interviews were distilled 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 (standardisation), to one in which the respondent is encouraged to answer a question in their own terms”. (p. 121).

Bryman (2004) described 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 included 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).

The most appropriate method in keeping with the purpose of this research is semi-structured interviews. One of the major reasons for choosing semi-structured interviews as the primary method in gathering data in this thesis related to the method's flexibility. The flexibility of the interview depends on the extent of freedom that the interviewers have to raise questions that are created from the issues being considered through the interview, whereas the interview might be inflexible if the interviewer strictly had to adhere to an ordered questions format (Kumar, 2005). What is more, such style of interview allows the interviewee to answer the questions more on his/her own terms than a standardised interview permits, but simultaneously it sustains a structure which allows the possibility for comparing and analysing interviews (May, 2005). In a semi-structured interview there are a number of specific topics and predetermined questions, and all of the interviewees are asked all questions, but they have the freedom to go beyond them (Berg, 2007). With semi-structured interviews the interviewer is allowed to ask new questions which occur through the interview and allow the interviewee to digress, providing the interviewees with an opportunity to freely express their experience, knowledge and opinions in particular topics and offer the opportunity to the interviewer to investigate uncovered issues in prearranged questions or to collate rich information in a specific field.

Semi-structured interviews can thus be both comparable and flexible. However, it is vital that the method does not lead to a loss of concentration on the core interview objective so the interviewer must ensure that all the questions are being covered. Consequently, semi-structured interviews are one of the most popular methods for qualitative research when looking for detailed, flexible and rich answers, and at the same time comparable data (Bryman, 2004).

5.4.3 Questionnaire Survey

The second method of collecting the primary data was to distribute a questionnaire survey. A questionnaire survey is one of the most popular tools for gathering information in accounting research (Oppenheim, 1992). Compared with other methods, such as interviews, the questionnaire survey method is inexpensive, and can provide a wide geographical coverage for the sample of the research (Oppenheim, 1992). Furthermore, the anonymity allows the respondents to express their opinions freely, without feeling concerned about their identity. The questionnaire in this thesis employs almost all closed-ended questions in order to avoid some difficulties that are related to open-ended questions (Oppenheim, 1992). Kumar (2005) discussed the advantages and disadvantages of employing closed-ended questions, and mentioned that close-ended questions allow the researcher to attain the required information since the participants answer specific questions, in addition to the ease of analysis, as the responses have already been categorised (Bryman, 2004). The disadvantage of this method is that the collected information lacks variety and depth; the findings might reflect a research bias by concentrating upon the result in which the researcher is interested. What is more, the answers of the respondents may not reflect their true opinions since they follow specific choices by ticking answers that might lead to them ticking categories without considering the issues in any great depth (Bryman, 2004).

In contrast, open-ended questionnaires have disadvantages including being more difficult to answer and analyse, therefore reducing the response rate and consuming researcher time (Oppenheim, 1992). Using open-ended questionnaires may therefore negatively affect the desire to explore the views of a wide sample, in this case of key stakeholders in Saudi-listed banks. Given these issues and the benefits of closed-ended questionnaires discussed above the present study employs the latter.

According to Bryman (2004) there are four ways of applying questionnaires: (i) a self-completion questionnaire survey that allows the participants to answer the questions by themselves; (ii) a questionnaire survey by telephone whereby the participants are asked to provide their answers over the telephone; (iii) a face-to-face questionnaire which requires the researcher to be with the respondents when they answer the questionnaire to assist them with any explanations about the questions; and, (iv) finally, online questionnaire surveys (Bryman, 2004; Wright, 2005). For the purpose of this study, an online questionnaire survey has been adopted. This type of questionnaire has many advantages, such as the ability of the Internet to provide access to individuals and groups who would be difficult, if not impossible, to reach via other methods (Wellman, 1997). Also, these individuals and groups can often be reached on the Internet in larger numbers than would be possible if using face-to-face research methods (Wright, 2005). A second advantage is that online surveys might save the researcher some time. As noted above, online surveys allow researchers to reach a large number of people with common characteristics in a short amount of time, despite being separated in all probability by a large geographical distance (Garton et al., 1999). Applying an online questionnaire survey method allows researchers to quickly gain access to large numbers of individuals by posting invitations to participate in chat rooms, newsgroups, and message board communities (Wright, 2005). Using a face-to-face research method would take far longer - if it was possible at all - to reach a sufficient number of people with specific attitudes, interests, and attributes in the same location (Wright, 2005). Furthermore, online surveys may also save time by allowing researchers to gather data while the participants work on other tasks (Llieva et al., 2002). Once an invitation to participate in a survey has been mailed to the community website of interest, emailed to individuals through a listserv service, or distributed through an online survey research service, the researcher might gather data while working on other projects (Andrews et al., 2003). Responses to online surveys can be referred to the researcher directly through an email, or posted to a database file or HTML document. This allows the researcher to conduct primary analyses on the gathered data while waiting for the intended number of responses to accumulate (Llieva et al., 2002). Previously, online survey researchers often employed email-based surveys, which required the creation of online survey forms using Word software, and later used software such as Macromedia's Dreamweaver. Researchers had to transfer the responses from the email or Word software into statistical software programs, such as SPSS and SAS. Currently, online survey creation software packages provide a variety of templates to implement online surveys more easily, and also to export data into statistical software packages (Llieva et al., 2002). In addition to the previous advantages, online survey researchers can save money by moving from a paper format to an electronic medium (Couper, 2000; and Llieva et al., 2002). Paper surveys tend to be costly, even when using a small sample, and the cost of traditional large-scale surveys using mailed questionnaires can be huge. Employing online surveys circumvents this issue by eliminating the need for different costs, such as paper, printing, postage and data entry costs (Llieva et al., 2002). The costs of the newer online survey software and web services can vary from very little to thousands of dollars depending on the features' types and services selected; however, this is relatively inexpensive compared to the traditional paper surveys (Wright, 2005).

As discussed above, online surveys offer many advantages over traditional ones. However, there are some limitations that need to be acknowledged by researchers who use an online survey methodology. For instance, some researchers access potential participants by posting invitations to participate in a survey on discussion groups and chat rooms. However, members of online communities often find this behaviour offensive (Andrews et al., 2003). Researchers sending invitations by email to participate might face a similar reaction. An unwanted email advertisement is often considered an invasion of privacy, so, the invitation might be deleted, or the researcher may receive email from participants complaining about it. In this case, researchers might apologise in advance for the potentially unwanted posting, with an explanation of the importance of conducting the research and possible benefits to participants (Andrews et al., 2003). It is important for researchers to include contact information, information about the study, and something about their credentials when creating an invitation to participate in a survey; this helps to enhance the credibility of the survey and can create opportunities for email interaction between the researcher and participants (Wright, 2005).

Notwithstanding these issues, the researcher decided to employ an online survey as well as using broader social networks as this permits reaching as wide a sample as possible and facilitates the dissemination of questionnaires to the participants.

5.5 Conclusion

This chapter has outlined the methodological assumptions guiding this research. While there are several methodological approaches available to social science research, the current study adopts an interpretive paradigm and considers the basic assumptions related to that choice. The interpretive paradigm builds a conceptual framework including specific ontological, epistemological, human nature and methodological assumptions that, in the present case, allow corporate governance and business ethics to be explored in a meaningful way; this approach directly reflects the theoretical framework of the current study outlined in the chapter 4. As the study explores the perceptions of key stakeholders regarding the relationship between corporate governance and business ethics in Saudi-listed banks, semi-structured interviews and questionnaires surveys are the data collection methods used to address the research question. Having discussed the context of the research in terms of the extant literature, theory and methodology, the empirical work is now presented, starting in the next chapter with the interview results, followed by the questionnaire findings in chapter seven.

Chapter 6: Interviews

Interviews

6.1. Introduction

The first five chapters of this thesis provided some context for the research. They focused on providing an overview of the banking environment in Saudi Arabia, explored the extant literature on the issues explored here and summarised the theoretical and methodological underpinning of this thesis.

In order to collect primary data, semi-structured interviews have been adopted in this thesis as the first research method. This method seeks to investigate the views of Saudi-listed banks regarding corporate governance and business ethics in the context of accountability both in general and in an Islamic context. The chapter summarises the key matters discussed and presents the results generated from 17 interviews that were conducted with Saudi banks between March and June 2012. The remainder of the chapter is structured as follows. Section 6.2 provides an overview of the interview method adopted and describes the data collection process. The results are discussed in Section 6.3 and after. This discussion will concentrate upon the most relevant issues relating to corporate governance and business ethics in the modern Saudi banking sector. Accountability will provide the theoretical lens to frame this discussion.

6.2. Interview Survey Method

In order to study the relationship between corporate governance and business ethics within Saudi Arabian banks, a series of semi-structured interviews were conducted with key bank employees such as board members, managers and compliance officers.

Since this method is expected to allow these interviewees to freely express their opinions, experiences, and attitudes with regard to the topic under discussion, an interview guide was created to underpin the conversations, but which still allowed interviewees to discuss pertinent matters not explicitly covered in the guide. Employing this type of semi-structured approach therefore provides flexibility in terms of allowing the interviewees to emphasise points of specific interest. For the purpose of this study, the researcher developed an interview guide which addressed a list of key topics; each of these contained specific questions to be covered during the interviews. The topics and questions were primarily generated from the literature on corporate governance and business ethics, as well as studies of accountability and accountability from an Islamic perspective. This approach reflects the aim of covering the most significant issues related to corporate governance and business ethics in Saudi Arabian banks, using accountability as a theoretical framework since there is a lack of resources in this field both in the published academic literature and official reports. The interview guide covers four main areas: (i) corporate governance; (ii) business ethics; (iii) accountability; and (iv) accountability from an Islamic perspective, as well as the inter-relationships amongst these notions. As a result of the similarities between the interviewees' roles, one interview guide was designed and used for all discussions.

6.2.1 Sample Selection

In order to explore the relationship between corporate governance and business ethics in Saudi Arabian Banks, interviews have conducted with 17 employees from the 11 banks listed on the Saudi Stock Market. Table 6.1 summarises the interviewees' details[34].

Table 6.1: Categories of Interviews

Banks	Type	Code	Role	City
1	Conventional	A1	Board Member	Al-Ahsa
		A2	Senior Executive Vice President	Riyadh
2	Conventional	B1	Board Member	Al-Ahsa
		B2	Chief Compliance Officer	Riyadh
3	Conventional	C1	General Manager - Legal & Corporate Secretary	Riyadh
4	Conventional	D1	Board Member	Riyadh
		D2	Chief Compliance Officer	Riyadh
5	Conventional	E1	Board Member	Riyadh
		E2	Chief Compliance Officer	Riyadh
6	Conventional	F1	Board Member	Riyadh
7	Conventional	G1	General Manager	Riyadh
8	Islamic	H1	General Manager	Riyadh
9	Islamic	I1	Head of Legal Affairs Division & Corporate Secretary	Riyadh
		I2	Consultation Department	Riyadh
10	Islamic	J1	Chairman	Riyadh
		J2	Legal Group Head & Corporate Secretary	Riyadh
11	Islamic	K1	Chief Compliance Officer	Riyadh

Note: This table provides an overview of the interviewees. All of them were male.

[34] All of the interviewees were male. There are a few women working in roles that would have suggested knowledge of corporate governance issues, but the researcher had no access to them.

6.2.2 Conducting the Interviews

Twenty-two questions were used as a guide for the semi-structured interviews. These questions were based on recurrent themes in the extant literature and covered four areas, namely: (i) corporate governance; (ii) business ethics; (iii) accountability and (iv) accountability from an Islamic perspective[35]. The selection of these areas reflects the research questions outlined at the start of the thesis i.e. which explore understanding of the corporate governance notion, how this relates to the business ethics concept and the role of accountability, including Islamic accountability, in this context. After piloting the interview guide with PhD students and academics at the University of Dundee, the interview guide was translated into Arabic by the researcher[36]. The translated version was then piloted with PhD students at the School of Business in the University of Dundee whose first language was Arabic. Seventeen face-to-face interviews were conducted between 10th of March 2012 and 10th of June 2012 in two major cities in Saudi Arabia: Riyadh (the capital) and Al-Ahsa (the researcher's home city and the largest city in eastern Saudi Arabia)[37]. The majority of the interviews (fifteen) were conducted in Riyadh, while the other two were conducted in Al-Ahsa. Since Saudi Arabia is a sprawling country, the researcher had to travel many times from his city to Riyadh to conduct the interviews either by car or train, which was both time consuming and expensive. The researcher has long-standing connections in the banking sector in Saudi Arabia and relied on these to establish primary contact with the interviewees; once established, the connections led to introductions with other qualified participants[38]. However, even with the good

[35] These themes correspond to the sections included in Chapter 3.
[36] Appendices 6.1 provides a copy of the guide.
[37] See Table 6.1 for details.
[38] Establishing connections in this manner ('Snowballing') is quite common in accounting and finance research, particularly in developing countries like Saudi Arabia (Al-Harkan, 2005; Falgi, 2009).

connections, there were some difficulties in reaching particular interviewees. Twelve of the interviewees preferred to meet at their bank while the five board members asked to meet at their own companies. Significantly, the interviews conducted in the banks were more comfortable, in-depth and detailed, while the interviews conducted with the board members in their private companies were short with their phones interrupting the interviews on a regular basis. All of the interviewes lasted between an hour and an hour and a half; before the commencement of each, the researcher highlighted the nature and purpose of the study and the interviewees were asked whether they were happy to grant their permission for the interview to be recorded. All of the interviewees agreed, although one of the board members asked for the recording to then be deleted for privacy purposes; however, as was the case at all interviews, detailed notes were also taken.

The transcription of the interviews was undertaken immediately after returning from the empirical fieldtrip. Fifteen of the interviews had to be translated into English[39], since these were conducted in Arabic, while the other two interviews were conducted in English. For analysis purposes, the researcher created a table under each question using Microsoft Word. The question was placed at the top of the table, which itself consisted of three columns for numbers, banks and answers, and 17 rows for the interviewees. This technique allowed the researcher to compare responses easily. In order to report the results, themes were developed from an analysis of the key literature.

[39] The researcher translated the interviews into English and checked the results with some other PhD students who were fluent in Arabic.

The remainder of this chapter is organised as follows. Section 6.3 reports the results regarding corporate governance within Saudi banks while Section 6.4 deals with business ethics in Saudi banks and their relation with the corporate governance notion. Section 6.5 places accountability and its relation with corporate governance and dealing ethically at the centre of the analysis, before Section 6.6 concludes.

6.3 Corporate Governance in Saudi Arabian Banks

In order to examine the nature of corporate governance in Saudi Arabian banks, the interviewees were first asked about its definition, and also for their opinions regarding compliance with and achievement of high standards in corporate governance.

6.3.1 Definitions of Corporate Governance

There was a widely-held belief amongst the interviewees that corporate governance is an important concept, not just in banks but also in the financial sector in general. However, they held a variety of viewpoints regarding the manner and timing of the emergence of the notion in Saudi's financial environment. For instance, the head of the legal affairs division and corporate secretary of an Islamic bank (I1) stated that:

> "Corporate governance is a new concept in the financial environment in Saudi Arabia. Furthermore, the issue of the separation of management from ownership was not common before the establishment of the corporate governance code by the Capital Market Authority (CMA) in 2006".

Also, a consultation department manager of an Islamic bank (I2) added that, following the establishment of this code in 2006, people had a better understanding of corporate governance, and widespread awareness emerged from this point. On the other hand, some interviewees argued that the term 'corporate governance' predated the CMA code, and each bank had its own version that detailed its relationship with its stakeholders. A senior executive vice-president of a conventional bank (A2) clarified this point as follows:

> "Corporate governance has existed in Saudi's financial sector for a long time through the Saudi corporate system issued in 1965, but now corporate governance is collected, organised and detailed in a special code".

The interviewees suggested various definitions of 'corporate governance'. Some interviewees expressed a broad view of corporate governance emphasising morality. For example, one board member of a conventional bank (B1) stated that:

> "Corporate governance means integrity and honesty in all activities in the bank".

While most of the interviewees defined corporate governance as the principles that organise and control the institution - and lead it to take 'appropriate' decisions - considerable conflict was evident between the stakeholder view and the shareholder view in some of the interviewees' answers. From a stakeholder viewpoint, a chief compliance officer of a conventional bank (E2) provided the following definition:

> "Corporate governance is a comprehensive concept that not only separates management from ownership, but also means that the bank instructs the work in the interest of all stakeholders".

While interviewee (A2) stated that:

> "Corporate governance means responsible management and also balancing the requirements of the institution in line with the ethical foundations as well as the accountability of the institution towards all of its stakeholders".

In contrast, from a shareholder viewpoint, a chief compliance officer of an Islamic bank (K1) stated that:

> "Corporate governance deals primarily with the principles that control the relationship between the institution and its shareholders".

According to the interviewees' definitions, understanding of the related notion of accountability appears to be lacking, which gives the impression that it is absent. However, the stress on the consideration of shareholders' and stakeholders' interests by most of interviewees in their definitions reflects some engagement with the principle of accountability. This consideration of accountability is in line with the role of accountability evident in most definitions of corporate governance offered in the extant literature. Elkelish (2007) argues that some variant of accountability is key in all definitions of corporate governance, although a difference exists between them relating to whom the accountability is due; some restrict accountability to the shareholders, while others adopt a wider standpoint, comprising all stakeholders (Elkelish, 2007). Accountability definitions are examined in more detail in Section 6.5.

6.3.2 Compliance and Corporate Governance Development

As discussed in Chapter 2, a compulsory code for corporate governance was issued by the CMA in 2006 and all Saudi-listed companies including banks are required to implement this code or disclose if they do not.

All of the interviewees acknowledged the importance of corporate governance for Saudi banks, and suggested that it played a key role in accountability. However, significantly, they disagreed about the sufficiency of the code for banks. The majority of the interviewees (eleven out of the seventeen) believed that this code was sufficient for the banks and can provide a healthy environment for business. Specifically, a chief compliance officer of an Islamic bank, K1, suggested that the corporate governance code is strong, above all with regard to disclosure. The reason for this power was explained by a board member of a conventional bank (A1):

> “The code of corporate governance is more than sufficient. The monitoring and controlling by the CMA provides the code with the power and this concern by the CMA enhances the effectiveness of the code”.

In contrast, the remaining six interviewees indicated that this code was insufficient. They argued that it has a role to play as a foundation document, but requires more detail to promote appropriate behaviour and accountability from the bank and in the financial sector in general. For example, the legal group head and corporate secretary of an Islamic bank (J2) asserted that:

> “No doubt, the corporate governance code is insufficient, but it is developing gradually. We have comments on some articles of it and, if we want to improve our behaviour and be more accountable to our stakeholders, we have to place our own details in this code and that is exactly what we do. The code needs to be more detailed in order to narrow down the different explanations because the generalities weaken the code”.

Interestingly, a chief compliance officer of a conventional bank, B2, differentiated between rules and principles, stressing that the corporate governance code involved only the former; he stated that:

> “[A] Corporate governance code is insufficient unless it is part of corporate culture, and there is a problem with the current code which is based on rules not principles. If it is based on principles there will be a detailed explanation on how to achieve them”.

It was therefore evident that the interviewees had concerns about the suitability of the code as it stands. This issue which will be discussed in more detail later.

The interviewees were questioned about the most important corporate governance issues for their banks and provided a variety of answers. Four of the interviewees stated that transparency was the most important issue for their institution. However, there was a difference between their answers regarding ‘transparency to whom’. For instance, interviewee B1 stated that the most important corporate governance issue for his bank was transparency towards its investors, whereas interviewee E2 pointed out that his bank saw transparency primarily being geared to regulators. Five other interviewees suggested that the other key corporate governance issue they focused on related to disclosure. Here, the general manager and corporate legal secretary of a conventional bank (C1) indicated that the reason for this was that disclosure is a continuing obligation and the bank therefore needs to deal with it throughout the year. Similarly, a chief compliance officer of an Islamic bank, K1, clarified that:

> “There is a concentration upon disclosure because of the bank’s belief that this is a fundamental standard and related to all of its actions”.

The remaining interviewees were fairly non-committal, seeing various matters relating to corporate governance as equally important and emphasising that they dealt with these in a broadly similar way. Interviewee A2, a senior executive vice-president, argued that:

> “In general, all of the articles of the corporate governance code are important; however, there is a difference between banks regarding which article is more important than others. Our bank treats the articles in a balanced manner and most of them are implemented by our bank before they become compulsory”.

Interviewee B2 agreed with this statement and, interestingly, highlighted this issue from an accountability perspective by distinguishing between banks' purposes; he stated that:

> "Determining which articles of the corporate governance code are more important than others depends on the purpose of the bank. If the bank is working to maximise profit only, it will concentrate on articles at different levels which means a narrow accountability view. On the other hand, if the bank is working to be an effective and positive part of society, it will treat the articles at the same level. Because our bank feels accountable to the whole of society, it treats the code's articles at the same level".

After this clarification about how important corporate governance is for these banks, the interviewees were asked how they meet the requirements of the corporate governance code. A number of different methods were employed by the banks to achieve these requirements and, unfortunately, there is no official or even suggested guidance from the CMA[40] that can be followed by the banks.

The majority of the participants indicated that the code of corporate governance was distributed across several departments, each of which supervised articles related to its concerns. In this context, Interviewee A2 claimed that:

> "The bank adopts the code of corporate governance from the highest authority in the bank, which is the board of directors, to the lowest level, and plants the importance of corporate governance in the hearts of the employees. The bank believes that, to have strong corporate governance, the articles should be distributed among specific departments, such as the board of directors, audit committee and executive management".

[40] The CMA code consists of articles, but does not provide listed companies with clarification regarding how to achieve the desired outcomes.

Interviewee E2 shared this perspective, but added that after distributing the articles across departments, they need to be supervised carefully by one of the latter. In his bank, the person responsible for all of the articles was the secretary of the board, whereas interviewee I1 stated that his compliance department was more effective in their supervision role than was the secretary of the board. While a general manager of a conventional bank, G1, believed that it is impossible for anyone department to supervise all the governance articles because of differences between them, six of the seventeen interviewees stated that the compliance department was solely responsible for overseeing fulfilment of the requirements of the corporate governance code. For example, a board member of a conventional bank, D1, stated that:

> "To have clear and comprehensive reports regarding the corporate governance code and to achieve the requirements of it through a clear path, one department should be responsible for this; the most related department to corporate governance issues is the compliance department".

Significantly**,** at the other end of spectrum, a general manager, and legal and corporate secretary of a conventional bank, C1, indicated that:

> "We undertake several actions to ensure that our bank meets the requirements of the corporate governance code, and the most effective action that we do is to provide an external consultant to monitor our path to achieving these requirements. This idea translates our belief that, to gain better results from our corporate governance code and to meet the interests of our stakeholders at all levels, the bank needs to monitor corporate governance issues by various methods".

This sort of statement creates the impression that the bank concerned feels accountable to stakeholders other than its owners. In this context, the benefits that the bank receives from external consultations are seen as more useful than internal ones.

In summary, this section has provided evidence regarding the interviewees' understanding and interest in the issue of corporate governance and its role within their banks. This is essential in understanding the role that these matters play in a Saudi context and provides a framework for contextualising matters relating to business ethics that are explored later in the chapter.

6.4 Business Ethics in Saudi Arabian Banks

The next part of the interviews discussed business ethics issues in the context of Saudi Arabian banks, highlighting the impact of the notion on practice and its relationship with corporate governance principles. The narrative in this section follows a similar structure to that used in section 6.3 focusing on detailing definitions of business ethics followed by describing its impact on practices, before linking business ethics to corporate governance.

6.4.1 Defining and Understanding Business Ethics

As mentioned in Chapter 3, Bucheery (2001) defines business ethics as:

> "The application of theories of right and wrong to activity within and between commercial enterprises, and between commercial enterprises and their broader environment" (p. 9).

Similarly, Sullivan (2008) argues that business ethics should be viewed as a set of values and principles by which a company identifies the nature of its mission and operations, influencing the behaviour of its board of directors, management and employees at all levels. It is about leadership's commitment to adapting and embodying the ethical values of the company in all of its decisions and operations. In the present study, half of the interviewees described business ethics along the lines of a set of standards or principles aimed at controlling employees' behaviour and guiding company performance. For instance, interviewee I2 defined business ethics straight-forwardly as:

> "A set of principles that describe how employees have to behave towards others whether inside or outside the company".

Specifically stressing the importance of accountability towards all stakeholders, interviewee K1 identified business ethics as:

> "Ethical principles that guide the bank to operate in the interest of all stakeholders, including the environment. We attempt to make these principles part of the culture of the bank. We present this bank as an Islamic bank so the bank has to adopt Islamic teachings which encourage us to have an ethical manner in all our life actions, including business".

This line of argument is in keeping with the Islamic perspective outlined by Abu-Tapanjeh (2009) who explains that Islamic teachings relate directly to all aspects of life, including how to conduct commerce and trade. In particular, business in Islam must be operated in accordance with *Sharia* values and rules, e.g., to be honest, fair and just towards others (Abu-Tapanjeh, 2009).

As interviewee I1 noted, there is no official code for business ethics in Saudi Arabia, even for banks and other financial institutions. However, he suggested that if a bank wants to survive it needs to operate ethically towards others to protect and improve its reputation. This view is in keeping with the analysis of Joyner and Payne (2002) presented in Chapter 3, who pointed out a 'basic truth' that business cannot survive without society and that society cannot progress without business. Here, the interviewees appeared convinced that business must acknowledge the existence of society, and the growth of society requires the implementation of more ethically responsible business practices.

Holme (2008) observed that investors often decide whether or not to invest according to the organisation's reputation for ethical behaviour in society. In line with this statement, a chief compliance officer of a conventional bank, interviewee D2, asserted that:

> "Business ethics are like the soul of our business and, without this soul, the bank loses its reputation; without a reputation, the bank loses everything".

Other interviewees viewed business ethics as being related to employees' behaviour. For example, interviewee E2 stated that:

> "The most important issue for the bank is others' confidence and, to protect and improve this confidence, the bank is required to deal ethically towards all of its stakeholders. As a result of feeling accountable to all of the stakeholders, the bank has introduced a detailed ethical code to meet this purpose".

The interviewees emphasised that ethical treatment of employees is a duty of corporations. This view is in line with the arguments of Ouchi (1981) and Ghosh et al. (2011) who suggest that profits are the reward for firms that treat employees well, provide genuine value to customers and behave responsibly as a corporate citizen.

6.4.2 The Impact of Business Ethics on Bank Practices

There was widespread agreement among the interviewees that business ethics are an important determinant of a bank's financial success. Consistent with this perception, each bank has its own compulsory ethical code that controls employees' behaviour and which is aimed at enhancing clients' confidence. Interviewee B2 confirmed that his bank had a compulsory ethical code, which the employees had to sign each year confirming that they have read it.

The majority of the interviewees argued that their existing ethical code was sufficient but needed to be better monitored. However, four of those who took part indicated that their ethical code was incomplete. For example, the chairman of an Islamic bank, interviewee J1, stated that:

> "The bank has its own ethical code and this code is insufficient. It is good as a starting point but is not complete, so it needs to be audited and completed to place the bank at a high level of accountability towards its stakeholders".

Another senior employee of this bank, (J2), argued similarly that:

> "The ethical code in the bank is insufficient even if it is comprehensive; the day will come when an employee can find a way to get round this code. So, the bank needs to strengthen individual values".

This view conflicts with that of Solomon (1997), who claimed that the culture of corporations is, given the enormous power of peer pressure in ethics, to set up a network of people and positions which helps shape the culture of the corporation by acting as the primary determinant of business ethics; individual values would therefore play less of a role.

As mentioned in the literature review, unethical behaviour is widely acknowledged as being costly for firms. In particular, employees' and investors' motivation to work hard and invest respectively will be enhanced as a result of good ethical practices (Stodder, 1998; Conroy and Emerson, 2004). However, Joyner and Payne (2002) argue that many businesses will engage in ethical practices simply because of a desire to do "the right thing"; many people who work in business also recognise their existence in a broader societal sense and acknowledge that their corporations must also perform in an appropriate manner (Joyner and Payne, 2002).

In line with these agreements, there was a widespread belief among the interviewees that business ethics have a significant impact upon banks' practices. The majority of the interviewees specifically acknowledged the influence of ethical matters on their banks' practices; for instance, interviewee J2 stated that:

> "There is a significant impact of business ethics on the bank's daily practices and the bank measures this impact by the policy of reward and punishment which ensures that employees remain committed to business ethics".

Interviewee B2 provided an example of such an impact where a client signs a contract with the bank. In this case the employee is not required by law to explain each point in the contract to the client, but the bank ensures its employees deal ethically by explaining each point of the contract to the clients. Such behaviour indicates a high level of accountability because of the intent to prevent any misunderstanding that may harm clients' interests (Stewart, 1984).

Moreover interviewee H1, the general manager of an Islamic bank, pointed out that, if the leaders of a bank are committed to ethical behaviour and practices, other employees will, consequently, be more motivated. In line with this view, Smith (1997) argues that there is a widely-shared view that the leaders of corporations should actually lead, including speaking out more often on ethical matters and making appropriate pronouncements that take current priorities in the wider community and trends therein into account. Further, directors are expected to set an example to others by upholding the highest personal standards in terms of their conduct, giving priority to human values. However, three out of seventeen of the interviewees observed that, in practice, the impact of business ethics in their institutions is insufficient, and requires more improvement and monitoring. For example, interviewee D2 stated that:

> "We believe that there is an impact of business ethics and the bank offers courses on business ethics for its employees, but the practices are still insufficient".

A related issue involving the autonomy of individuals was raised by interviewee A2, a senior executive vice-president, who argued that:

> "There is an impact of business ethics on the bank's practices, but this impact must be through a strong and comprehensive ethical code, not through society or individuals' culture. The bank is not working in an angelic society. The behaviour of people is not symmetric and their practice of principles is different, so there must be an ethical code which controls employees' behaviour".

However, this statement raises an issue presented by interviewee I1:

> "Essentially, business ethics arise from individuals, whatever regulations the bank imposes to govern individuals' behaviour. They will be governed inside the bank and continue their original behaviour outside the bank, which weakens the impact of the ethical code".

6.4.3 Corporate Governance and Business Ethics

As indicated in the literature, there is a widespread awareness of the need for reform in many areas of business activity, especially in the sphere of corporate governance (Smith, 1997). However, Bonn and Fisher (2005) claim that the indicators of success should not just be extensions of the financial reporting system of the organisation, but must also include non-financial measures such as community perceptions and the reputation of the organisation. In this context, the corporate governance notion not only relates to the system of institutions that govern and control the relationship between creditors, owners, investors and managers, but also operates as an incentive for reform in ethical practices including the operation of legal and regulatory frameworks (Potts and Matuszewski, 2004).

Accordingly, the participants were questioned about the relationship between corporate governance and business ethics. While two out of the seventeen interviewees suggested that corporate governance and business ethics should be governed by two different set of regulations - even if they have the common purpose of “strong” and “proper” business - the majority admitted that there is a strong link between the notions, albeit with differences regarding how the relationship manifests itself. Seven of the participants believed that there is a positive relationship between corporate governance and business ethics that results in a positive impact upon a bank’s practices. Despite the agreement that business ethics is a key issue in corporate governance as mentioned earlier, interviewee J2 noted that there is no ethical code included in his institution’s corporate governance code. To be accountable, an institution requires its own ethical code and more detail means more accountability if there is an effective monitoring system (Tricker, 1984). To emphasise the impact such as omission might have on corporate governance outcomes, a senior executive vice-president of a conventional bank, A2, stated that:

> "Corporate governance and business ethics cannot be separated from each other and there is no governance without business ethics. Business ethics must be a compulsory part of the corporate governance code".

Consistent with this line of reasoning, Bonn and Fisher (2005) suggest that while an organisation's approach to ethics must be addressed within the framework of corporate governance, this is just the first step if the entity concerned is interested in seeing more effective governance principles and practices emerge[41].

The issue of the costs of ethical behaviour was raised by interviewee K1, a chief compliance officer, who indicated that:

> "Corporate governance is more comprehensive than business ethics, but an effective corporate governance code will influence ethical performance. There is a wide belief that concern about ethical aspects is costing the corporation. However, this bank believes that while there is a cost of ethical behaviour we also believe that the bank is operating for the long-term which means that the cost is effective".

In contrast to the view that good governance will lead to improved ethical performance, two of interviewees suggested that the notion of business ethics is broader than corporate governance because it is related to all of the bank's actions. For instance, interviewee G1 asserted that:

[41]Bonn and Fisher argue further that measures must be applied to ensure that the behaviour of the organisation is consistent with the ethical values adopted in the codes of conduct for all levels of the organisation (Bonn and Fisher, 2005).

> “Corporate governance is a tool of business ethics and, to have sufficient business ethics, the bank must employ a sufficient code of corporate governance”.

Other interviewees argued that business ethics relates to ‘how’ to perform corporate governance practices. Here, interviewee J1 stated that:

> “Corporate governance represents the procedure side and business ethics represents the performance method, so they are two sides of the same coin”.

Interestingly, according to interviewee A1, the corporate governance code in Saudi Arabia is sufficient to ensure that the bank behaves ethically and no specific ethical code is needed. However, this interviewee expressed the opinion that the bank needs to reduce its commitments and paperwork as much as possible, suggesting that board members such as himself do not feel accountable towards other parties. In most formulations of ‘best’ governance practices, board members and managers are required to understand, encourage and communicate business ethics (Holme, 2008). Whilst the evidence here suggests room for Saudi practices, most of the rest of the interviewees emphasised that a code of corporate governance is insufficient to make a bank behave ethically and there needs to be a detailed ethical code in place as well as a sense of accountability within the bank. In this context interviewee B2 stated that:

> “No doubt, the corporate governance code is a foundation and supportive tool of ethical behaviour, but it is not sufficient”.

The general manager of an Islamic bank, interviewee H1, believed that while the code of corporate governance is adequate for ensuring justice among the bank’s stakeholders, a specific ethical code is also required. Similarly, interviewee G1 asserted that:

> "The code of corporate governance is insufficient to employ ethical behaviour even if it covers the conflict of interest among the bank's parties, which is the most important ethical aspect".

Most of the interviewees suggested that the bank's stakeholders, including society as a whole, are related parties and that social responsibility more broadly is a feature of ethical dealing. These arguments are consistent with those of Ghosh et al. (2011), who argue that profits and social responsibility can be combined, and that ethics and profits are not inimical to each other. Ghosh et al. further contend that, at times, it may appear that an individual's optimum choice conflicts with the social optimum, with the ends seeming to be mutually exclusive. In the case of conflict between these two objectives, one optimum has to be picked up in preference to the other, if the maximum good of the many is considered better than the maximum good of the one, the superior choice must be the maximum benefit to the many (Ghosh et al., 2011).

Although nine of the participants stressed that banks must ensure ethical dealing with all stakeholders to maintain the trust that leads ultimately to financial success, two of the participants demonstrated a potential difficulty in this regard. In particular, interviewee I1 asserted that:

> "All interested and related parties are stakeholders of the bank, and social responsibility is linked to business ethics since there is no rule forcing corporations to contribute to society. Obviously, there is no corporation, including this bank, that carries out its social responsibilities sufficiently and, no doubt, this is a defect and major weakness in ethical behaviour".

Four of the interviewees had very specific views regarding the identity of a bank's stakeholders. For instance interviewee H1, a general manager in a bank in Riyadh, adopted a managerialist perspective when he asserted that the first and most important group of bank stakeholders is the clients (be these major or minor). The second group is the employees, the third is the shareholders and the fourth is society. In his view, the bank should deal 'ethically' with all of these groups. In contrast, interviewee J2 indicated that:

> "All related groups are stakeholders for the bank, including society; however, the bank concentrates upon investor interests over those of other parties. The bank reviews its relationship with all of its stakeholders through the issues that arise from time to time to ensure a high level of ethical dealing".

Interestingly, interviewee D1 and interviewee D2, from the same bank, provided conflicting views regarding the definition and understanding of stakeholder groups. For interviewee D1, the most important concern of the bank should be maximising shareholders' profits, although he viewed dealing ethically as a key tool to achieve this objective. In contrast, interviewee D2, the bank's chief compliance officer, claimed that all interested and related parties, including society, are stakeholders and the bank needs to deal with them all in a balanced manner. However, this interviewee highlighted that in this regard in practice:

> "The services and concern provided by all of the banks in Saudi Arabia are extremely weak and not commensurate with their profits, and no rules assist and enhance this aspect".

Other intra-bank conflict arose with a board member of a conventional bank, E1, characterising related parties as all bank stakeholders, whereas that same bank's chief compliance officer, E2, argued that the shareholder group is most important with employees and clients in a second supplementary group.

Conflicts between views of the interviewees in the same bank regarding such significant issues suggest that if banks in Saudi Arabia are to achieve meaningful levels of accountability, they must be required to clarify the relative importance of stakeholders to its employees and explain how each group interacts with the organisation.

6.5 Accountability in Saudi Arabian Banks

The definition and understanding of accountability in Saudi Arabian banks and the relationship between accountability and acting in an ethical manner were the next issues explored. The role of *Sharia* and issues related to it - including the Islamic concept of accountability - were also investigated to assist in understanding the framework underpinning corporate accountability in the Kingdom.

6.5.1 Defining and Understanding Accountability

As mentioned in Chapter 4, the notion of accountability is usually stated in terms of the responsible party being required to provide an account to interested parties (Perks, 1993).

In line with this thinking, there was widespread agreement among the participants here about the definition of accountability, which they generally viewed as meaning that banks and their employees have specific obligations and responsibilities and that those concerned are accountable for their actions in these contexts. For instance, interviewee D2, a chief compliance officer, stated that:

> "Accountability means that each individual has duties and responsibilities, and they are accountable for their actions. To ensure this, the responsibilities should be very clear for employees as this is a commitment by the bank towards its regulators".

In support of this view, Monks and Minow (2004) argue that accountability is not a choice of the company, but is instead a commitment to fulfil its responsibilities towards the society in which it operates. Accountability could therefore be fulfilled via a contract between the corporation and interested parties, enforced by rules such as company law, civil law, regulations, internal rules, professional standards, conventions, ethical codes and customs. Accountability on this basis should ensure that there is no misuse of organisational resources and prevent mismanagement that may harm the interests of others (Stewart, 1984). In contrast, two of the interviewees had a particularly narrow definition of accountability; for example, interviewee C1 described it as a "punishment for mistakes", suggesting that the term and its usual meaning were not clear and, consequently, institutional accountability practices will likely be deficient focusing as they do on accountability as a liability and a mechanism for assigning blame (Bovens, 2006).

Accountability was considered by all of the interviewees to be an important element in corporate operations and they acknowledged that it plays a key role in stabilising banks, preventing any infringements of key internal control systems and providing an environment for sound business. In contrast, interviewee G1 highlighted the importance of ensuring that the employee has the appropriate ability and required skills to complete assigned tasks. Task-oriented definitions of accountability that focus on an individuals' relationship with an organisation are not new (Crawford et al., 2009). However, two of the seventeen interviewees argued that such accountability is weak in Saudi Arabian banks, and some responsibilities are not clear for individuals which in turn causes weakness in accountability further up the organasational hierarchy.

According to five of the interviewees, banks are primarily accountable to regulators and shareholders. More specifically, they claimed that banks have an absolute commitment to follow published codes, so they are highly accountable to the regulators concerned. In addition, as the bank acts as a representative of the shareholders, it also has important accountability to them. Here, interviewee B1 asserted that:

> "Primarily, the bank is accountable to the shareholders and, to achieve this responsibility, the codes issued by the regulators must be obeyed, which means accountability to the regulators also".

On the other hand, the majority of participants affirmed that the bank is accountable to all concerned parties and wider stakeholder groups and should therefore provide them with the services they expect including the supply of appropriate information, such as financial reports. For instance, interviewee D2, a chief compliance officer, stated that:

> "The bank is accountable to all of its stakeholders and concerned parties. Further, the bank must protect small groups from others especially when making decisions that have risk. This is a key governance aspect".

Consistent with this view, Gray and Jenkins (1993) argue that many stakeholders, including employees, creditors, suppliers, customers, society, the government, the environment and others, are affected by the decisions and performance of the firm, so the management should be accountable to all and responsible for providing them with an appropriate vision of the status of the firm. Solomon (2010) also highlights the importance of corporate publications for a wide group of stakeholders by arguing that financial reports, environmental reports, corporate social reports, sustainability reports and others all represent contributions to accountability. In particular, these reports play a vital role in the communication process and therefore offer reassurance to all parties who deal with the company concerning matters of interest to them (Solomon, 2010).

Some of the interviewees indicated that their bank actively monitors its discharge of accountability and promotes its integration with broader organisational culture; in some cases this involved encouraging employees to have a high level of personal accountability. However, such practices appeared not to be the norm yet in Saudi Arabia. For example, interviewee G1, the general manager of a bank in Riyadh, stated that this encouragement is still weak in practice, varying from one department to another and causing an imbalance in the performance of these responsibilities.

Significantly, just three of the interviewees emphasised social responsibility in the context of accountability, whilst two believed that there is an extreme weakness in the practices of Saudi banks in this regard. Consistent with this perception, one interviewee, E1, had a very restricted view regarding boundaries of banks' social responsibilities, pointing out that:

> "Accountability is related to just the services provided by the bank which means that the bank is not responsible, for example, for participating in building a hospital".

As noted in Chapter 4, Gamble and Kelly (2001) suggest that the debate on corporate governance has been marked by an argument about the rights of shareholders versus the rights of stakeholders; in this context the supporters of the stakeholder perspective argue that an expectation of corporate accountability is the legitimate right of constituencies such as employees or local communities. However, although some importance is attributed to the issue of accountability by the contemporary Western-dominated debate, the discussions typically concentrate on the issue of how governance systems can best enhance economic efficiency and produce shareholder value. Giving the varying perceptions in the literature, the interviewees were questioned about the relationship between accountability and corporate governance, including whether banks require a strong corporate governance systems to achieve a high level of accountability.

The majority of the interviewees stressed that the accountability concept requires the bank to adopt a strong corporate governance system. A strong corporate governance system should in turn provide an environment in which the directors and senior management of banks can discharge a meaningful level of accountability, since a robust governance structure provides a clear framework of responsibilities and authority; thus governance represents a sub-set of accountability (Cobb, 2008). Interviewee J1 observed in this regard that accountability is a "competitive point" whereby the bank needs to further develop its corporate governance system - even if it is strong enough to keep up with current needs - while interviewee B2, a chief compliance officer, stated that:

> "Accountability requires a strong corporate governance system, particularly towards the board, (and) when the board is placed at a high level of accountability other levels of the bank will be positively affected".

In contrast interviewee H1, a general manager, indicated that a corporate governance system will only promote accountability if accountability is an intrinsic part of the culture of all levels even if the governance code is strong.

As further evidence of the conflicting opinions in this area, two interviewees from the same bank held conflicting views. While interviewee E1 suggested that accountability requires a strong system of corporate governance, with clearly delineated responsibilities that do not allow any ground for conflict, interviewee E2 argued that accountability requires only a generalised governance framework.

6.5.2 Accountability and Dealing Ethically

As discussed in Chapter 4, accountability can be viewed as an ethical order that involves a system of reciprocal obligations and rights (Afifuddin and Siti-Nabiha, 2010). In this conceptualisation, groups are often seen as being bound together in identifiable and narrow ways, but each one must meet the ethical and spiritual goals of the organisation in a broad fashion (Afifuddin and Siti-Nabiha, 2010). In this regard, Zadek (1998) and Shearer (2002) stress that corporations need to know the ethical views of stakeholders in order to be fully accountable to them, as well as monitoring how these views change over time. In addition, corporations need to reconsider the ethical dimensions of economic life, to explore anew the sufficiency of financial accountability (Shearer, 2002).

In line with this type of reasoning, all of the interviewees suggested that there can be no meaningful accountability without a developed ethical framework. In addition, it was argued that dealing ethically is a key part of all banks' behaviour, including being accountable to all concerned parties. However, the interviewees suggested further that dealing ethically requires a clearly laid out framework of responsibilities, otherwise the bank's reputation may suffer. This in turn requires the bank to implement an effective and functioning monitoring system.

6.5.3 The Role of *Sharia* in Saudi Arabian Banks

As mentioned in the literature chapter, many authors (e.g. Hussain, 1999; Rice, 1999; Abu-Tapanjeh, 2009) point out that Islam relates directly to all aspects of modern life, including how to conduct commerce and trade. Business in Islam must be operated in accordance with *Sharia* values and rules, e.g., honesty, fairness and just treatment towards others. In this context, Alawneh (1998) argues that in Islam faith, or *iman*, is the fundamental motivating factor for believers. Hence, decisions regarding business transactions are guided by *iman*, which in practice means following the law of *Sharia*, and engaging in what is permitted (*halal*) and avoiding that which is forbidden (*haram*). Thus, the maker of business decisions has full discretion, but the principles of *Sharia* provide a framework for the proper exercise of that choice (Ali and Gibbs, 1998).

In line with these notions, all of the interviewees indicated that their banks are subject to *Sharia* principles, at a variety of different levels. All 11 banks have an independent *Sharia* supervisory board (SSB)[42]; however, as stated earlier, only four of them presented themselves as fully 'Islamic' banks[43]. Six of the seventeen interviewees were from the latter category of institution, and they all asserted that their banks operated in accordance with *Sharia* law, with every transaction supervised and

[42] The interviewees said that this board is independent even if it receives regular rewards from the bank.
[43] See Table 6.2 for further detail.

controlled by a *Sharia* supervisory board. In contrast, in the other seven banks, the interviewees noted that although banks presented themselves as 'conventional', they each have specific products and contracts performing in line with *Sharia* and under the supervision of a *Sharia* supervisory board. Some of the interviewees argued that the purpose of these branches, products or contracts is to provide the bank's clients with a variety of services according to *Sharia*. This might be understood as a response to the needs of society in which the bank operates, an issue raised by interviewee B1, who noted:

> "There are many branches of the bank operating in accordance with *Sharia* law but the problem in this regard is that there is no official party who works to regulate and develop the performance of a *Sharia* supervisory board and Islamic banks and branches in general. *Sharia* or Islamic law states that humans must be honest and trustworthy but, unfortunately, there are many contracts of the banks covered (in compliance with *Sharia*) but in reality there are no differences between them and other contracts".

Table 6.2: Members of *Sharia* Supervisory Board of Sampled Saudi Banks

Bank	Type	Number of Members of SSB
A	Conventional	3
B	Conventional	3
C	Conventional	3
D	Conventional	3
E	Conventional	3
F	Conventional	5
G	Conventional	3
H	Islamic	3
I	Islamic	6
J	Islamic	6
K	Islamic	5

Note: This table details the size of the SSB for 11 sampled banks.

The participants were questioned about the relationship between corporate governance and *Sharia* law and to assess if the SSB has had an impact on the governance system or ethical standards of the bank. There was widespread agreement among the interviewees that *Sharia* principles underpin every relationship within the bank, including those of a business nature. They also claimed that *Sharia* encourages individuals to perform in a 'proper' way and to take account of the interests of all concerned parties, in line with broad corporate governance notions. Fairness, honesty, truthfulness, excellence, integrity, probity and preserving the rights of all related parties were mentioned as fundamental aspects of corporate governance as well as *Sharia* law. In this context, the senior executive vice-president of a conventional bank, interviewee A1, stated that:

> "No doubt the concepts of corporate governance are found in all religions, and you do not find religion or nations glorifying treason or being proud of lying. Islam is one of these religions".

These arguments are in line with elements of the related literature; for instance, Hussain (1999) contends that the paramount rule in Islamic business is honesty and fair dealing, as Allah is the absolute owner of everything both on earth and in heaven, and we human beings are just His agents on the earth. As noted earlier, Muslims are supposed to conduct their business activities in accordance with *Sharia* law, but this specifically encourages being fair, just and honest to everyone involved in any aspect of one's life. Muslim business people are hence required to adopt an elevated moral conduct, in order not to deceive, betray or exploit their fellow believers; critically Muslims should not undertake business activities with the sole aim of profit-making (Hussain, 1999).

Muslims are also encouraged to work hard and avoid unproductiveness and laziness. In the context of this reasoning, it is evident that any system without a moral climate and appropriate ethical focus is unlikely to promote a ‘proper’ system of governance (Abu-Tapanjeh, 2009). However, virtually all of the interviewees suggested that these principles do not exist as a practical system or via standards that can be employed and followed; they did, though, argue that if such a system was put in place by an official body, there would be no need for corporate governance. Specifically, the participants were asked about the impact of SSBs on corporate governance and ethical standards. Seven of the interviewees believed that SSBs have no impact in this regard as they concentrate on the functional tasks of controlling and monitoring Islamic products and contracts. However, the majority of the interviewees acknowledged that SSBs play a role in banks’ relationships with clients by keeping a close eye on products and contracts that claim to be ‘Islamic’. The boards typically monitor disclosures relating to such products including the details provided to clients, to ensure that their contracts are in line with their needs. As a result, the SSB will have a significant impact upon the day-to-day corporate governance system even if there is no formal role for the corporate governance code. Interviewee K1 asserted here that:

> “The function of the *Sharia* supervisory board is a sort of governance; for instance, in our bank, this board reviews our transactions and the extent of their compliance with the promises introduced by the bank. This is a sort of governance even if it is not part of the official code".

Similarly, interviewee I1, the head of a legal affairs division, observed in this regard that the role of the SSB is to ensure that all transactions comply with *Sharia* law, arguing that this role positively affects the behaviour and ethical standards in the bank.

6.5.4 Islamic Accountability

As discussed in Chapter 4, the term '*Hesab*' is used in the Holy Quran to represent the notion of 'accounting' in its generic sense, relating to an obligation to account to Allah for all aspects of human endeavor. This principle is related to the notion that all resources available to individuals take the form of a trust; individuals are the trustees of what they have received from Allah in the form of goods, property and even intangible assets (Lewis, 2006). *Sharia* requires the agents, such as managers, to ensure that all of their actions favour the various groups influenced by their business. The extent to which individuals must use what is being entrusted to them is specified in *Sharia*, and individuals' success in the hereafter depends upon their performance in life. So, in responsibility and accountability terms, Muslims believe that they will account for whatever they do in eternity (Lewis, 2006).

Five of the 17 interviewees expressed opinions that were in line with this understanding of Islamic accountability, emphasising the importance of the *Hesab* concept as one of the key *Sharia* principles. In this context, they mentioned many specific phrases from the Holy Quran and *Hadith* (prophet's saying (peace be upon him)) to clarify the importance and existence of accountability in the Islamic context. In addition, they argued that, according to *Sharia*, all employees from different levels in the banks are accountable for their actions to Allah as well as to all of the stakeholders of the bank. Although the religious dimension leaves an understanding of accountability that is more generalisable than most conceptualisations of accountability in a business context, there was a perceived lack of this sense of accountability among employees. Interviewee I1 stated here that:

> "From an Islamic perspective, accountability is an important issue. All Muslims believe that, in the hereafter or on judgement day, they will be asked about all their actions in their life. This belief is supposed to place an extra pressure on them to do the right things and protect others' rights. However, in practice, there is a weakness in this sense, so the bank needs to encourage its employees to develop a sufficient level of accountability".

Furthermore, several interviewees argued that, when the meaning of Islamic accountability is well understood, the impact of business ethics upon accountability will be more pronounced. However, they highlighted that in practice banks will not feel any effect unless they have robust control of detailed and unambiguous codes of accountability underpinned by business ethics.

More generally, the majority of the interviewees argued that there is no difference between the concept of accountability in general and accountability from an Islamic perspective. Muslims believe that they will be accountable for whatever they do in their lives in the hereafter; specifically, in order to attain the promised eternal rewards, Muslims are accountable to Allah. Thus, every deed and word has to be in line with the teachings of Islam (Malekian and Daryaei, 2010).

As outlined in Chapter 4, in Islamic society *Hisba*, like the institution of *Shura*[44] , is a long standing tradition that can be seen to represent a core Islamic corporate governance notion. Gambling and Karim (1991) argue that *Hisba* represents a key source of Islamic principles including the outlawing of discrimination on the basis of class, race or gender. This notion includes obligations that ensure the prevention of monopolies and price controls, protect the natural environment and maintain public utilities and government resources. Abdul Rahman (1998) explains that the functions

[44] See Chapter 4 for details.

of *Hisba* were 'Islamised' by emphasising obligations in the Holy Quran that encourage good behaviour and discourage bad behaviour; the *muhtasib*[45] is responsible and accountable for enforcing Islamic behaviour in terms of activities in the market and community affairs in general, including honesty and accuracy in business dealings.

The majority of the participants here agreed that *Hisba* has impacted upon corporate governance and accountability practices in their own bank. However, they provided different views regarding the precise nature of its influence. Three of the interviewees pointed to daily complaints from clients as an example of *Hisba*. In contrast, interviewee I2 noted that the consumer protection association might be the appropriate body to deal with this issue, but it does not fulfil its role as it should; he further claimed that, in Islamic banks the SSB is a manifestation of the *Hisba* concept. Remarkably, 3 of the 17 interviewees stated that the clearest example of the *Hisba* concept in a bank is "whistle blowing", in the context of it representing a tool of corporate governance and accountability. However, several interviewees emphasised that the practical role of whistle-blowing is limited. For example, Interviewee D2 asserted that:

> "There is a form of *Hisba* concept in our bank which is called whistle blowing but, in fact, it faces difficulties in terms of implementation among the employees because of the dominant culture about spies and stirrers. As a result, we believe that trust is good but control is better".

There was widespread agreement among the interviewees that business ethics have an influence on both the *Shura* and *Hisba* concepts; several observed that there is a

[45] Islam encourages every Muslim to be *muhtasib*, which means reflecting *Hisba*.

commitment to their bank's ethical code and cultural encouragement for the institution to deal ethically in all of its actions, especially as regards decision-making and monitoring. It was noted in this context that when employees perform in the bank's interest, they are required to consider ethical aspects and these should not only influence the bank's actions but also control them. Interestingly, regarding the *Shura* concept, interviewee H1 stated that:

> "Business is not democratic and it cannot be democratic. This means the absence of real *Shura* or consultation in a broader sense which means weakness in this aspect as well as the ethical aspect".

This understanding might indicate weakness not just in relation to specific Islamic concepts, but also regarding accountability to all stakeholders, given that this weakness is centred on decision-making.

6.6 Conclusion

This chapter has reported the results obtained from semi-structured interviews with 17 individuals in 11 Saudi-listed banks. The interviews were conducted face-to-face and individually between March and June 2012 in two major cities in Saudi Arabia in order to explore views regarding the relationship between corporate governance and business ethics in the context of accountability and Islamic principles. The main issues covered in the interviews were the understanding of corporate governance, the compliance with and achievement of corporate governance, the understanding of business ethics, the impact of business ethics on banks' practices, corporate governance and business ethics, understanding the accountability concept, accountability and dealing ethically, and Islamic accountability.

The findings from the interviews reveal a widespread belief that corporate governance is one of the most important concepts not just for banks, but also in the financial sector in general. The interviewees emphasised that corporate governance plays a key role in accountability, a concern reflected in the definitions of corporate governance provided by most of those taking part.

There was widespread agreement among the interviewees about the importance of business ethics in relation to a bank's success. As a result, each bank has its own compulsory ethical code that controls employee's behaviour with the aim of enhancing clients' confidence in the business. However, some of the interviewees were dissatisfied with the ethical codes currently in place, while others believed that their code itself is sufficient, but requires more monitoring.

According to the interviewees, there is a strong relationship between corporate governance and business ethics in Saudi Arabian banks; however, views regarding how the notions are related to each other differed. In terms of the stakeholders of the bank, there were conflicting views regarding defining and understanding the role of stakeholders, even amongst interviewees who work at the same bank. Clearly, this lack of clarity is likely to be a negative factor and could be considered a weakness in terms of the discharge of accountability.

However, accountability was considered a very important element in modern banking by all of the interviewees. The majority stressed that the accountability concept requires a bank to adopt a strong corporate governance system, one which will provide an environment in which the directors and high level management can be held accountable. Here, a strong structure of corporate governance was seen as important in allocating clear responsibilities and the authority necessary for accountability to be achieved. All of the interviewees believed that there can be no meaningful accountability in a bank without it behaving in an ethical manner. Dealing ethically was seen as a key part of all banks' behaviour, with accountability to all concerned parties part of this.

Each interviewee's bank employed *Sharia* principles to different degrees and all have an independent SSB. In terms of responsibility and accountability, Muslims believe that they will account for whatever they do in their lives in the hereafter. However, only 5 of the 17 interviewees displayed such an understanding of accountability. Some of the interviewees stated that when this meaning of accountability from the Islamic perspective becomes better understood, the impact of business ethics upon accountability will be more pronounced. In this context, somewhat surprisingly, the majority of the interviewees believed that there are no differences between accountability in general and accountability from an Islamic perspective.

Finally, there was widespread agreement among the interviewees that business ethics have a strong influence on the *Shura* and *Hisba* concepts. They suggested that there is a commitment to the ethical code and cultural encouragement for the bank to deal ethically in all actions, especially with regard to these concepts in a decision-making and monitoring context.

Having examined in detail the views of a relatively small number of individuals involved directly in bank activities, the next chapter broadens the scope of the analysis by presenting the evidence from a questionnaire survey administrated to a larger and wider sample of stakeholders affected by and interested in Saudi banks' activities.

Chapter 7: Questionnaire Survey

Questionnaire Survey

7.1 Introduction

The previous chapter provided a detailed analysis of interviews conducted with senior employees of listed Saudi banks. As mentioned in Chapter 5, the second method employed in this research is the questionnaire survey. The main purpose of using this method is to explore the views of a wider range of parties with regard to the relationship between corporate governance and business ethics in Saudi banks; the most significant issues regarding the relationship between corporate governance and business ethics that were evident in the literature and the interview findings were incorporated. The remainder of the chapter consists of four sections. The next section outlines how the questionnaire survey was conducted and reports the demographical information provided by the participants. Section 7.3 details the respondents' views relating to corporate governance issues in Saudi banks, such as definitions, familiarity with the current corporate governance code, and the importance and awareness of such a code. Issues related to business ethics in Saudi banks are reported in the fourth section; these include, practices relating to business ethics and the relationship between corporate governance and business ethics in Saudi banks. Section 7.5 reports the respondents' views regarding the accountability of Saudi banks, both in general and from an Islamic perspective, before Section 7.6 concludes.

7.2 Conducting the Questionnaire Survey

After reflecting on the interview results reported in Chapter 6, and linking them with the literature review in the light of the research questions and the study's accountability framework, it was clear that the most significant issues in Saudi Arabian-listed banks relate to the complexities of the relationship between corporate governance and business ethics. As stated in Chapter 5, an online self-completion survey method was employed for the study. Four questionnaires were developed to suit each of the different groups of stakeholders identified for study (Academics, Clients, Employees and Regulators)[46]. The differences between the four questionnaires were relatively minor, reflecting the role of each of the four groups[47]. A five-point Likert scale was used in most cases and the respondents were asked to indicate the extent of their agreement by choosing the appropriate box, from 1 (= not at all) to 5 (= to a great extent). A few questions with a yes/no format were included as was space at the end of the questionnaires for the respondents to add information or comment on any of the issues raised, if they wished.

One of the main challenges associated with self-completion questionnaires is the low response rate, which leads to a greater risk of biased findings (Bryman, 2004). In order to avoid this issue and achieve the research objectives, several procedures were adopted by the researcher. One of the key steps was to ensure that the questionnaires were well written, easy to read and answer, and not too long; clear instructions and an attractive design in general have been found to improve the response rate (Dillman, 2000). The four questionnaires were created in English, then translated into Arabic in order to avoid misunderstandings and ambiguity. Both the English and Arabic versions of the questionnaires were piloted with some of the researcher's colleagues on the PhD programme at the University of Dundee's School of Business. The piloting of questionnaires is recognised as useful in terms of achieving internal

[46] The choice of these four groups was based on the extant literature. See, for example, Alharkan (2005); Alajlan (2005); Falgi (2009); and Alkahtani (2013).
[47] See Appendices 7.1 for copies of each questionnaire.

consistency, clarity and relevance (Hussey and Hussey, 1997). The questionnaires included a covering letter introducing the researcher, his topic and his university department. The researcher's appreciation regarding the respondents' participation was noted at the end. All four versions of the questionnaire consisted of the following five sections: (i) demographic information (e.g. work experience and academic qualifications); (ii) corporate governance definitions and its importance; (iii) business ethics practices and their relationship with corporate governance; (iv) the accountability notion in the context of corporate governance and dealing ethically; and (v) accountability from an Islamic perspective.

The four questionnaires were published on the Survey Monkey website, one of the most regularly employed and highly respected online survey websites (Bryman, 2004; Wright, 2005); links to them were sent to the four groups by email and social networks in July and August 2013. Follow-up emails and messages were sent to increase the response rate, and some individuals were also contacted by phone to encourage them to complete the questionnaire. The researcher attempted to further increase the response rate by taking advantage of personal contacts, especially for the Academics, Clients and Employees groups. The researcher had limited access to the Regulator group, but further contacts were made[48] to increase the response rate (see Table 7.1 for details).

[48] By contacting friends working at the regulatory bodies.

Table 7.1: Questionnaire Response Rate by Category of Respondent

Respondent groups	Distributed	Returned	Response Rate
Academics	94	37	39%
Clients[49]	140	47	34%
Employees	56	30	54%
Regulators	33	21	64%
Total	323	135	42%

Note: This table shows the four groups of questionnaire respondents, the number of distributed questionnaires, the number of returned questionnaires and the respective response rate.

Inspection of the table reveals an overall response rate of 42%, high relative to most of the relevant literature reviewed earlier[50]. The rate exceeded 30% for all four groups, with the highest figure (64%) occurring for regulators.

In order to analyse the data obtained from the questionnaire surveys, the responses from each individual were entered into a table using Microsoft Excel; the data were then transferred to the Statistical Package for the Social Sciences (SPSS). Since most of the questions were based on a linear five-point Likert scale, the descriptive statistical mean and standard deviation are employed to assess the general pattern in responses, but with non-parametric significance testing. Reliability and validity tests are essential prerequisites for high quality analysis of survey instrument results (Oppenheim, 1992). The most popular approach to testing the reliability of a questionnaire is Cronbach's Alpha; in terms of consistency and reliability, a score of 0.7 or above for this measure is acceptable in general (Field, 2009). Table 7.2 shows the results of the Cronbach's Alpha test for Academics, Clients, Employees and Regulators, indicating that in all four cases an acceptable level of internal consistency is present as they are all over 0.8.

[49] Clients mean individual customers who are not Academics, Employees or Regulators.
[50] For example, the overall response rate reported in Falgi (2009) is 23%.

The validity concept employed in this questionnaire survey was fulfilled by the pilot study discussed earlier in this chapter. Participants argued that the document covers significant issues relating to the relationship between corporate governance and business ethics in the financial sector. However, minor changes were suggested and applied. Given this outcome, a sufficient level of validity was assumed.

Table 7.2: Reliability Test

Group	N	Cronbach's Alpha
Academics	37	0.836
Clients	47	0.888
Employees	30	0.827
Regulators	21	0.837

Note: This table reports the result of the Cronbach's Alpha test for reliability. N = number of responses.

As noted earlier, since the questionnaire responses comprised ordinal rather than interval (i.e. non-parametric) data, Kruskal-Wallis (K-W) and Mann-Whitney (M-W) tests were employed. The K-W test was used to determine whether a difference existed between the averages across three or more groups and the M-W test to examine whether a difference existed between particular pairs (Anderson et al., 2009).

The first section of the questionnaires asked for basic non-identifying background information about the respondents. Table 7.3 shows that most of respondents in all four groups were below 40 years of age, with a wide range of work experience, from less than 5 years to more than 15 years. Finally, the table shows that all of the respondents were well-educated, with only three (all members of the Clients group) not having at least a bachelor's degree.

Table 7.3: Demographical Information relating to the Respondents

Variables	Categories	Number of Respondents				Total
		Academics	Clients	Employees	Regulators	
Age	Less than 30	18	20	10	7	55
	30 to 40	16	20	19	10	65
	41 to 50	3	3	1	4	11
	51 to 60	0	3	0	0	3
	More than 60	0	1	0	0	1
Work experience	Less than 5 years	21	10	9	5	45
	5 to 10 years	11	17	13	10	51
	10 to 15 years	4	11	5	2	22
	More than 15 years	1	9	3	4	17
Level of education	Less than bachelor's degree	0	3	0	0	3
	Undergraduate degree	6	25	25	3	59
	Master's degree	22	15	5	14	56
	PhD	9	4	0	4	17

Note: This table summarises demographical information about the respondents.

7.3 Corporate Governance in Saudi Arabian Banks

This section describes the results relating to various aspects of corporate governance in the context of Saudi Arabian banks' operations. These include: definitions, familiarity with the code and the importance and awareness of the latter.

7.3.1 Definition of Corporate Governance

The first question of substance on the questionnaire survey, explored the definitions of corporate governance adopted by the four groups of respondents. Five possible definitions of corporate governance drawn from literature were provided in the questionnaire (see Table 7.4). All of the statements generated average responses above 3 and below 4, suggesting recognition of several formulations, without any one dominating. The Cadbury definition of corporate governance (“the system by which institutions are directed and controlled”) achieved the highest level of agreement (mean value of 3.90) among the four groups of stakeholders as a whole. This was followed by the definition which refers to the broader stakeholder perspective (“the principles that relate to the relationship between the company and all stakeholders who affect, or who are affected by, the decisions and activities of the institution”), with a mean response of 3.86. The definition of corporate governance according to broader accountability and ethical foundations (“responsible management with ethical foundations and recognition of the accountability of the institution towards all of its stakeholders”) came third, with a mean value of 3.78. Definition c, which refers to a narrow agency view and b (dealing with honesty and integrity) gained mean responses of 3.76 and 3.50, respectively. The group mean values presented in Table 7.4 show that all four groups prioritised the Cadbury definition of corporate governance.

Interestingly, academics and regulators generated the same (highest) mean value for two definitions (a and d), with the regulator group also generating the same highest mean value of 4.00 for definition c. This pattern is somewhat surprising because it involves the regulator group producing the same highest mean value for three definitions of corporate governance, two of which (c and d) adopt opposing theoretical perspectives. This evidence points to the importance of large sample survey research in highlighting areas where apparently clear evidence needs to be treated with caution. It is apparent from these responses that in Saudi Arabia, some conflicting understandings of the governance concept remain.

Table 7.4 also illustrates the lack of significant simultaneous or pair-wise responses across the four sub-groups. This evidence, taken together with the other findings in the table and the interview results suggest that no single definition of “corporate governance” yet dominates in Saudi Arabia, either generally or amongst particular stakeholder groups.

Table 7.4: Definitions of Corporate Governance

Questions	No	Mean	StDv	Group Means				K-W P-value	M-W P-value					
				A	C	E	R		A-C	A-E	A-R	C-E	C-R	E-R
Q4a. The system by which institutions are controlled and directed	135	3.90	0.897	3.94	3.72	4.07	4.00	0.501	0.367	0.606	0.875	0.139	0.360	0.755
Q4b. Integrity and honesty in all activities in an institution	135	3.50	0.999	3.65	3.25	3.47	3.81	0.158	0.099	0.478	0.496	0.356	0.054	0.187
Q4c. The principles that relate to the relationship between the institution and its shareholders.	135	3.76	0.891	3.92	3.59	3.67	4.00	0.284	0.126	0.234	0.893	0.815	0.147	0.245
Q4d. The principles that relate to the relationship between the company and all stakeholders who affect, or who are affected by, the decisions and activities of the institution	135	3.86	0.874	3.94	3.70	3.90	4.00	0.687	0.293	0.741	0.903	0.157	0.350	0.722
Q4e. Responsible management with ethical foundations and recognition of the accountability of the institution towards all of its stakeholders	135	3.78	0.878	3.89	3.70	3.77	3.76	0.840	0.416	0.505	0.516	0.855	0.928	0.808

Note: This table reports the mean and standard deviation (StDv) for all participants regarding the most popular definitions of corporate governance mentioned in Chapters 3 and 6. The responses are based upon a five-point Likert scale, where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= agree to a great extent. It also provides the mean for each group and the p-values for the K-W and M-W tests. A = Academic; C = Client; E = Employee; R = Regulator.

7.3.2 Familiarity with the Saudi Arabian Corporate Governance Code

The next section of the questionnaire explored levels of awareness and familiarity with the Saudi Arabian Corporate Governance Code. Question 5 asked the participants about their familiarity with the code and the inspection of Table 7.5 reveals that the overall mean score was 3.11, suggesting some familiarity but not overwhelming amount. However, Table 7.5 also shows that the group means ranged between 2.87 and 3.81 with (as expected, given their background) regulators the most familiar (mean = 3.81). In contrast, the lowest level of familiarity amongst the surveyed groups was found amongst employees with a mean of just 2.87. This reveals a surprising lack of knowledge among bank workers that conflicts with the importance of the corporate governance code amongst Saudi banks (and their compliance with it) that was mentioned by the majority of the interviewees in Chapter 6. Table 7.5 also reveals significant differences among the respondents' levels of familiarity with the Saudi code, with the p-value for the Kruskal-Wallis (K-W) test equalling 0.020. The results of the Mann-Whitney (M-W) test show that the former result was driven by the high regulator figure; this was significantly greater than each of the other sub-group means.

Table 7.5: Importance and Awareness of the Corporate Governance Code

Questions	No	Mean	StDv	Group Means				K-W P-value	M-W P-value					
				A	C	E	R		A-C	A-E	A-R	C-E	C-R	E-R
Q5. Familiarity with Saudi Arabian Corporate Governance	135	3.111	1.130	2.94	3.08	2.87	3.81	0.020*	0.678	0.730	0.019*	0.340	0.012*	0.002*
Q6a. Corporate governance is important for Saudi banks	135	4.07	0.982	4.11	3.74	4.30	4.43	0.056	0.157	0.672	0.203	0.054	0.015*	0.297
Q6b. The corporate governance practices in Saudi banks are satisfactory	135	2.84	0.888	2.70	2.74	2.97	3.14	0.144	0.604	0.204	0.022*	0.329	0.073	0.559
Q6c. There is an adequate awareness of corporate governance in the Saudi banking sector	135	2.57	0.885	2.35	2.62	2.47	3.00	0.606	0.275	0.968	0.007*	0.364	0.074	0.041*
Q6d. The Saudi Arabian Corporate Governance code is adequate and effective	135	2.72	0.843	2.73	2.77	2.47	2.95	0.164	0.977	0.113	0.356	0.136	0.369	0.031*
Q6e. Saudi banks comply with the majority of the corporate governance code rules	135	2.78	0.887	2.65	2.66	2.80	3.24	0.078	0.941	0.799	0.010*	0.783	0.017*	0.084
Q6f. The Saudi Arabian Corporate Governance Code should be compulsory for all listed banks	135	4.05	1.032	4.13	3.83	4.10	4.33	0.413	0.209	0.881	0.777	0.302	0.138	0.688
Q6g. There should be penalties for non-compliance by banks with the Saudi Arabian Corporate Governance Code	135	4.27	0.934	4.43	3.98	4.43	4.43	0.150	0.062	0.920	0.643	0.067	0.196	0.552
Q6h. It is important for students who might work in the banking sector in the future to be educated about the importance of corporate governance	37	N/A	N/A	4.24	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Q6i. Corporate governance is a key part of our curriculum	37	N/A	N/A	2.78	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Q6j. Corporate governance practices influence my decision regarding which banks to use	47	N/A	N/A	N/A	3.53	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Q6k. Bank employees are aware of their firm's corporate governance policies and procedures	30	N/A	N/A	N/A	N/A	2.67	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Q6l. Ensuring high corporate governance standards should be a priority for the regulators of the Saudi Arabian banking sector	21	N/A	N/A	N/A	N/A	N/A	3.86	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note: This table shows the mean and standard deviation (StDv) for all participants regarding their familiarity with the corporate governance code. Also, it reports the importance and awareness of the corporate governance code. The responses are based upon a five-point Likert scale, where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= agree to a great extent. Also, the table provides the means for each group and the p-values for the K-W and M-W tests. A * indicates significance at the 5% level. A = Academic; C = Client; E = Employee; R = Regulator.

7.3.3 The Importance and Awareness of the Corporate Governance Code

The twelve statements in Question 6 were designed to explore the participants' perceptions of the importance, practices and awareness of corporate governance, as well as the effectiveness of and compliance with the Saudi code. The results in Table 7.5 show that all of the groups strongly believed that corporate governance is important for Saudi banks, with an overall mean of 4.07, suggesting this wider group of stakeholders share the beliefs of the interviewees reported earlier. The regulators generated the highest level of agreement with a mean score of 4.43; with employees, academics and clients producing figures of 4.30, 4.11 and 3.74 respectively. According to the K-W test shown in the table, there was no overall difference between the participants' views, with all p-values greater than 0.05. The M-W results for the same statement (Q6a) reports one significant difference, with regulators generating a significantly higher level of agreement than clients, which might reflect that the importance of corporate governance is particularly well understood by regulators.

In contrast, the participants were dissatisfied with corporate governance practices, with an overall mean of 2.84 suggesting that Saudi banks may not be doing enough to adopt good practices with regard to the code. This result appears to conflict with the claim made by the majority of the interviewees that the CMA gives the code power and promotes its effectiveness. The group means show that academics, clients and employees were the least satisfied with corporate governance practices, all generating means less than 3, with regulators the most satisfied, with a mean of 3.14. There was only one significant difference between the M-W results, for academics and regulators groups, reflecting academics' greater concern over this issue.

There is limited awareness of corporate governance in the Saudi banking sector according to the responses, with an overall mean of 2.57 being generated for Q6 (c). The M-W test for this question revealed two significant differences between the groups, both of which were driven by the highest mean (3) for regulators then other groups, with academics only generating 2.35. The latter finding, combined with the results for Q6 (b), suggests serious academic concern with governance arrangements in Saudi banks that authorities might wish to explore. Given this evidence, it is not surprising that the means shown in Table 7.5 indicate each group's disagreement with the statement that the Saudi corporate governance code is adequate and effective, with means ranging between 2.47 and 2.95. There is only one significant difference between the groups regarding this statement, with regulators generating a higher mean than employees. However, this perceived lack of an adequate, and effective corporate governance code across all stakeholders implies poor corporate governance practices and weak accountability in the Saudi banking sector. This impression is strengthened by the overall mean of just 2.78 for Q6 (e). Again, but worryingly perhaps, the regulators were more in agreement (in this case with the degree of compliance with the corporate governance code) than the other groups. This pattern was repeated for Q6 (f) where the notion that the code of corporate governance should be compulsory for all listed banks, produced a mean score of 4.05. Although there were no significant differences, the regulators again expressed the strongest agreement. In relation to the penalties that should be imposed on banks that fail to comply with the Saudi Arabian corporate governance code (Q6g), all groups agreed with such an idea, with an overall mean of 4.27. Three groups (academics, employees and regulators) generated the same mean score (4.43), while clients had a mean of 3.98. Although there were again no significant differences across the groups' responses, the high overall means for statements Q6 (f) and Q6 (g) reflect the participants' clear belief that Saudi banks should have a high level of accountability. When considered in the context of the earlier questions in Table 7.5, it is equally evident that current practices are not seen as achieving this.

Table 7.5 also summarises responses when each group was questioned about specific issues relating to their position. The academic group agreed (mean = 4.24) that it is important that students who might work in the banking sector in the future be educated about the importance of corporate governance (Q6 (h)). However, when this group was asked (in Q6 (i)) if corporate governance was a key part of their curriculum, they generated a mean of only 2.78, suggesting a need for change in the relevant programmes. The clients agreed, as per Q6 (j) that corporate governance practices influence their decisions about which bank to use, although with a mean of only 3.53 suggesting a lack of widespread conviction on the issue. More significantly, the employees' group generated a mean score of just 2.67 when asked about their awareness of the firm's corporate governance policies and procedures. This latter result again suggests weakness regarding accountability frameworks in Saudi banks, as the employees seem to be somewhat unaware of these important policies and procedures. Finally, the regulator group produced a mean of 3.86 for the statement: "ensuring high corporate governance standards should be a priority for the regulators of the Saudi Arabian banking sector", consistent with their views expressed in Q6 (a).

7.4 Business Ethics in Saudi Arabian Banks

The next section of the questionnaire attempted to shed light on participants' views about the key issues related to business ethics in Saudi Arabian banks, such as defining and understanding the notion, as well as exploring its importance and its relationship with corporate governance.

7.4.1 Defining and Understanding Business Ethics

Question 7 was designed to explore perceived definitions of business ethics among the four stakeholder groups. Table 7.6 lists the four definitions of business ethics that were included in the questionnaire in this regard. The results reveal that no one definition dominated participants' minds, with all the means falling between 3.70 and 4.00. The conceptualisation of business ethics as "the behaviour of employees within an institution" achieved the highest level of agreement among the sample as a whole. Given that this is the narrowest of the four definitions suggested, it indicates that broader notions of ethical behaviour in a business context are not yet well understood in the Saudi banking context, with consequent effects on practices. Phrase (b), which provided the next narrowest perspective, defining business ethics as "the principles that control the relationship between the institution and others", scored the second highest overall mean of 3.94. The definition that proved most popular among interviewees[51]: "a set of principles describing how employees should behave towards others, whether inside or outside the institution" came third, with a mean score of 3.74. Interestingly, the broadest definition of business ethics: "an application of theories of 'right' and 'wrong' to activity within and between institutions, and

[51] See Chapter 6.

between institutions and their broader environment", provided by Bucheery (2001), produced the lowest mean value. The figures for each group, presented in Table 7.6, reveal that while three (Clients, Employees and Regulators) preferred phrase (a), academics preferred the less narrow view of business ethics in (b). This result suggests that broader notions of ethics that now dominate academic literature have not yet penetrated the thinking of other groups in Saudi Arabia. If this is to change, academics may need to take the initiative in spreading understanding of the issues concerned.

Inspection of Table 7.6 reveals no significant differences between all the groups, as indicated by the p-values of the K-W test, but the M-W indicates variation between academics and clients and academics and regulators, in relation to phrase (b), driven by academics attaching the highest mean value to this phrase. Significant differences also exist between Academics and Clients and Clients and Employees regarding phrases (c) and (d). These findings primarily reflect Clients attaching the lowest mean value to all four definitions, including these phrases, indicating a related lack of engagement with the concept.

Table 7.6: Definitions of Business Ethics

Questions	No	Mean	StDv	Group Means				K-W P-value	M-W P-value					
				A	C	E	R		A-C	A-E	A-R	C-E	C-R	E-R
Q7a. The behaviour of employees within an institution	135	4.00	0.889	4.08	3.83	4.20	3.95	0.319	0.259	0.511	0.439	0.097	0.808	0.201
Q7b. The principles that control the relationship between the institution and others	135	3.94	0.983	4.30	3.72	3.97	3.76	0.107	0.033*	0.328	0.026*	0.367	0.916	0.304
Q7c. A set of principles describing how employees should behave towards others, whether inside or outside the institution	135	3.74	0.969	3.92	3.47	4.03	3.62	0.051	0.034*	0.861	0.228	0.015*	0.702	0.119
Q7d. An application of theories of "right" and "wrong" to activity within and between institutions, and between institutions and their broader environment	135	3.70	0.987	3.84	3.38	3.90	3.86	0.061	0.042*	0.612	0.993	0.024*	0.079	0.655

Note: This table reports the mean and standard deviation (StDv) for all participants regarding the most popular definitions of business ethics mentioned in Chapters 3 and 6. The responses are based upon a five-point Likert scale, where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree to a great extent. Also, the table provides the mean for each group and the p-values for the K-W and M-W tests. A * indicates significance at the 5% level. A = Academic; C = Client; E = Employee; R = Regulator.

7.4.2 Importance and Practice of Business Ethics

The next question in the survey, Question 8 provided ten statements relating to the importance and practice of business ethics in Saudi Arabian banks, and invited the participants to express the extent of their agreement with each one. The results, shown in Table 7.7, reveal a high level of agreement among all four groups of stakeholders that business ethics concerns are important for Saudi banks. Employees provided strongest support for the statement (mean = 4.77) although there were no significant inter-group differences. The importance of business ethics reported here is in line with statements made by some of the interviewees, who argued that if Saudi banks want to survive, they must operate ethically towards others in order to protect and improve their reputation. This finding is also consistent the views of Joyner and Payne (2002) mentioned in Chapter 3, who argued that a business cannot survive without society and that society cannot progress without business, so business must acknowledge the existence of society and implement more ethically responsible practices.

The majority of the interviewees agreed that business ethics concerns influence their banks' practices. However, the questionnaire participants generated a low mean (2.85) for the statement that "the practice of business ethics in Saudi banks is satisfactory", suggesting some dissatisfaction with behaviour in the Saudi banking sector. This was evident among all groups, as the means ranged from 3.00 (for employees) and 2.77 (for clients); none of the differences were significant. Of equal concern is the statement "there is an adequate awareness of the principles of business ethics in the Saudi banking sector" also attracting a low level of agreement (mean = 2.80). All groups generated means below 3, suggesting widespread concern regarding this statement, with no significant differences between. Given these views, it is not surprising that there was strong agreement among the participants that “there should be a compulsory ethical code for Saudi banks issued by a regulatory body” (Q8 (d)), with a mean level of 4.27. Inspection of the group means for this question reveal that academics and employees generated the highest mean values (4.43 in each case), while regulators and clients expressed slightly less agreement (with mean values of 4.14 and 4.11 respectively). Again, however, the K-W and M-W test results suggest that there were no significant differences between groups’ responses. Likewise, the statement in Q8 (e) that “if there is an official code of business ethics, there should be penalties for non-compliance with it” also attracted a high level of agreement among the respondents with a mean value of 4.24. The group means lay within a narrow range (from 4.27 to 4.21), indicating that all four groups shared similar views in this regard.

Table 7.7: The Importance and Practice of Business Ethics

Questions	No	Mean	StDv	Group Means				K-W P-value	M-W P-value					
				A	C	E	R		A-C	A-E	A-R	C-E	C-R	E-R
Q8a. Business ethics are important for Saudi banks	135	4.55	0.770	4.51	4.38	4.77	4.67	0.184	0.565	0.172	0.301	0.057	0.141	0.897
Q8b. The practice of business ethics in Saudi banks is satisfactory	135	2.85	0.989	2.78	2.77	3.00	2.95	0.635	0.989	0.351	0.450	0.286	0.393	0.850
Q8c. There is an adequate awareness of the principles of business ethics in the Saudi banking sector	135	2.80	1.057	2.92	2.68	2.77	2.90	0.832	0.395	0.640	0.926	0.724	0.535	0.741
Q8d. There should be a compulsory ethical code for Saudi banks issued by the regulatory body	135	4.27	0.859	4.43	4.11	4.43	4.14	0.320	0.199	0.921	0.129	0.258	0.754	0.175
Q8e. If there is an official code of business ethics, there should be penalties for non-compliance with it	135	4.24	0.885	4.27	4.21	4.27	4.23	0.968	0.761	0.847	0.859	0.900	0.644	0.721
Q8f. It is important for students who might work in the banking sector in the future to be educated about the importance of business ethics	37	N/A	N/A	4.43	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Q8g. Business ethics is a key part of our curriculum	37	N/A	N/A	3.11	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Q8h. Ethical practices influence my decision about which banks to use	47	N/A	N/A	N/A	3.94	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Q8i. Bank employees are aware of the need for high standards of ethical behaviour in their professional activities	30	N/A	N/A	NA	N/A	3.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Q8j. Ensuring high ethical standards should be a priority for the regulators of the Saudi Arabian banking sector	21	N/A	N/A	N/A	N/A	N/A	3.90	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note: This table reports the mean and standard deviation (StDv) for all participants regarding the importance and practices of business ethics. The responses are based upon a five-point Likert scale, where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= agree to a great extent. Also, the table provides the means for each group and the p-values for the K-W and M-W tests. A = Academic; C = Client; E = Employee; R = Regulator.

Each group was also questioned about issues relating to their specific positions and roles. Conroy and Emerson (2004) point out that in many surveys corporate leaders have recognised that ethical standards-promoting bodies, such as the AACSB[52], should be encouraged to include ethical considerations within their body of required knowledge for students. The related statement, "it is important for students who might work in the banking sector in the future to be educated about the importance of business ethics" generated significant support among the academics, with a mean of 4.43 resulting. However, they did not provide the same high level of agreement for the statement "business ethics is a key part of our curriculum", (mean = 3.11) suggesting that in practical terms, a substantive gap exists between desired best practice and the current academic experience for Saudi students. Clients broadly agreed with the statement that "ethical practices influence my decision about which banks to use", generating a mean of 3.94, which is in line with the importance attached to the notion of business ethics earlier. This group of clients' views are consistent with the observation of Holme (2008), who stated that as organisations operate in communities, they have to recognise that those who provide funds can impose ethical demands, irrespective of the firm's own attitude. Employees were asked for their views regarding the notion that "bank employees are aware of the need for high standards of ethical behaviour in their professional activities". The resultant mean of 3.30 suggests mild support at best. Finally, regulators produced a mean of 3.90 when asked whether "ensuring high ethical standards should be a priority for the regulators of the Saudi Arabian banking sector". This suggests that ethics are seen as an important issue by Saudi regulators, but not overwhelmingly so.

[52] The Association to Advance Collegiate Schools of Business

Table 7.8: Corporate Governance and Business Ethics

Questions	No	Mean	StDv	Group Means				K-W P-value	M-W P-value					
				A	C	E	R		A-C	A-E	A-R	C-E	C-R	E-R
Q8k. There is a relationship between corporate governance and business ethics	135	3.84	0.812	3.84	3.70	4.03	3.86	0.404	0.611	0.241	0.833	0.098	0.525	0.350
Q8l. The existing Saudi Arabian Corporate Governance Code is sufficient to ensure that the banks behave ethically	135	2.86	0.865	2.67	2.89	2.90	3.05	0.332	0.165	0.241	0.090	0.996	0.528	0.574
Q8m. A strong code of business ethics would enhance corporate governance practices in Saudi banks	135	3.56	0.951	3.70	3.42	3.60	3.57	0.693	0.255	0.910	0.822	0.406	0.522	0.887

Note: This table presents the mean and standard deviation (StDv) for all participants regarding the relationship between corporate governance and business ethics. The responses are based on a five-point Likert scale, where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= agree to a great extent. Also, the table provides the means for each group and the p-values for the K-W and M-W tests. A = Academic; C = Client; E = Employee; R = Regulator.

7.4.3 Corporate Governance and Business Ethics

A common theme in the modern academic literature in the area is that an organisation's approach to ethics must be viewed in a corporate governance context (Bonn and Fisher, 2005). This relationship between corporate governance and business ethics was confirmed by the interviewees, as mentioned in the previous chapter. For instance, interviewee (A2)[53] asserted that:

> "Corporate governance and business ethics cannot be separated from each other and there is no governance without business ethics. Business ethics must be a compulsory part of the corporate governance code".

The next section of the questionnaire therefore concentrated upon issues raised by the literature and the interviews relating to the relationship between corporate governance and business ethics in Saudi Arabian banks. As shown in Table 7.8, the participants broadly agreed regarding the existence of a relationship between corporate governance and business ethics, with a recorded overall mean of 3.84. The highest group mean was 4.03, generated by employees, which might suggest that daily practices provide the opportunity for this type of relationship to manifest itself. The second highest group mean (3.86) was produced by the regulators group, with means of 3.84 and 3.70 recorded for academics and clients groups respectively. The p-values of the K-W and M-W test results reveal that there were no significant differences between all four groups together or between any pair. In relation to the corporate governance code in Saudi Arabia and the question of whether it is sufficient to ensure that the banks behave ethically, the overall mean of 2.86 suggests ambivalence at best among the participants in this regard, in line with the opinion of the majority of the interviewees outlined earlier in the thesis, whereby the existence of a code in itself

[53] A Senior Executive Vice-President of a Conventional Bank

was thought unlikely to ensure best practice. The group means ranged between 3.05 for regulators and 2.67 for academics; accordingly, there were no significant differences between the four groups' responses. The final statement put to respondents in this part of the survey was that "a strong code of business ethics would enhance corporate governance practices in Saudi banks." The participants broadly agreed with this statement, generating an overall mean of 3.56, indicating that the relationship between corporate governance and business ethics was seen as important in terms of a bank's success, but is not overwhelmingly critical. This evidence is again consistent with the interview findings where an effective corporate governance code was believed to influence ethical performance. Inspection of the group means reveal that the highest value was generated by academics (3.70) and the lowest by clients (3.42), with the employees and regulators groups attaining mean values of 3.60 and 3.57 respectively. Reflecting this small range of group means values, the K-W and M-W test results affirm that there were no significant differences between the four groups or between any pair of them. Taken together, the evidence from the significance tests reported in Table 7.8 suggests consistency across stakeholder groups regarding the link between the notions of corporate governance and business ethics in Saudi Arabia.

7.5 Accountability in Saudi Arabian Banks

The next section of the questionnaire concentrated on the participants' perceptions regarding accountability, including issues such as to whom Saudi banks should be accountable, the current understanding and practice of accountability in the Kingdom, exploring how the accountability notion interacts with the concept of corporate governance and dealing ethically, as well as the role of accountability in an Islamic framework.

Table 7.9: Accountability to Academics, Clients, Employees and Regulators

Questions	No	Mean	StDv	Group Means				K-W P-values	M-W P-values					
				A	C	E	R		A-C	A-E	A-R	C-E	C-R	E-R
Q9a. Banks should be accountable to Academics	135	2.71	1.043	2.81	2.74	2.73	2.43	0.670	0.903	0.958	0.282	0.922	0.255	0.315
Q9b. Banks should be accountable to their Clients	135	3.21	1.095	3.35	3.17	3.07	3.28	0.687	0.589	0.234	0.926	0.530	0.728	0.371
Q9c. Banks should be accountable to their Employees	135	3.25	1.020	3.32	3.32	2.93	3.43	0.398	0.996	0.188	0.777	0.151	0.770	0.149
Q9d. Banks should be accountable to the Regulators	135	3.58	0.917	3.43	3.59	3.43	4.05	0.042*	0.394	0.962	0.022*	0.293	0.060	0.003**

Note: This table reports the mean and standard deviation (StDv) for all participants in relation to the banks' accountability to their academics, clients, employees and regulators. The responses are based on a five-point Likert scale, where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= agree to a great extent. Also, the table provides the means for each group and the p-values for the K-W and M-W tests. A * indicates significance at the 5% level; a ** indicates significance at the 1% level. A = Academic; C = Client; E = Employee; R = Regulator.

7.5.1 Accountability

Question 9 sought the respondents' views about the extent of their agreement with the statement that "Saudi banks should be accountable to academics, clients, employees and regulators"; Table 7.9 reports the results. The overall mean values presented in the table indicate that accountability to the regulators attracted the strongest support (mean = 3.58), suggesting that Saudi banks are seen as having a meaningful degree of accountability to those charged with overseeing the conduct of the organisations concerned. In contrast, the notion that Saudi banks should be accountable to academics attracted the lowest overall mean (2.71), indicating that some debate exists among the respondents regarding the accountability of Saudi banks to educators. The results also suggested some ambivalence among the participants regarding the view that Saudi banks should be accountable to their clients and employees, with overall means of 3.21 and 3.25 respectively. Surprisingly, the group means show that academics attached a mean of only 2.81 to the statement that banks should be accountable to academics, suggesting a lack of understanding of the notion of accountability and its specific relevance to Saudi banks and/or a degree of cynicism regarding the practical likelihood of substantive change. Similarly, both clients (mean = 3.17) and employees (mean= 2.93, the lowest of any group) were equivocal about their own accountability. In contrast, regulators generated the highest mean (4.05) anywhere in the table in their own case. Taken together, it appears that there is a substantial mis-match between Saudi regulators and other stakeholders regarding banks' accountability, but in practice it is the former group that have the means to address this, ideally whilst educating others about the issues involved. The p-value for the K-W test is significant for Q9 (d) regarding Saudi banks' accountability to the regulators. For the same question, the additional analysis of the differences between the pairs (the M-W test) reveals that regulators generated a significantly higher average than both academics and employees.

The participants’ perspectives on specific accountability issues in Saudi banks were then addressed. Inspection of the results, as shown in Table 7.10 suggests that, consistent with the indirect evidence from Table 7.9, the participants tended to disagree with the statement that accountability to all stakeholders is understood and fulfilled, with a mean of just 2.71 and no group means reaching 3.

Table 7.10: Accountability Practices

Questions	No	Mean	StDv	Group Means				K-W P-value	M-W P-value					
				A	C	E	R		A-C	A-E	A-R	C-E	C-R	E-R
Q10a. Accountability to all stakeholders is understood and fulfilled	135	2.71	1.043	2.73	2.62	2.67	2.95	0.546	0.720	0.843	0.257	0.896	0.169	0.244
Q10b. Saudi banks provide equal access to relevant information to all stakeholders	135	2.73	1.073	2.94	2.51	2.77	2.81	0.356	0.094	0.596	0.774	0.276	0.264	0.897
Q10c. Bank employees at all levels are accountable for their acts	135	3.25	1.104	2.97	3.28	3.27	3.67	0.193	0.208	0.282	0.033*	0.996	0.238	0.274
Q10d. To facilitate a high level of accountability, banks need to adopt a strong corporate governance system	135	4.04	0.876	4.05	3.85	4.10	4.33	0.131	0.234	0.929	0.220	0.233	0.026*	0.156
Q10e. Dealing ethically with all stakeholders is part of bank's accountability	135	3.84	0.905	3.89	3.79	3.77	4.00	0.799	0.837	0.484	0.569	0.760	0.532	0.317

Note: This table shows the mean and standard deviation (StDv) for all participants in relation to the bank's accountability practices. The responses are based on a five-point Likert scale, where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= agree to a great extent. Also, the table provides the mean for each group and the p-values for the K-W and M-W tests. A * indicates significance at the 5% level. A = Academic; C = Client; E = Employee; R = Regulator.

Similarly, the participants also tended to disagree with the statement that “Saudi banks provide equal access to relevant information to all stakeholders”, with an overall mean value of 2.73, and all group means below the midpoint. These results once again point to significant widespread concern about accountability practices in Saudi banks. Given the close link between the accountability concept and the governance notion, it is not surprising that similar concerns appear to exist regarding both.

In response to the statement in Q10 (c) that “bank employees at all levels are accountable for their acts” the respondents generated a mean of 3.25 suggesting some limited support. Although clients, employees and regulators produced means between 3.27 and 3.67, the academics’ mean was just 2.97. The M-W test shown in the table indicates that the latter was significantly lower than the regulators equivalent of 3.67.

In contrast, the participants agreed strongly with the notion that “to facilitate a high level of accountability, banks need to adopt a strong corporate governance system”, since the overall mean for the responses to Q10 (d) was 4.04. All four groups generated means of more than 4, except for clients (3.85). Regulators produced the highest mean (4.33) and the M-W test reported a significant difference between this group and the clients. Finally, the participants seemed to agree (with a mean of 3.84) with the statement in Q10 (e) that dealing ethically with all stakeholders is part of a bank’s accountability. The spread of means was narrow, from 4 (regulators) to 3.77 (employees) and none of the differences proved significant. Taking the evidence in Table 7.10 as a whole, it is noticeable that in these cases regulators generated the highest means in four of five cases suggesting a strong degree of engagement with the accountability notion on their part; this might be advantageous for the KSA in attempts to improve corporate behaviour in this area going forward.

7.5.2 Accountability from an Islamic Perspective

In order to examine the participants' views about the concept of accountability from an Islamic perspective, they were asked three yes/no questions relating to the conflict between: (i) *Sharia* and corporate governance; and (ii) business ethics and accountability. The respondents were also asked to rate their agreement level with eight specific statements relating to the issue.

According to Islamic teaching, business must be performed in accordance with *Sharia* rules and values (Abu-Tapanjeh, 2009). In addition, decisions regarding business transactions are guided by *iman* (faith) which, in practice, means following the law of *Sharia* and engaging in only what is permitted. Consequently, question 11 in the survey was designed to establish whether any conflict is perceived between *Sharia* and the principles of corporate governance that could affect practices regarding the latter in the Saudi Arabian environment. Only one participant, an employee, believed that there is a conflict between *Sharia* and corporate governance principles, but he failed to comment further or explain this perceived conflict. For question 12, two respondents, again from the employee group, agreed that there is a conflict between *Sharia* and business ethics principles, but again they failed to explain this. Likewise, the responses to Q13 show that just one person, once again an employee, saw there being a conflict between *Sharia* and accountability. Overall, and notwithstanding the noted exceptions, it is clear that the majority of the participants believe that *Sharia* does not conflict with corporate governance principles, business ethics principles or accountability.

The responses to Q14 (a), summarised in Table 7.11, indicate some disagreement among the respondents regarding the statement that "Islamic banks and Islamic windows apply *Sharia* principles in all transactions"; the group means range from 2.97 (for employees) to 2.71 (for regulators) with the overall average equalling 2.81. The K-W and M-W test results confirm similarity in group averages as there are no significant differences between all four or any pair. This result suggests some widespread dissatisfaction among the participants regarding the religious basis of Islamic banking and Islamic window transactions. In accountability terms, Muslims believe that they will account in the hereafter for whatever they do during their life (Lewis, 2006). Relating to this point, Q14 (b) asked whether employees apply the Islamic concept of accountability when dealing with their shareholders, but the mean of just 2.57 suggests concern in this regard as well. Question 14 (c) also attracted some disagreement (mean of 2.64) regarding whether employees apply the Islamic concept of accountability when dealing with all stakeholders. For these two questions, the lowest group means were generated by the academic group (2.32 for Q14 (b) and 2.54 for Q14 (c)), although there were no significant differences between the groups regarding these two questions. However, the results report that the participants tended to agree that corporate governance practices are influenced by the Islamic conception of accountability (with a mean of 3.27 for Q14 (d)). The group means show that academics again produced the lowest mean value of 2.92, while those of clients, employees and regulators were above the midpoint (3.25, 3.3 and 3.52 respectively). The K-W and M-W tests for Q14 (d), indicate some significant differences among the groups, with the academics' mean significantly lower than the figures generated by employees and regulators. This suggests that the academic conceptualisation of accountability in an Islamic context has not spread more widely in Saudi Arabia.

Table 7.11: Accountability from an Islamic Perspective

Questions	No	Mean	StDv	Group Means				K-W P-values	M-W P-values					
				A	C	E	R		A-C	A-E	A-R	C-E	C-R	E-R
Q14a. Islamic banks and Islamic windows employ *Sharia* principles in all transactions	135	2.81	0.956	2.78	2.79	2.97	2.71	0.746	0.992	0.465	0.681	0.428	0.673	0.284
Q14b. Islamic banks ensure that their employees at all levels apply the Islamic concept of accountability in their dealings with their shareholders	135	2.57	0.824	2.32	2.62	2.80	2.57	0.193	0.135	0.045*	0.195	0.399	0.874	0.515
Q14c. Islamic banks ensure that their employees at all levels apply the Islamic concept of accountability in their dealings with all stakeholders	135	2.64	0.910	2.54	2.70	2.63	2.71	0.797	0.455	0.730	0.335	0.749	0.702	0.629
Q14d. Islamic banks ensure that corporate governance practices are influenced by the Islamic concept of accountability	135	3.27	1.052	2.92	3.25	3.53	3.52	0.049*	0.210	0.022*	0.009*	0.264	0.214	0.781
Q14e. Islamic banks offer all stakeholders the opportunity to participate in the decision-making process according to the concept of *Shura*	135	2.87	1.111	2.76	2.83	2.90	3.09	0.668	0.700	0.749	0.200	0.940	0.296	0.507
Q14f. Islamic banks follow the concept of *Hisba* in their relationships with their employees	135	2.90	1.081	2.70	2.91	3.37	2.52	0.031*	0.363	0.011*	0.655	0.071	0.238	0.012*
Q14g. The concepts of *Shura* and *Hisba* affect the banks' attitudes to ethics	135	3.18	1.101	3.19	3.32	3.13	2.95	0.513	0.489	0.854	0.329	0.454	0.141	0.518
Q14h. The *Sharia* Supervisory Board (SSB) affects and is affected by the banks' attitude to ethics	135	3.40	1.114	3.43	3.40	3.43	3.28	0.960	0.884	0.667	0.852	0.887	0.710	0.602

Note: This table presents the means and standard deviation (StDv) for all participants regarding accountability from an Islamic perspective. The responses are based on a five-point Likert scale, where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= agree to a great extent. Also, the table provides the means for each group and the p-values for the K-W and M-W tests. A * indicates significance at the 5% level. A = Academic; C = Client; E = Employee; R = Regulator.

As discussed in Chapter 4, in Islamic society the concepts of *Shura*, *Hisba* and SSB are core elements of corporate governance and accountability from an Islamic perspective (Gambling and Karim, 1991; Al-Jirari, 1996). As a result, the participants were questioned about each of these three elements. In relation to the statement in Q14 (e) that "Islamic banks offer all stakeholders the opportunity to participate in the decision making process according to the concept of *Shura*", the participants produced a mean of just 2.87, suggesting that some dissatisfaction exists in this regard. The group means indicate only regulators (3.09) generated a mean higher than the mid-point, while academics - as with the three previous statements - produced the lowest (2.78). Although the differences were not significant, the low means generated in all cases by the academics clearly point to a miss-match between the views of educators and practitioners that Saudi authorities should be aware of and address. The overall means for Q14 (f) show that there was also disagreement with the statement that "Islamic banks follow the concept of *Hisba* in their relationships with their employees" with an overall mean of 2.90. Group means ranged from 3.37 (employees) to 2.52 (regulators). The K-W test emphasised this variety by indicating significant differences across the groups. The M-W test results reveal two significant pairwise differences, between academics and employees and between employees and regulators, with, in this case, the relatively high figure for regulators driving the significant differences. Table 7.11 also reveals, however that respondents believe the concepts of *Shura* and *Hisba* affect Saudi banks' attitudes to ethics. The overall mean for Q14 (g) is 3.18, above the mid-point, suggesting some agreement among the participants regarding this statement. There were no significant differences between the groups, but this result is in line with the broad agreement found among the interviewees regarding the relationship between business ethics and the concepts of *Shura* and *Hisba*.

Finally, the participants were asked whether the *Sharia* Supervisory Board (SSB), affects or is affected by banks' attitude to ethics. The overall mean value (3.40) for Q14 (h) suggests that the respondents agreed to some extent with this statement, with all four groups generating figures above the mid-point on the likert scale. The similarity in group attitudes is affirmed by the K-W and M-W tests, since there are no significant differences between the groups. To conclude, the respondents agreed that *Shura*, *Hisba* and SSB, the three aspects of the Islamic concept of accountability, are relevant in an ethical context, but none of the overall or sub-group means exceeded 3.5, suggesting some equivocality on the issue.

7.6 Conclusion

This chapter has reported the results of online questionnaire surveys that were distributed among four groups of Saudi banks' stakeholders (Academics, Clients, Employees and Regulators) between July and August 2013. The results show that there is a high level of agreement among the respondents regarding the definitions of corporate governance, largely in line with the 1992 Cadbury report. The participants also appeared to be familiar to some extent with the Saudi code of corporate governance; taken together, these results suggest that the respondents were in a position to provide reasonably informed opinions of the issues central to the study. The findings suggest that the participants had strong beliefs about the importance of corporate governance, but were dissatisfied with both how it is being practiced by Saudi banks and the levels of awareness of corporate governance existing in the

Kingdom's banking sector. Similarly, little satisfaction was evidenced regarding the extent of compliance by Saudi banks with the corporate governance code. As a result, the participants agreed that penalties should be imposed on banks that fail to comply with relevant regulations.

In terms of business ethics issues, including their relationship with corporate governance, the respondents acknowledged several proposed definitions of the former, but, overall favoured a narrow definition focussing on employee behaviour. Whilst the results reveal a high level of agreement among the participants regarding the importance of business ethics in Saudi banks there was clear dissatisfaction among the respondents regarding the practice (and broader awareness) of ethics in the sector. Consequently, the participants strongly agreed with the suggestion that there should be a compulsory ethical code for Saudi banks imposed by a regulatory body. More generally, the participants acknowledged the relationship between corporate governance and business ethics, emphasising its importance with regard to Saudi banks' success.

There was agreement that the notion of accountability to all stakeholders is understood and taken seriously by banks. In general, it appears to be the view of Saudi banks' stakeholders that high levels of accountability require a strong corporate governance system. The need to deal ethically when interacting with all stakeholders was also seen as part of banks' accountability. Finally in terms of accountability from an Islamic perspective, one of the most significant findings in terms of problems with current practice is the disagreement among the respondents relating to employing *Sharia* principles in all Islamic banks or in Islamic window transactions, which might indicate the existence of some dissatisfaction and misunderstandings of a key religious principle.

In terms of differences amongst the four sub-groups, whilst on many occasions their views appear to converge, in many of the instances where this is not the case it is the academics that appear out of line. In addition to the business ethics definition case referred to above, academics had perspectives on employee accountability and, in particular, the role of Islamic principles in accountability that differed markedly from others' views. Given that one of the key findings reported in this chapter is that Saudi bank stakeholders see major room for improvement in governance-related issues, divergence between academic leaders' understanding of current practices and that of those more closely-involved on a day-to-day basis is concerning.

Having presented empirical results in this and previous chapter, the thesis concludes in chapter 8 by reviewing the findings, discussing their implications and limitations, and making suggestions for further work in the area.

Chapter 8: Conclusion

Conclusions, Contributions, Limitations and Future Research

8.1 Introduction

The main objective of the current study was to begin to fill the gap in the literature regarding reforming and enhancing corporate governance in the Saudi Arabian financial sector by exploring the relationship between corporate governance and business ethics in Saudi-listed banks. Using accountability as a theoretical lens, the perceptions of key stakeholder groups of Saudi-listed banks were targeted for investigation. The stakeholder groups ultimately included in the thesis were: Academics, Board Members, Clients, Employees, Managers and Regulators. To fulfil the objectives of the study and assess the perceptions of these individuals, two research methods were employed: face-to-face semi-structured interviews and a questionnaire survey. The semi-structured interviews took place between March and June 2012 with the board members and managers of Saudi listed banks. Subsequently, the perceptions of a wider group of Saudi banks' stakeholders were explored using a questionnaire survey that was completed in August 2013.

This chapter provides a general discussion of the empirical findings and their implications, as well as drawing together the conclusions about the relationship between corporate governance and business ethics in Saudi-listed banks that the evidence points to. The chapter is structured as follows: Section 8.2 presents a summary of the thesis before the major findings are discussed in Section 8.3. Section 8.4 then highlights the research contributions and implications while Section 8.5

outlines the limitations of the research. Section 8.6 provides suggestions for further research in the area. Concluding thoughts to this study are presented in Section 8.7.

8.2 Summary of the Thesis

This thesis consists of eight chapters. Chapter 1 outlined the significance of the research and presented the research questions. It also highlighted the research scope, limitations and structure. Chapter 2 shed some light on issues related to the study's Saudi context, such as the legal system and financial regulatory bodies. Chapter 3 then reviewed the literature relating to corporate governance, including corporate social responsibility, business ethics in general and how business ethics are affected by religion, particularly Islam. In addition, the relationship between corporate governance and business ethics was described. Chapter 4 discussed the theoretical framework adopted in the thesis to interpret the research findings. The research was shown to employ accountability theory, in an Islamic context. Chapter 5 focused on the methodology and methods adopted in this study. An interpretive paradigm was highlighted as the methodological approach employed in order to provide an understanding of Saudi banks stakeholders' perceptions. Semi-structured interviews and a questionnaire survey were explained as the two methods adopted in this study to obtain the primary data. The results of the 17 interviews with the board members and managers of Saudi listed banks were reported in Chapter 6. The interviewees' perceptions about corporate governance practices and business ethics, and how these are inter-related, were analysed and linked to the prior literature, in the context of the accountability framework adopted. Chapter 7 presented and analysed the results of the questionnaire survey completed by 135 participants from four key groups of stakeholders: Academics, Clients, Employees and Regulators. The questionnaire survey covered issues related to corporate governance, business ethics, accountability and accountability from an Islamic perspective.

8.3 Research Findings

This section sums up the key findings obtained from the empirical analysis and how they address in order the study's central research questions, which are:

1. *What is the relationship between business ethics and corporate governance in the Saudi Arabian banking sector?*

2. *What role does accountability, including Islamic accountability, play in this relationship?*

In relation to corporate governance, the findings suggest that there is a widespread belief amongst the participants that corporate governance is one of the most important concepts for banks and the financial sector in general. This reflects a good level of understanding of corporate governance's importance. Furthermore, the interview findings indicate that there is a particular focus in terms of the definition of corporate governance on the interests of all stakeholders, which reflects some engagement with accountability. The questionnaire survey results confirmed this by impression revealing a high level of satisfaction among the participants with a definition that refers to the broad stakeholder perspective.

As mentioned earlier, a compulsory corporate governance code for Saudi-listed companies issued was issued by CMA in 2006; the majority of the interviewees believe that the code is sufficient. However, the participants in the subsequent questionnaire survey were dissatisfied with the effectiveness of the corporate governance code, in line with some interviewees, they argued that the code is sufficient only as a foundation document, with more detail needed. Saudi-listed banks have different ways of complying with the corporate governance code; the majority of them distribute the code articles across several departments, depending on their specific concern. Nevertheless, there was a low degree of satisfaction amongst the participants with the compliance of the banks with the corporate governance code; perhaps as a result, they believed that penalties should be imposed on banks that fail to comply with the code.

There is no official code for business ethics imposed by the regulatory bodies in Saudi Arabia, and Saudi banks are not required to adopt such a code. However, all listed banks have their own code for business ethics in order to protect and improve their reputation. This belief in the importance of a business ethics code was confirmed by the findings reported in Chapter 7. In contrast, there was some conflict between the interview and questionnaire results in relation to the influence of business ethics on banks' practices. While the findings of Chapter 6 indicate interviewee beliefs that business ethics influence the practices of the banks (even if these need to be better monitored), Chapter 7 demonstrated a low level of acceptance among the larger sample of questionnaire respondents that this is the case. As a result, there was strong agreement that there should be a compulsory ethical code for Saudi banks.

In order to answer the research question concerning “the relationship between corporate governance and business ethics in Saudi banks”, this study explored the perspective of the participants regarding this relationship. The findings indicate a strong relationship between corporate governance and business ethics which is seen as having a positive impact on the banks’ practices. However, there is no ethical code included in the Saudi corporate governance code, and the latter alone was viewed as insufficient to ensure that the banks behave ethically. Enhancing corporate governance practices by applying a business ethics code was seen as practically important in terms of a bank’s success. Significantly, all parties related to Saudi banks appear to be considered as stakeholders, including society, and social responsibility is evidently regarded as a key aspect of ethical dealing.

The importance of accountability for Saudi listed banks was clear in participants’ responses. It is seen as playing a key role in protecting banks, enhancing their reputation and providing an environment for sound business. The findings of Chapter 6 show that banks were viewed by the interviewees as being accountable to all of the related parties and stakeholders’ groups and should provide them with appropriate services and information when required. However, Chapter 7 indicated that accountability to all stakeholders is neither well understood nor fulfilled; equally concerning, Saudi banks do not appear to provide equal access to information across all stakeholder groups.

The findings of the empirical chapters suggest that Saudi banks need to adopt stronger corporate governance systems in order to facilitate meaningful levels of accountability, since a robust governance structure clearly defines the responsibilities necessary for accountability to be achieved. Furthermore, dealing ethically is a key aspect of accountability for all stakeholders, so this cannot be neglected or waived if banks want to protect and promote their reputation and not cause dissatisfaction among concerned parties (Zadek, 1998).

As noted in Chapter 4, the *Sharia* concept encourages individuals to act in a proper way and to perform in favour of all related parties, exactly in line with the broader corporate governance notion advanced by Solomon and others. In contrast, there was disagreement among the participants in Chapter 7 in relation to how *Sharia* principles are applied to Saudi banks' transections in practice. In addition, there was dissatisfaction regarding the *Shura* concept, indicating that the banks are failing to offer each stakeholder an opportunity to participate in the decision-making process. Significantly, while there was an agreement in Chapter 6 about the impact of the *Hisba* element upon corporate governance and accountability practices, Chapter 7 suggested dissatisfaction in relation to such an impact.

One form of the *Hisba* concept is "whistle blowing", which is often cited as a tool of corporate governance and accountability systems (Al-Jirari, 1996), and this means that every employee should be responsible for any bank violations and should inform the management about it. More generally, the results show that business ethics are seen as affecting and being affected by both the *Shura* and *Hisba* concepts in the context of Saudi listed banks.

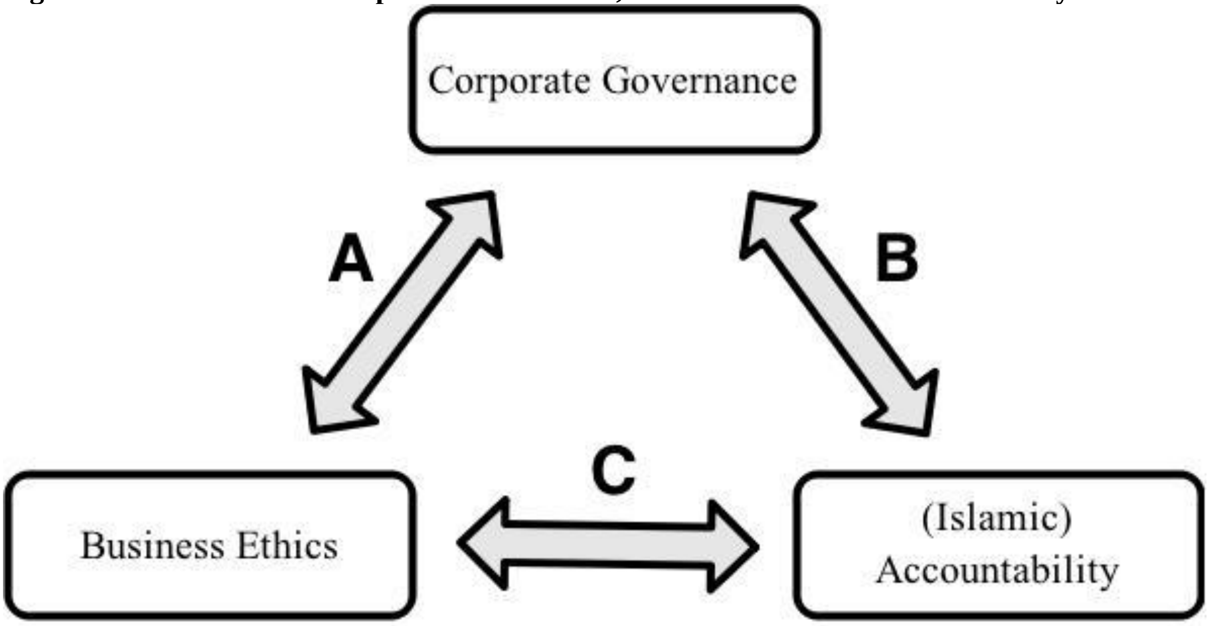
8.4 Contributions and Implications

8.4.1 Contributions to Knowledge

The present findings provide an important contribution to corporate governance debates in the large and growing Saudi Arabian financial sector and attendant concerns with business ethics. Since 2006, when the country's first corporate governance code was issued, there have been several studies on the latter and its impact on Saudi firms. However, both before and since then, no studies have explored corporate governance's relationship in the context of business ethics, despite this link now being part of most debates about modern business behaviour; the current study was deliberately intended to fill this gap. In particular, the current findings contribute to knowledge by examining the relationship between corporate governance and business ethics in the Saudi financial sector from an accountability perspective.

As a result, the study is intended to fill a gap in the corporate governance literature relating to links among governance, ethics and accountability in an Islamic context. Certainly in so far as stakeholder perceptions are concerned, Figure 8.1 demonstrates that perceived links exist amongst all these concepts. In particular, governance is viewed as having a strong ethical context (arrow A) as well as reflecting the notions of both general and Islamic accountability (arrow B). However, the latter were also revealed by the research to play a direct role in the ethical construct, suggesting a third relationship, denoted in Figure 8.1 as arrow C. This characterisation fits with the work of Monks and Minow (2004) who specifically related the three concepts inherent in the present study (corporate governance, business ethics and accountability in a developed country context). This thesis has, though, extended this notion into an Islamic context, which represents an important theoretical contribution.

Figure 8.1 Links between Corporate Governance, Business Ethics and Accountability



Note: this figure attempts to conceptualise the relationship between the three central components examined in this thesis.

According to this researcher's knowledge, the current study is the first attempt to explore links between corporate governance and accountability from an Islamic perspective. However, the evidence presented suggests that in the Saudi financial sector, links are also perceived between these notions and the concept of business ethics, suggesting a moral dimension that prior theoretical analyses have ignored.

The present study has developed our understanding of how corporate governance practices are perceived in the Saudi financial sector, including how the banks deal with the official code. Given how important this sector is to emerging nations generally, and the Middle East in particular (Krebat et al., 2013), such insights are likely to be highly-relevant to market regulators in the nations concerned.

A specific major contribution of the study is the exploration of the impact of the business ethics concept in Saudi-listed banks from the point of view of several key stakeholder groups. In addition, the role of internal business ethics codes in each bank, including their limitations in practice and implications for banking practices have been highlighted.

The thesis further contributes to knowledge as it constitutes the first attempt to explore the relationship between corporate governance and business ethics in the financial sector in Saudi Arabia. The evidence points to perception of a strong relationship between corporate governance and business ethics, with the view emerging that the Saudi corporate governance code needs to be enhanced by including a compulsory business ethics code and a change in approach where behaving ethically towards stakeholders in general is seen as something worthwhile. Finally, the thesis had provided novel evidence that aids understanding of both broad accountability and, specifically, Islamic accountability frameworks and their impact on corporate governance and ethical standards in the Saudi financial sector.

8.4.2 Implications of the Findings

In addition to providing theoretical and practical contributions to knowledge, the current study also has a number of policy implications. According to the empirical findings there is no dominant definition of corporate governance amongst Saudi bank stakeholders which might reflect a lack of understanding of the notion, despite its prevalence in academic articles for several decades. Perhaps reflecting this point, the CMA does not explain how its code should be employed or who in a corporation should be responsible for its implementation. As a result there was disparity among participants' understanding and in banks' performance, and a lack of awareness of the corporate governance code amongst employees. This evidence should encourage regulatory bodies such as the CMA to develop and monitor the code in order to enhance understanding and practice. Interestingly, academics expressed less satisfaction than did other groups in relation to corporate governance practices and the need for corporate governance to be taught in more depth at university level in Saudi Arabia is evident. Currently, corporate governance is not part of the mainstream curriculum, and the evidence here suggest that the issue requires an immediate response by integrating the notion and its importance into education, especially for students likely to follow careers in the financial sector.

The findings of this study have revealed that there are internal ethical codes at each bank, but they clearly require external monitoring to be effective in practice. The evidence further suggests the need to integrate an ethical code that guides employees' behaviour in their daily activities, but with strong monitoring of bank compliance being critical. Regarding this issue, academics, again admitted that the importance of business ethics is absent from the curricula and change is needed. Significantly, this absence also exists in the literature on Saudi business in general.

The findings of the current study highlight a further practical weakness in Saudi banks' internal context systems in that the lack of official code, or bodies to regulate and monitor SSBs, was seen by participants as a problem. Such regulatory bodies should enhance the performance of SSBs in order to foster an effective corporate governance system and encourage Islamically-ethical business practices. This type of practical weakness in SSBs, - alongside the dissatisfaction evident among participants regarding the *Shura* concept and conflicting views in relation to the *Hisba* - suggest issues with all three key elements of accountability from an Islamic perspective. Saudi regulatory bodies may therefore need to take action to provide clarity and commonality regarding these matters if ethical behaviour that is consistent with the Kingdom's Islamic foundations is to prevail.

Finally, it was noticeable on several occasions that academics held different views to the rest of participants, generally in terms of having greater concern over current practices. This trend is worrying, and suggests that without action on behalf of Saudi authorities to bring educational and financial institutions together, the chances of leaders in both sectors working together effectively to bring about meaningful change is limited.

8.5 Limitations of the Research

Several important limitations to this study need to be acknowledged. The relitively small number of participants and respondents is the first limitation, since 17 interviews and 135 questionnaire surveys were conducted. Employing such methods might not reflect the perceptions about corporate governance and business ethics of all stakeholders in Saudi Arabia. In addition, the stakeholder groups who participated in this study represent some of the stakeholders but not all of them, as it was very difficult to include all theoretically-possible groups; generalisation of the results might be affected as a result. Furthermore, the interviews and questionnaire surveys were conducted in Arabic, before being translated by the researcher; this might cause changes in the participants' views, although, the translated and original versions were reviewed by the researcher's colleagues to ensure rigour in the translation process.

In relation to the research methods, adopted semi-structured interviews and questionnaire surveys can be misleading in some contexts. For example, some interviewees might not wish to give a bad impression of their bank, and so give entirely honest answers. Also, participants in the questionnaire can lose focus when completing overly-long surveys. As a result, the document used here was kept relatively short, to try and avoid this problem.

8.6 Future Research

The current study, deliberately given its importance, only explores the relationship between corporate governance and business ethics the banking sector of the Saudi market. However, further research might usefully investigate this relationship in other sectors of the Saudi market. Moreover, a comparison between the financial sectors in Saudi Arabia and other countries in the GCC could be made.

Future research might also employ different methods, such as case studies of individual organisation practices, and the results compared with those of the current study. The case study method can provide significant insights in many context and investigating the practical relationship between corporate governance and business ethics might prove suitable.

In terms of business ethics, future research might examine the effectiveness of bank codes in further detail. Furthermore, a comparison might be undertaken between conventional and Islamic banks in relation to the business ethics codes in operation. Finally, future research might consider developing business ethics principles that can be included in future drafts of the corporate governance code, either for the Saudi market as a whole or, given the sector's importance, simply for the banking sector.

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Appendices

Appendices 2.1:

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

Amended by Resolution of the Board
of the Capital Market Authority Number 1-10-2010
Dated 30/3/1431H corresponding to 16/3/2010G

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 on the CMA website: www.cma.org.sa

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 five per cent or more of the issued shares of the company or any of its group.

2. Being a representative of a legal person that holds a five per cent or more of the issued shares of the company or any of its group.

3. 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.

4. he/she is a first-degree relative of any board member of the company or of any other company within that company's group.

5. he/she is first-degree relative of any of senior executives of the company or of any other company within that company's group.

6. he/she is a board member of any company within the group of the company which he is nominated to be a member of its board.

7. 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[54]: 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.

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[54] The Board of the Capital Market Authority issued resolution Number (3-40-2012) Dated 17/2/1434H corresponding to 30/12/2012G making paragraphs (i) and (j) of Article 5 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2013G.

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[55]: 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.

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[55] The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 9 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from the first board report issued by the company following the date of the Board of the Capital Market Authority resolution mentioned above.

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.

For the purpose of this paragraph, "compensation and remuneration" means salaries, allowances, profits and any of the same; annual and periodic bonuses related to performance; long or short- term incentive schemes; and any other rights *in rem*.

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[56]: Main Functions of the Board of Directors

Among the main functions of the Board is the following:

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) Lay down rules for internal control systems and supervising them; this includes:

1. Developing a written policy that would regulates 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.

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[56] The Board of the Capital Market Authority issued resolution Number (1-33-2011) Dated 3/12/1432H corresponding to 30/10/2011G making paragraph (b) of Article 10 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2012.

- The Board of the Capital Market Authority issued resolution Number (3-40-2012) Dated 17/2/1434H corresponding to 30/12/2012G making paragraphs (c) and (d) of Article 10 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 30/6/2013G.

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 compatible with the proper professional and ethical standards, and regulate their relationship with the stakeholders. The Board of Directors lays down procedures for supervising this code and ensuring compliance there with.

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 undertakes to carry out whatever may be in the general interest of the company, but not the interests of the group he 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[57]: 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.

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[57] The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making paragraphs (c) and (e) of Article 12 of the Corporate Governance
Regulations mandatory on all companies listed on the Exchange effective from year 2009.
- The Board of the Capital Market Authority issued resolution Number (3-40-2012) Dated 17/2/1434H corresponding to 30/12/2012G making paragraph (g) of Article 12 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2013G.

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 nonexecutive members. 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.

d) The independent members of the Board of Directors shall not be less than two members, or one-third of the members, whichever is greater.

e) The Articles of Association of the company shall specify the manner in which membership of the Board of Directors terminates.

f) 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[58]: 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

[58] The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 14 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from year 2009.

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[59]: 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, 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.

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[59] The Board of the Capital Market Authority issued resolution Number (1-10-2010) Dated 30/3/1431H corresponding to 16/3/2010G making Article 15 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2011G.

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 should 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 neither in the General Assembly nor in the Board of Directors. 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.

Appendices 6.1: Interviewes Questions

A. CG Definition

1. What do you understand by the term corporate governance? How important do you think it is for businesses in general and for your bank in particular?

2. Do you think compliance with Corporate Governance Code in Saudi Arabia is sufficient to ensure a high standard of corporate governance?

3. What are the most important corporate governance issues for your bank?

4. What does your bank do to achieve its corporate governance goals and assess their achievement?

B. Business Ethics

5. What is your definition and understanding of the concept of business ethics? Are business ethics important for your bank? If so, why? If not, why not?

6. Does your bank have an ethical code? If so why? If not, why not?

7. Do you think business ethics have an impact on your bank's practices? If so, how? If not why not?

8. How, if at all, are corporate governance and business ethics related?

9. Do you think adherence to the Corporate Governance Code in Saudi Arabia is sufficient to ensure your bank behaves ethically, or is a specific ethical code needed?

10. How your bank define stakeholders (e.g. clients, investors, employees, shareholders and community)? Does your bank attempt to ensure that they are dealt with ethically?

C. Accountability

11. How do you define and understand the accountability concept?

12. Which stakeholders do you believe that your bank is accountable to? How is this accountability fulfilled?

13. Do you think that accountability requires a strong corporate governance system?

14. Do you think that dealing ethically is part of being accountable to your stakeholders?

D. Accountability in Islam

15. To what extent is your bank subject to *Sharia* law (Islamic Law)?

16. Are there any implications for corporate governance in *Sharia* law?

17. How do you define accountability from an Islamic perspective?

18. To what extent does the Islamic concept of accountability (*Hisba*) influence your corporate governance practices? If so, how? If not why not?

19. To what extent is the Islamic concept of accountability influenced by business ethics?

20. Do you think business ethics have an influence on *Shura* and *Hisba* practices? If so, how? If not why not?

21. Does your bank have a *Sharia* supervisory board? If so, how many members does it have?

22. Does the *Sharia* supervisory board impact on the bank's corporate governance system or ethical standards?

Appendices 7.1: Questionnaire surveys Questions

(Academics Version)

Thank you in advance for completing this questionnaire.

A: Demographic Information

1. How many years of work experience do you have:

Less than 5 years	
Between 5 and 10 years	
Between 10 and 15 years	
More than 15 years	

2. What is your highest level of academic qualification (Please choose one)

PhD	
Master	
Undergraduate degree	
Other (please specify)	

3. Please specify your age group

30 years or less	
31 – 40 years	
41 – 50 years	
51 – 60 years	
More than 60 years	

For questions 4, 6-10 and 14 please respond by ticking the appropriate box [where 1 = Not at all, 5 = To a great extent]

B: Corporate Governance Definition

4. To what extent do you agree that the term Corporate Governance term refers to:

	1	2	3	4	5
a. The system by which institutions are controlled and directed					
b. Integrity and honesty in all activities in an institution					
c. The principles that relate to the relationship between the institution and its shareholders.					
d. The principles that relate to the relationship between the company and all stakeholders who affect, or who are affected by, the decisions and activities of the institution					
e. Responsible management with ethical foundations and recognition of the accountability of the institution towards all of its stakeholders					

5. A. How familiar you are with the Saudi Arabian Corporate Governance:

1	2	3	4	5

B. Were you consulted on it:

Yes	No

(If yes please explain) ………………………………………………………….

6. To what extent do you agree with the following statements:

	1	2	3	4	5
a. Corporate governance is important for Saudi banks					
b. Practices of corporate governance in Saudi banks are satisfactory					
c. There is an adequate awareness of corporate governance in the Saudi banking sector					
d. The Saudi Arabian Corporate Governance code is adequate and effective					
e. Saudi banks comply with most of the corporate governance code rules					
f. The Saudi Arabian Corporate Governance Code should be compulsory for all listed banks					
g. There should be penalties for non-compliance by banks with the Saudi Arabian Corporate Governance Code					

C: Business Ethics

7. In the context of the Saudi Arabian banking sector, to what extent do you agree that the term “Business Ethics” refers to:

	1	2	3	4	5
a. The behaviour of employees within an institution					
b. The principles that control the relationship between the institution and others					
c. A set of principles describing how employees should behave towards others, whether inside or outside the institution					
d. An application of theories of “right” and “wrong” to activity within and between institutions, and between institutions and their broader environment					

8. To what extent do you agree with the following statements:

	1	2	3	4	5
a. Business ethics are important for Saudi banks					
b. The practice of business ethics in Saudi banks is satisfactory					
c. There is an adequate awareness of the principles of business ethics in the Saudi banking sector					
d. There should be a compulsory ethical code for Saudi banks issued by the regulatory body					
e. If there is an official code of business ethics, there should be penalties for non-compliance with it					
f. There is a relationship between corporate governance and business ethics					
g. The existing Saudi Arabian Corporate Governance Code is sufficient to ensure that banks behave ethically					
h. A strong code of business ethics would enhance corporate governance practices in Saudi banks					
i. It is important for student who might work in the banking sector in the future to be educated about the importance of business ethics					
j. It is important for student who might work in the banking sector in the future to be educated about the importance of corporate governance					
k. Business ethics is a key part of our curriculum					
l. Corporate governance is a key part of our curriculum					

D: Accountability

9. To what extent do you agree that Saudi banks should be accountable to the following stakeholders:

	1	2	3	4	5
a. Academics					
c. Clients					
d. Employees					
g. Regulators					

10. To what extent do you agree with the following statements about Saudi Arabian banks:

	1	2	3	4	5
a. Accountability to all stakeholders is understood and fulfilled					
b. Saudi banks provide equal access to relevant information to all stakeholders					
c. Banks’ employees at all different levels are accountable for their acts					
d. To facilitate a high level of accountability, banks need to adopt a strong corporate governance system					
e. Dealing ethically with all stakeholders is part of banks’ accountability					

E: Accountability in Islam

11. In your opinion does *Sharia* conflict with any principles of good corporate governance?

Yes	No

(If yes please explain) …………………………………………………………

12. In your opinion does *Sharia* conflict with any principles of business ethics?

Yes	No

(If yes please explain) …………………………………………………………

13. In your opinion does *Sharia* conflict with accountability

Yes	No

(If yes please explain) …………………………………………………………

14. To what extent do you agree with the following statements about Saudi banks:

	1	2	3	4	5
a. Islamic banks and Islamic windows employ *Sharia* principles in all transactions					
b. Ensure that employees at all levels employ the Islamic conception of accountability in their dealings with shareholders					
c. Ensure that employees at all levels employ the Islamic conception of accountability in their dealings with all stakeholders					
d. Ensure that corporate governance practices are influenced by the Islamic conception of accountability					
e. Offer all stakeholders the opportunity to participate in decision-making processes according to the *Shura* concept					
f. Banks follow the *Hisba* concept in its relationship with its employees					
g. The *Shura* and *Hisba* concepts affect banks' attitude to ethics					
h. The *Sharia* Supervisory Board (SSB) affects and is affected by banks' attitude to ethics					

Thank you for completing this questionnaire. If you would like to make any further comments please do so below:

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If you would like a copy of the result, please contact:

I.A.ALSHEKMUBARAK@DUNDEE.AC.UK

(Clients Version)

Thank you in advance for completing this questionnaire.

A: Demographic Information

1. How many years of work experience do you have:

Less than 5 years	
Between 5 and 10 years	
Between 10 and 15 years	
More than 15 years	

2. What is your highest level of academic qualification (Please choose one)

PhD	
Master	
Undergraduate degree	
Other (please specify)	

3. Please specify your age group

30 years or less	
31 – 40 years	
41 – 50 years	
51 – 60 years	
More than 60 years	

For questions 4, 6-10 and 14 please respond by ticking the appropriate box [where 1 = Not at all, 5 = To a great extent]

B: Corporate Governance Definition

4. To what extent do you agree that the term Corporate Governance term refers to:

	1	2	3	4	5
a. The system by which institutions are controlled and directed					
b. Integrity and honesty in all activities in an institution					
c. The principles that relate to the relationship between the institution and its shareholders.					
d. The principles that relate to the relationship between the company and all stakeholders who affect, or who are affected by, the decisions and activities of the institution					
e. Responsible management with ethical foundations and recognition of the accountability of the institution towards all of its stakeholders					

5. A. How familiar you are with the Saudi Arabian Corporate Governance:

1	2	3	4	5

B. Were you consulted on it:

Yes	No

(If yes please explain) ……………………………………………………….

6. To what extent do you agree with the following statements:

	1	2	3	4	5
a. Corporate governance is important for Saudi banks					
b. Practices of corporate governance in Saudi banks are satisfactory					
c. There is an adequate awareness of corporate governance in the Saudi banking sector					
d. The Saudi Arabian Corporate Governance code is adequate and effective					
e. Saudi banks comply with most of the corporate governance code rules					
f. The Saudi Arabian Corporate Governance Code should be compulsory for all listed banks					
g. There should be penalties for non-compliance by banks with the Saudi Arabian Corporate Governance Code					

C: Business Ethics

7. In the context of the Saudi Arabian banking sector, to what extent do you agree that the term “Business Ethics” refers to:

	1	2	3	4	5
a. The behaviour of employees within an institution					
b. The principles that control the relationship between the institution and others					
c. A set of principles describing how employees should behave towards others, whether inside or outside the institution					
d. An application of theories of “right” and “wrong” to activity within and between institutions, and between institutions and their broader environment					

8. To what extent do you agree with the following statements:

	1	2	3	4	5
a. Business ethics are important for Saudi banks					
b. The practice of business ethics in Saudi banks is satisfactory					
c. There is an adequate awareness of the principles of business ethics in the Saudi banking sector					
d. There should be a compulsory ethical code for Saudi banks issued by the regulatory body					
e. If there is an official code of business ethics, there should be penalties for non-compliance with it					
f. There is a relationship between corporate governance and business ethics					
g. The existing Saudi Arabian Corporate Governance Code is sufficient to ensure that banks behave ethically					
h. A strong code of business ethics would enhance corporate governance practices in Saudi banks					
i. Ethical practices influence my decision on which banks to use					
j. Corporate governance practices influence my decision on which banks to use					

D: Accountability

9. To what extent do you agree that Saudi banks should be accountable to the following stakeholders:

	1	2	3	4	5
a. Academics					
c. Clients					
d. Employees					
g. Regulators					

10. To what extent do you agree with the following statements about Saudi Arabian banks:

	1	2	3	4	5
a. Accountability to all stakeholders is understood and fulfilled					
b. Saudi banks provide equal access to relevant information to all stakeholders					
c. Banks' employees at all different levels are accountable for their acts					
d. To facilitate a high level of accountability, banks need to adopt a strong corporate governance system					
e. Dealing ethically with all stakeholders is part of banks' accountability					

E: Accountability in Islam

11. In your opinion does *Sharia* conflict with any principles of good corporate governance?

Yes	No

(If yes please explain) ………………………………………………………….

12. In your opinion does *Sharia* conflict with any principles of business ethics?

Yes	No

(If yes please explain) ………………………………………………………….

13. In your opinion does *Sharia* conflict with accountability

Yes	No

(If yes please explain) ………………………………………………………….

14. To what extent do you agree with the following statements about Saudi banks:

	1	2	3	4	5
a. Islamic banks and Islamic windows employ *Sharia* principles in all transactions					
b. Ensure that employees at all levels employ the Islamic conception of accountability in their dealings with shareholders					
c. Ensure that employees at all levels employ the Islamic conception of accountability in their dealings with all stakeholders					
d. Ensure that corporate governance practices are influenced by the Islamic conception of accountability					
e. Offer all stakeholders the opportunity to participate in decision-making processes according to the *Shura* concept					
f. Banks follow the *Hisba* concept in its relationship with its employees					
g. The *Shura* and *Hisba* concepts affect banks' attitude to ethics					
h. The *Sharia* Supervisory Board (SSB) affects and is affected by banks' attitude to ethics					

Thank you for completing this questionnaire. If you would like to make any further comments please do so below:

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If you would like a copy of the result, please contact:

I.A.ALSHEKMUBARAK@DUNDEE.AC.UK

(Employees Version)

Thank you in advance for completing this questionnaire.

A: Demographic Information

1. How many years of work experience do you have:

Less than 5 years	
Between 5 and 10 years	
Between 10 and 15 years	
More than 15 years	

2. What is your highest level of academic qualification (Please choose one)

PhD	
Master	
Undergraduate degree	
Other (please specify)	

3. Please specify your age group

30 years or less	
31 – 40 years	
41 – 50 years	
51 – 60 years	
More than 60 years	

For questions 4, 6-10 and 14 please respond by ticking the appropriate box [where 1 = Not at all, 5 = To a great extent]

B: Corporate Governance Definition

4. To what extent do you agree that the term Corporate Governance term refers to:

	1	2	3	4	5
a. The system by which institutions are controlled and directed					
b. Integrity and honesty in all activities in an institution					
c. The principles that relate to the relationship between the institution and its shareholders.					
d. The principles that relate to the relationship between the company and all stakeholders who affect, or who are affected by, the decisions and activities of the institution					
e. Responsible management with ethical foundations and recognition of the accountability of the institution towards all of its stakeholders					

5. How familiar you are with the Saudi Arabian Corporate Governance:

1	2	3	4	5

6. To what extent do you agree with the following statements:

	1	2	3	4	5
a. Corporate governance is important for Saudi banks					
b. Practices of corporate governance in Saudi banks are satisfactory					
c. There is an adequate awareness of corporate governance in the Saudi banking sector					
d. The Saudi Arabian Corporate Governance code is adequate and effective					
e. Saudi banks comply with most of the corporate governance code rules					
f. The Saudi Arabian Corporate Governance Code should be compulsory for all listed banks					
g. There should be penalties for non-compliance by banks with the Saudi Arabian Corporate Governance Code					

C: Business Ethics

7. In the context of the Saudi Arabian banking sector, to what extent do you agree that the term “Business Ethics” refers to:

	1	2	3	4	5
a. The behaviour of employees within an institution					
b. The principles that control the relationship between the institution and others					
c. A set of principles describing how employees should behave towards others, whether inside or outside the institution					
d. An application of theories of “right” and “wrong” to activity within and between institutions, and between institutions and their broader environment					

8. To what extent do you agree with the following statements:

	1	2	3	4	5
a. Business ethics are important for Saudi banks					
b. The practice of business ethics in Saudi banks is satisfactory					
c. There is an adequate awareness of the principles of business ethics in the Saudi banking sector					
d. There should be a compulsory ethical code for Saudi banks issued by the regulatory body					
e. If there is an official code of business ethics, there should be penalties for non-compliance with it					
f. There is a relationship between corporate governance and business ethics					
g. The existing Saudi Arabian Corporate Governance Code is sufficient to ensure that banks behave ethically					
h. A strong code of business ethics would enhance corporate governance practices in Saudi banks					
i. Bank employees are aware of the need for high standards of ethical behaviour in their professional activities					
j. Bank employees are aware of the firm’s corporate governance policies and procedures					

D: Accountability

9. To what extent do you agree that Saudi banks should be accountable to the following stakeholders:

	1	2	3	4	5
a. Academics					
c. Clients					
d. Employees					
g. Regulators					

10. To what extent do you agree with the following statements about Saudi Arabian banks:

	1	2	3	4	5
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E: Accountability in Islam

11. In your opinion does *Sharia* conflict with any principles of good corporate governance?

Yes	No

(If yes please explain) ………………………………………………………….

12. In your opinion does *Sharia* conflict with any principles of business ethics?

Yes	No

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13. In your opinion does *Sharia* conflict with accountability

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g. The *Shura* and *Hisba* concepts affect banks' attitude to ethics					
h. The *Sharia* Supervisory Board (SSB) affects and is affected by banks' attitude to ethics					

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If you would like a copy of the result, please contact:

I.A.ALSHEKMUBARAK@DUNDEE.AC.UK

(Regulators Version)

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A: Demographic Information

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Between 10 and 15 years	
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d. The principles that relate to the relationship between the company and all stakeholders who affect, or who are affected by, the decisions and activities of the institution					
e. Responsible management with ethical foundations and recognition of the accountability of the institution towards all of its stakeholders					

5. Were you involved in creating the Saudi Arabian Corporate Governance cod:

Yes	
No	

If yes out line your involvement: _

6. To what extent do you agree with the following statements:

	1	2	3	4	5
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b. Practices of corporate governance in Saudi banks are satisfactory					
c. There is an adequate awareness of corporate governance in the Saudi banking sector					
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e. If there is an official code of business ethics, there should be penalties for non-compliance with it					
f. There is a relationship between corporate governance and business ethics					
g. The existing Saudi Arabian Corporate Governance Code is sufficient to ensure that banks behave ethically					
h. A strong code of business ethics would enhance corporate governance practices in Saudi banks					
i. Ensuring high ethical standards should be a priority for regulators of the Saudi Arabian banking sector					
j. Ensuring high corporate governance standards should be a priority for regulators of the Saudi Arabian banking sector					

D: Accountability

9. To what extent do you agree that Saudi banks should be accountable to the following stakeholders:

	1	2	3	4	5
a. Academics					
c. Clients					
d. Employees					
g. Regulators					

10. To what extent do you agree with the following statements about Saudi Arabian banks:

	1	2	3	4	5
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c. Banks' employees at all different levels are accountable for their acts					
d. To facilitate a high level of accountability, banks need to adopt a strong corporate governance system					
e. Dealing ethically with all stakeholders is part of banks' accountability					

E: Accountability in Islam

11. In your opinion does *Sharia* conflict with any principles of good corporate governance?

Yes	No

(If yes please explain) …………………………………………………….

12. In your opinion does *Sharia* conflict with any principles of business ethics?

Yes	No

(If yes please explain) …………………………………………………….

13. In your opinion does *Sharia* conflict with accountability

Yes	No

(If yes please explain) …………………………………………………….

14. To what extent do you agree with the following statements about Saudi banks:

	1	2	3	4	5
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c. Ensure that employees at all levels employ the Islamic conception of accountability in their dealings with all stakeholders					
d. Ensure that corporate governance practices are influenced by the Islamic conception of accountability					
e. Offer all stakeholders the opportunity to participate in decision-making processes according to the *Shura* concept					
f. Banks follow the *Hisba* concept in its relationship with its employees					
g. The *Shura* and *Hisba* concepts affect banks' attitude to ethics					
h. The *Sharia* Supervisory Board (SSB) affects and is affected by banks' attitude to ethics					

Thank you for completing this questionnaire. If you would like to make any further comments please do so below:

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If you would like a copy of the result, please contact:

I.A.ALSHEKMUBARAK@DUNDEE.AC.UK