An Empirical Investigation Into the Challenges and Obstacles of Implementing Effective Corporate Governance in Saudi State-Owned Enterprises

By

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Abstract

Corporate Governance (CG) research has received significant attention in developed countries like the UK and the US, yet its exploration within state-owned enterprises (SOEs) in emerging economies remains relatively nascent. This research investigates the challenges and obstacles surrounding the implementation of effective CG in Saudi Arabian SOEs. Employing an exploratory research design, this study combines qualitative and quantitative approaches through comprehensive semi-structured interviews (N=40) and a questionnaire survey (N=157) with board of directors' members, senior finance officials, other senior managers, and internal and external auditors.

The findings delineate various challenges related to CG in Saudi Arabian SOEs. Notably, SOEs often lack fair policies and procedures for board nominations, resulting in political agendas infiltrating the process. Particularly, inadequate autonomy granted to SOEs exacerbates governance difficulties. Government domination of board directorships and scant independent director representation, as well as board members' time constraints (due to concurrent government or private sector roles), further hinder board competence. The inadequate connection between board member compensation and social objectives also raises concerns regarding the integration of board compensation structures with the hybrid nature of SOEs operations. Institutional deficiencies such as the absence of a robust regulator further hamper the implementation of CG practices.

This study also finds that the role of the Saudi Arabian General Court of Audit (GCA) and external auditors in SOEs governance is minimal, and disclosure practices primarily adhere to regulatory requirements, limiting voluntary disclosures. Intriguingly, internal audit functions suffer from resource deficiencies, reporting discrepancies, and routine audit practices that lack risk considerations, all of which undermine effective CG implementation. Senior managers also encounter constraints on operational autonomy, often viewing their positions as transient, whereas compensation structures fail to align closely with long-term objectives.

Overall, this study makes several theoretical contributions to our understanding of CG in Saudi Arabian SOEs. Firstly, it illustrates how CG practices are sometimes adopted more for legitimacy purposes or coercive pressures rather than for their practical applicability. Employing Social Identity Theory, this study also highlights how board members' self-perceptions as disparate groups hamper effective governance implementation. From an Agency Theory perspective, this research demonstrates that SOEs face the dilemma that increasing autonomy can amplify agency conflicts while reducing interference. It also critically examines the role of independent directors, finding that, despite their structural presence, they frequently face difficulties in voicing opposition or providing constructive criticism. Additionally, contrary to the assumptions of Stewardship Theory, the study observes that executives often view their roles not as stewards of the organisation but as stepping stones to further their careers in either the public or private sectors. This, indeed, underscores a critical gap between theoretical expectations and practical behaviours. Finally, the study offers critical insights and actionable recommendations for policymakers to bridge the gap between theoretical frameworks and practical implementation to improve CG practices in Saudi Arabian SOEs.

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

Despite the wave of privatisation during the 1980's and 1990's, SOEs continue to remain pervasive, especially in developing countries (Cuervo-Cazurra 2017). SOEs play a significant global role. According to Tihanyi et al. (2019), the influence of states on firms within the global economy remains substantial. Governments have become prominent owners of companies across many countries. For example, eight countries - China, the United Arab Emirates, Russia, Indonesia, Malaysia, Saudi Arabia, India, and Brazil - show a high concentration of SOEs, and collectively account for over 20% of world trade (Kowalski et al. 2013). Even in the developed economies of Western Europe, the state maintains controlling shares. For instance, 15% of listed firms in Austria and Finland, and 10% in Italy (Faccio and Lang 2002) are state controlled. Moreover, SOEs contribute approximately 5% of GDP in OECD countries and 10% of global GDP (Budiman et al. 2009). Globally, SOEs represent 15% of the largest corporations and contribute to 10% of the global GDP (Kalotay 2017). As a phenomenon transcending borders, SOEs are recognised worldwide (Bruton et al. 2015). From Saudi Arabia to Sweden, SOEs play an important role and are often the primary employers in many countries (Sjöholm 2006). Significantly, SOEs serve a crucial role (Florio 2014) by delivering essential public services such as water, energy, healthcare, and education and consequently form the basis for substantial economic activities (Daiser et al. 2017).

The prevalence of SOEs and the contentious outcomes of privatisation programmes worldwide also highlight the significance of CG research as an alternative avenue for enhancing efficiency and effectiveness (Aguilera et al. 2021c). CG reform can possibility enhance the performance of SOEs, which offers a policy option for countries that aim to restructure these enterprises without extensive privatisation efforts (Aivazian et al. 2005). Researchers such as Okhmatovskiy (2010), Musacchio et al. (2015a), Zheng et al. (2015), and Tihanyi et al. (2019) collectively advocate for the value of CG research for SOEs. In theory, SOEs are owned by all citizens of a country; however, in practice, they are controlled by state bureaucrats and politicians. The citizen-owners lack CG mechanisms to oversee SOE operations (Stan et al. 2014). Moreover, SOEs often pursue both social and commercial goals, which present a challenge that necessitates effective governance mechanisms to address this dual mission. To maintain this hybrid nature, active management and robust CG practices is important (Ebrahim et al. 2014). CG is of a particular importance for SOEs, as effective and efficient public service provision depend upon robust governance structures (Grossi et al. 2015).

Despite the significance of CG in SOEs, a review article by Federo et al. (2020) spanning over three decades, from 1988 to 2019, revealed a disproportionate emphasis on the influence of family and institutional ownership on governance boards. Their review highlighted that approximately 75% of studies focused on the role of family and institutional ownership on CG, while the remaining portion was distributed among other ownership types, such as state ownership. These findings from Federo et al. (2020) show the paucity of CG research on SOEs, a situation does not alien with OECD's (2019) assertion that state ownership represents 13% of the global market capitalisation. In addition, according to Bruton et al. (2015), only 39 articles on SOEs have been published from 2000 to 2014, and among those, 30 pertain to China, published in journals listed among the Financial Times' top 45. Similarly, a review by Abang'a and Wang'ombe (2020) of top-tier accounting journals reveals a dearth of published articles on CG among SOEs.

Due to their enduring influence on the global economy, a resurgence in the study of SOEs has been witnessed in recent years. For example, contributors include Stan et al. (2014), Bruton et al. (2015), Grossi et al. (2015), Daiser et al. (2017), Lazzarini and Musacchio (2018), Musacchio and Lazzarini (2018), Lazzarini et al. (2021), Abang'a and Wang'ombe (2020), Okhmatovskiy et al. (2022) and Cuervo-Cazurra et al. (2023). However, while these studies have contributed significantly to our understanding, they lack in-depth investigations into the challenges of implementing effective CG within SOEs, particularly in developing countries. Saudi Arabia has witnessed substantial economic advancements across all sectors since the discovery of oil, and government ownership of business enterprises is driven by the aim of fixing market failures, maintaining productive assets, and promoting economic development and independence. The widespread reliance on SOEs in Saudi Arabia to achieve policy objectives and foster prosperity calls for a comprehensive empirical inquiry into the CG of these enterprises. Thus, this research aims to conduct an empirical investigation into the challenges and obstacles of implementing effective CG in Saudi Arabian SOEs.

1.2 Research Significance

There is an apparent research gap in the literature and limited attention specifically on the CG of SOEs generally. To the best of the researcher's knowledge, no investigation has been conducted on CG of SOEs in the context of Saudi Arabia, despite the widespread recognition of its crucial role in ensuring the permanence and performance of SOEs. Moreover, the Saudi government has shifted towards embracing CG mechanisms based on best practice guidelines and relinquished from its historical norm of direct management and intervention in SOEs. However, while this shift has taken place, a thorough examination of the effectiveness of these adoptions remains unexplored. Furthermore, the Saudi government appears to be considering the potential of partial or full privatisation of its SOEs. Therefore, an in-depth exploration of the challenges of implementing effective CG in Saudi SOEs has the potential to provide insights that help with making SOEs more attractive to both local and foreign investors. This, in turn, can lead to increased returns from such privatisation endeavours. Thus, the current study attempts to offer insights into the challenges of establishing effective CG in Saudi SOEs and contributes to the existing body of knowledge from an angle that has never been attempted previously.

Furthermore, this study responds to the call for diversifying methodological paradigms and moving beyond exclusive reliance on theory testing based solely on available secondary data. The study adopts a multi-theoretical framework, offering an avenue to thoroughly investigate and explain the challenges and obstacles of implementing CG in Saudi Arabian SOEs, without being restricted to a single theory or paradigm. No single theory can comprehensively address a complex construct like governance, and there is a need to combine multiple-theoretical perspectives (L'Huillier 2014). The existing theories, when used in isolation, provide only partial explanations, which shows necessitate to adopt a broader approach encompassing various methodologies (Grossi et al. 2015). Furthermore, this study directly responds to the observation by Daiser et al. (2017) that while research in SOE-oriented CG is growing, there remains a dearth of primary empirical research because of the excessive focus on regression analyses and reliance on secondary database data. Similarly, this study responds to the concerns raised by Atkins et al. (2021) regarding the predominant use of quantitative methods and a lack of diversity in research interests within CG studies. The exploratory design of this study aims to provide a balance and counteract the heavy reliance on secondary data in CG research.

1.3 Research Aim and Objectives

The main aim of this research is to empirically investigate the challenges and obstacles associated with implementing effective CG practices in Saudi Arabian SOEs. To fulfil this aim, the study sets well-defined research objectives that provide clear methodological guidance, establishing the focus and scope of the investigation. To achieve the research aim, the study engages with four key groups of respondents: (i) board members, (ii) senior finance officials and other senior managers, (iii) internal auditors, and (iv) external auditors of SOEs in Saudi Arabia. The research objectives are exploratory in nature, and in alignment with this intent, the study aims to achieve the following specific objectives:

1. To explore the principal challenges linked to the role of the ownership entity (i.e., the parent ministry) in the successful implementation of effective CG practices in Saudi SOEs.
2. To explore the principal institutional challenges that pose obstacles to the implementation of effective CG in Saudi SOEs.
3. To explore the main challenges associated with the role of boards of directors in the endeavour to implement effective CG practices.
4. To explore the extent to which Saudi SOEs are subjected to an appropriate level of external audit and disclosure.
5. To identify the key elements that impede the efficient functioning of internal auditing in Saudi SOEs.
6. To investigate the primary challenges linked to the role of senior managers in the implementation of effective CG practices in Saudi SOEs.
7. To explore and identify major strategies and measures that can be adopted to overcome the challenges of the implementation of effective CG practices in Saudi SOEs.

1.4 Research Methodology

To comprehensively understand the challenges inherent in implementing effective CG across various contexts in SOEs, a thorough literature review was conducted. This review included, for example, Bruton et al. (2015), Grossi et al. (2015), Grosman et al. (2016), Peng et al. (2016), Daiser et al. (2017), Filatotchev and Wright (2017), Lazzarini and Musacchio (2018), Musacchio and Lazzarini (2018), Wang and Shailer (2018), Apriliyanti and Randøy (2019), Abang'a and Wang'ombe (2020), Aguilera et al. (2021a), Cocciasecca et al. (2021), Cuervo-Cazurra and Li (2021), Lazzarini et al. (2021), Jin et al. (2021), Sharma et al. (2021), Wright et al. (2021), Okhmatovskiy et al. (2022), Cuervo-Cazurra et al. (2023), and Garcia-Lacalle et al. (2023). Moreover, Aguilera and Crespi-Cladera (2016) advocate for the collection of firsthand data in the field of CG research and emphasises the importance of direct engagement to enhance analysis. Peng and Jiang (2010) and Yonekura et al. (2012) illuminate how diverse CG practices are influenced by institutional contexts, showing the success of an approach in one setting may not hold true in another. In addition, discussions were held with individuals including board members, senior managers, auditors, and regulators. These informal dialogues served to inform the choice of data collection methods, construct relevant questions for the questionnaire and interviews, and refine the study's objectives. In the light of these discussions and aligned with the study's objectives, two methods of data collection were deemed necessary to comprehensively address the research objectives.

The first method employed quantitative techniques through a self-administered questionnaire. The questionnaire's items were rigorously crafted through an extensive literature review and discussions with experts who were both knowledgeable and highly experienced with CG challenges in SOEs. During field visits for interviews, paper-based questionnaires were collected manually, resulting in a total of 157 completed questionnaires. This survey aimed to capture respondents' opinions on various facets of CG challenges, utilising a 5-point Likert Scale to acquire opinions on ownership challenges, institutional challenges, board of directors' issues, external auditing and disclosures, internal auditing, and management challenges. The questionnaire also encompassed suggestions for enhancing the implementation of CG in Saudi Arabian SOEs. This approach facilitated the exploration of key challenges on a relatively large scale. However, given the unique characteristics surrounding the research topic, including its political sensitivity, a second method was required to investigate deeper and uncover nuanced insights.

The second method employed qualitative techniques, particularly an interpretive and theory-building approach involving face-to-face semi-structured interviews. The interviews, lasted around 90 minutes each, engaged 10 board members, 10 senior managers, 10 internal auditors, and 10 external auditors. A discussion guide was employed to guide the conversation, allowing participants maximum freedom to express opinions and share experiences. This approach was chosen to thoroughly comprehend the complexity of the challenges related to implementing effective CG in Saudi Arabian SOEs, while maintaining the exploratory nature of the study. This approach also enabled the emergence of theories directly from the data (Bryman, 2012). The combination of quantitative and qualitative methodologies was deemed essential to ensure a comprehensive investigation and the attainment of research objectives. This dual approach also facilitated the triangulation of findings and enhanced the research's robustness and reliability.

1.5 Structure of the Thesis

The thesis comprises eight chapters, as illustrated in Figure 1, delineating its comprehensive scope. In the first chapter, the research context and background are introduced, along with a the rationale and the significance of the research. This chapter outlines the research objectives, briefly describes the research methodology, and presents the overall structure of the thesis. This chapter emphasises the challenges within CG practices of Saudi SOEs, highlighting the need for thorough investigation. Chapter two offers an overview of SOEs, including their historical evolution, rationale, and governance issues. In addition, this chapter provides a brief discussion into the governance institutional framework and the regulatory landscape in Saudi Arabia. A nuanced understanding of SOEs governance issues establishes a foundational that is crucial for addressing governance challenges in these entities. Chapter three provides a brief review of CG literature, including discussions on the theoretical foundations of the research, different CG models, and prevalent ownership structures in SOEs. Chapter Four reviews the literature regarding the roles of governance actors, including board members, top management, and internal and external auditors. Chapter Five details the research methodology and study design, explaining the two methods of data collection: the administration of a questionnaire survey and the conduct of semi-structured interviews. Furthermore, this chapter explains the data analysis methods employed in the study. Chapter six provides the analysis and discussion of findings obtained from the questionnaire survey, employing descriptive and inferential statistical analyses. Chapter seven discusses the results of the interview survey, triangulating these findings with those from the questionnaire survey. Chapter eight, concludes with an overview of the study, summarising the research findings, and addressing theoretical contributions and policy implications. In addition, this chapter outlines the study limitations and provides recommendations for future researchers.

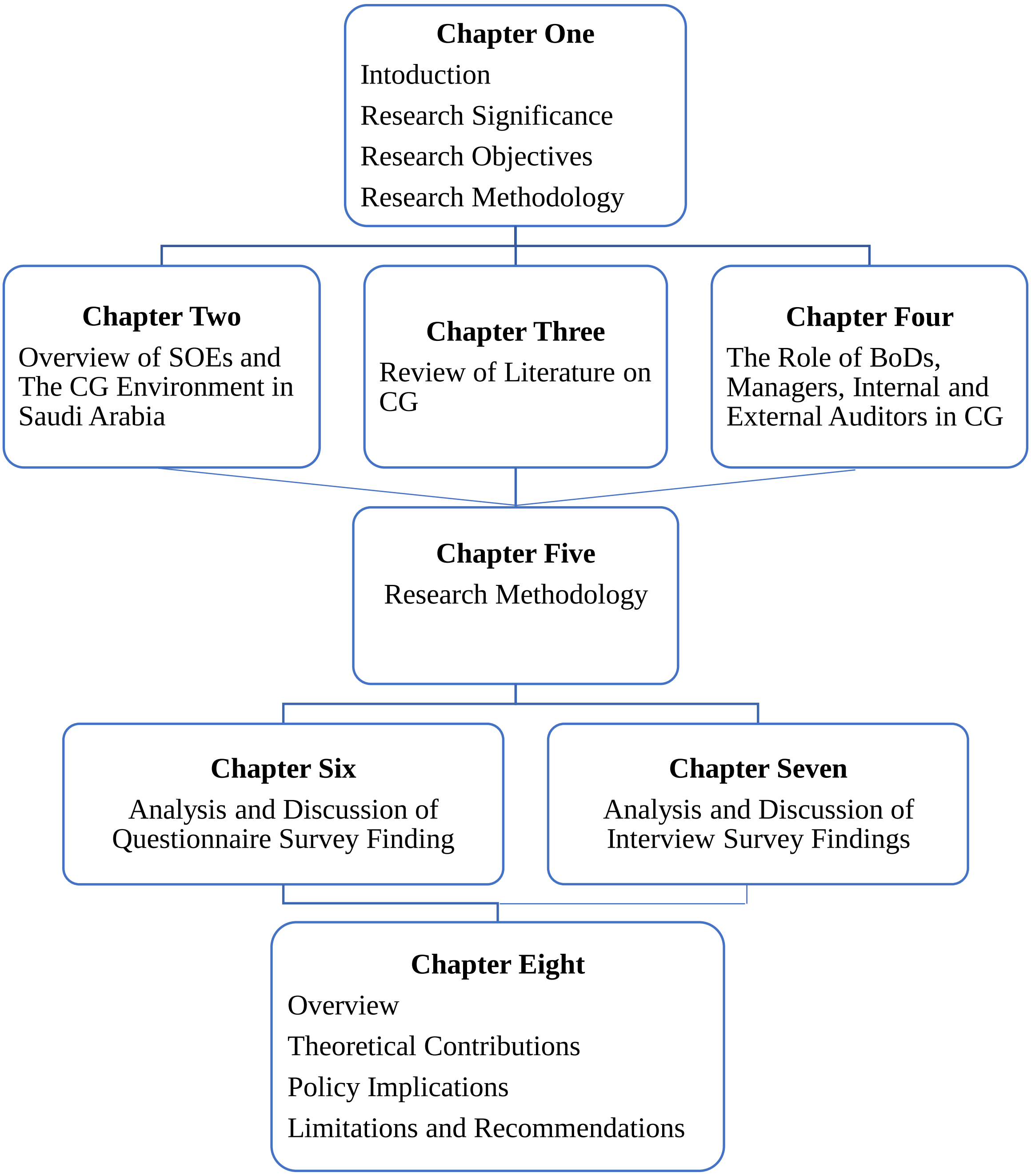

Figure 1 Structure of the Thesis

CHAPTER TWO: OVERVIEW OF STATE-OWNED ENTERPRISES AND THE CORPORATE GOVERNANCE ENVIRONMENT IN SAUDI ARABIA

2.1 Introduction

This chapter commences with a brief historical overview of SOEs, presented in Section 2.2. Section 2.3 sheds light on the rationale underlying the existence of SOEs, while Section 2.4 offers a comprehensive examination of common issues associated with SOEs. Section 2.5 provides a discussion on the impact of state ownership on CG. Further, Section 2.6 scrutinises the role played by government representatives on the boards of directors of SOEs. In Section 2.7, the chapter provides an exploration of the structural management approaches employed by Saudi Arabian, Chinese, and Singaporean SOEs, facilitating a thorough comparison of differences and similarities in how these SOEs are management. Section 2.8 provides an overview of the institutional CG Framework in Saudi Arabia, which help to lay the groundwork for a deeper understanding of the governing principles shaping SOEs in the country. Subsequently, Section 2.9 outlines the regulatory environment in Saudi Arabia, including an examination of the nation's CG codes and guidelines. The chapter concludes with Section 2.10, offering a summary of the key insights and discussions presented throughout the chapter.

2.2 History of SOEs

State ownership in corporations has witnessed a dynamic interplay of reforms and reversals (Cuervo-Cazurra et al. 2019). Throughout much of the twentieth century, governments played an active role as investors, exercising substantial level of control over corporations because of the substantial state ownership. The surge in government involvement was due to the aftermath of The Great Depression and the interwar years, forcing most developed countries to take an active ownership approach to facilitate reconstruction (Wright et al. 2021). As Megginson (2005; p.10) highlights, the "economic and industrial mobilization that occurred during World War II dramatically increased the power (and prestige) of national governments as economic managers." Furthermore, governments worldwide continued to nationalise key industries like coal, steel, airways, electricity, and gas. State ownership of productive enterprises likely reached its peaked between the late 1970s and early 1980s (Musacchio and Lazzarini 2014a). In socialist nations, there was a notable increase in state ownership because of the fundamental belief in centralised control over the means of production (Cuervo-Cazurra et al. 2023). Developing countries, in their ambition for industrialisation, increase government ownership of industries considered essential and governments established sovereign wealth funds to effectively allocate surplus funds from natural resources (Aguilera et al. 2016).

The 1970s and 1980s brought to light economic crises and the efficiency issue surrounding government ownership, leading to extensive privatisations during the 1980s and 1990s. The two economic downturns caused by oil shocks and stagflation in the 1970s and 1980s triggered fiscal crises in many of the Western world's SOEs (Short 1984; Millward 2000). It was during this period that the conceptualisation of state capitalism became associated with inefficiency and a perceived threat to business interests (Shirley 1989; Gwartney et at. 1996). The wave of privatisations largely stemmed from this characterisation, as governments sought resources to alleviate their debt burdens and ongoing expenses (Musacchio and Lazzarini 2014a). Sectors traditionally regarded as being exclusively state controlled, such as utilities and defence, also underwent privatisation (Cuervo-Cazurra et al. 2023). Research during this period, for example, studies by Boubakri and Cosset (1998), Vickers and Yarrow (1988), Megginson and Netter (2001), and Megginson et al. (2004), primarily focused on the mechanisms through which states divested their ownership and influence in corporations through privatisation, as well as the diverse outcomes of these processes. The extent of performance enhancement is contingent on factors such as the privatisation process, the legal and regulatory landscape post-privatisation, and the degree of market liberalisation concurrent with or following privatisation (Wright et al. 2021). Therefore, it was concluded that for privatisation to be efficacious, it must be assisted by other economic reforms, ensuring that new private firms are subject to proper regulation and competitive markets are protected (Doh 2000).

The 2000s led to a fresh perspective on state ownership. Advanced market governments responded to the financial crisis of 2007–2009 by extending support and, in certain instances, turned to nationalisation, particularly in firms considered vital. Furthermore, the success of the Chinese government in tackling the recession, alongside the global expansion of its SOEs, highlighted the renewed viability of state capitalism as a development model. Consequently, scholars' attention turned towards exploring contingencies that either mitigate the adverse effects or augment the positive effects of state control (Mazzucato 2011; Grosman et al. 2016; Wright et al. 2021). The concept of state ownership as a strategic form of ownership highlights the need for researchers to expand their focus beyond comparative performance effects to include a broader range of objectives, including the social and political goals set by governments for SOEs. Instruments such as soft budget constraints, financial bailouts, state-backed loans, and subsidies not only make SOEs more attractive for investment but also equip them with greater resilience in times of economic downturn, as seen by the measures taken during the 2008 financial crisis when certain financial institutions were partially nationalised to prevent collapse (Bremmer 2010).

2.3 The Rationale of SOEs

Friedmann held that "The most likely field for state enterprise in an emerging economy is where private enterprise is underdeveloped: in new industries and new products where the risks are great and the private 'entrepreneur' – in an age of capital scarcity and high taxation of profits – may well hang back."

SOEs represent a distinct legal entity separate from other state entities. They engage in the production and sale of goods and services, maintain independent budgets, and can compete with private firms (Cuervo-Cazurra et al. 2014). SOEs have been advocated on the grounds of various market failures and serve as a means to achieve non-economic objectives like public oversight of natural resources, regional policies, employment, and social concerns (Grout and Stevens 2003). Consequently, SOEs often assume the responsibility of providing vital utility services such as water, energy, healthcare, and education, forming the foundation of numerous economic activities (Alexius and Örnberg, 2015; OECD, 2015; World Bank, 2015). Many SOEs possess critical resources, such as transportation and communication networks, in addition to natural resources, which governments may prefer to retain control over (Okhmatovskiy 2010). Moreover, SOEs play a crucial role in global employment and the global economy (Ysa et al. 2012; Ennser-Jedenastik 2014; Kankaanpää et al. 2014).

Furthermore, SOEs also pursue developmental objectives associated with industrial policies that aim to enhance specific sectors, and encourage new, or coordinate investments (Amsden 1989; Gerschenkron 2015). This entrepreneurial function can promote local advantages that private companies might be hesitant to pursue (Cimoli et al. 2009; Mazzucato 2011, 2015; Zhou et al. 2017). Private companies, being more profit-driven and focused on short-term gains, tend to avoid risky projects, often relying on the state for these projects (Murphy et al. 1989). This is because SOEs typically operate with soft budget systems that encourage broader industrial endeavours and promote local employment opportunities (Amsden 1989). In addition, according to Aguilera et al. (2021a), SOEs pursue not only business objectives but also social and political objectives. The prevailing political ideology of a state serves as another rationale for the presence of state ownership (Brown 1971). For example, in communist nations, state ownership expansion is driven by the ideology of centralised control over the means of production.

2.4 The Role of SOEs in the Saudi Arabian Economy

SOEs are pivotal to the Saudi Arabian economy and play a key role in advancing the Kingdom's strategic economic objectives and its ambitious Vision 2030 agenda. The significance of SOEs in Saudi Arabia is highlighted by their substantial size and influence across various sectors. As Bałtowski and Kwiatkowski (2022) note, Saudi Arabia demonstrates a high reliance on SOEs, with their share in the economy exceeding 50%. The Orbis database further estimates that SOEs account for 85.3% of the Saudi economy and dominate various industries. These enterprises not only fulfil their commercial mandates but, more importantly, undertake projects outside their core business areas. This includes non-commercial investments and public infrastructure projects, such as Saudi Aramco's initiatives in building a university, a stadium, and supporting small and medium-sized enterprises (SMEs). According to Al-Sulayman (2018), the state's eagerness for rapid growth in certain strategic industries has led SOEs to directly tackle these opportunities. In addition, according to the IMF (2021), SOEs contribute 64% to the national budget revenue. Moreover, in 2018, 22 Saudi SOEs were listed among the top 100 companies in the country, collectively representing 86% of operating revenues and 84% of total assets, and contributing 59% to the GDP (Bałtowski and Kwiatkowski 2022). Saudi Arabia's position as the largest non-oil exporter in the Arab world can largely be attributed to its SOEs activities (Som 2022).

The impact of individual SOEs in Saudi Arabia further exemplifies their crucial role in the economy. Saudi Aramco, the world's largest integrated oil and gas company, is central to managing the Kingdom's vast hydrocarbon reserves, optimising production, and maximizing long-term value. The company operates globally with more than 70,000 employees and total assets amounting to SAR 2.48 trillion (Aramco 2023). Similarly, the Saudi Electricity Company, the largest utility in the MENA region, has a market capitalisation of SAR 79.1 billion as of December 2023, and total assets of SAR 500.79 billion. It is a vertically integrated utility company serving over 11 million subscribers across the Kingdom (SEC 2023). The Saline Water Conversion Corporation is another critical SOE, operating 28 desalination plants that produce 4.6 million cubic meters of water per day, constituting more than 69% of the Kingdom's total desalinated water production (SWCC 2023). On a global scale, Saudi Arabia produces 22% of the world's total desalinated water, highlighting the strategic importance of its SOEs in both national and international contexts. This dominance illustrates that the water and electricity sectors remain largely government-owned and dependent on budget support, despite their corporatisation and some restructuring in preparation for privatisation.

Recently, Saudi Arabia established the Saudi Arabian Military Industries (SAMI) in 2017 to develop world-class military products and services for the Kingdom and its allies. The government's ownership stake in key sectors remains substantial, as many large public enterprises, including the Saudi Airports Company, Saudi Railway Company, and Saudi Agricultural and Livestock Investment Company (SALIC), are not listed on the stock market. In addition, the Saudi government has strategically expanded its influence by establishing unconventional SOEs through its Public Investment Fund (PIF). For instance, the Fund's assets under management surged from SAR 836.3 billion in 2017 to SAR 2.87 trillion in 2023, which reflects the growing role of SOEs in the Saudi Arabian's economic (PIF 2023).

2.5 SOEs' Issues

Differences among firm owners include various concerns, including divergent goals (Hoskisson et al. 2002) and varying levels of managerial involvement (Kochhar and David 1996). Private owners are primarily profit-oriented, whereas state ownership has a broader focus to incorporate services such as social welfare and industrial development (Lazzarini 2015). Governments can provide SOEs with patient capital, enabling them to embark on resource-intensive projects (Borisova et al. 2012; Beuselinck et al. 2017). In addition, governments may step in to bail out SOEs when necessary (Faccio 2006; Vaaler and Schrage 2009; Song et al. 2017). For SOEs operating in emerging markets, connections with the government can grant access to scarce resources and talent (Cao et al. 2020). Critics contend that these welfare-driven objectives within SOEs can distort incentives, scatter managerial attention, complicate processes, and ultimately impede performance (Aghion et al. 2013). Moreover, SOE managers often maintain a cooperative relationship with the state through not only soft budget constraints but also relaxed output monitoring (Kornai et al. 2003). Furthermore, the dispersed nature of SOE ownership leads to ambiguity in the allocation of residual claims (Dewenter and Malatesta 2001). Consequently, this results in a less rigorous engagement, as checks and balances are scattered across numerous entities, ministries, treasury, committees and industry bureaus (Bruton et al. 2015).

Studies on SOEs primarily focus two types of agency conflicts integral to state ownership: principal-agent (PA) and principal-principal (PP) challenges. Given that the citizens oversight is delegated to government representatives (Dixit 2002), the selection of SOE managers may be influenced more by political than professional criteria (Li and Xia 2008; Lin and Milhaupt 2013). PA issues also arise from the "multiple principals" dilemma within SOEs, where various agencies, ministries, and board of directors oversee SOEs, each lacking full incentive to bear the entire monitoring burden due to a lack of direct benefits (Dixit 1997). This dynamic results in free-riding and weak oversight which ultimately allow managers considerable latitude to pursue policies that may be detrimental to shareholder value (Vickers and Yarrow 1988; Boardman and Vining 1989; Shirley and Nellis 1991; Shleifer 1998; La Porta and Lopez-de-Silanes 1999). PA conflict arises from the citizens as the principals who vote, while the state, as the shareholder, may be perceived as their agent (Batley and Larbi 2004). Consequently, a governance challenge arises from this complex chain of accountability. The state (agent) may incline towards self-interested political behaviour rather than acting in the public interest (Hinna et al. 2010). Thus, the principal (citizens) may find it necessary to monitor the performance of the state (the agent) to ensure alignment with the public's interest. Allini et al. (2016) contend that since citizens constitute the primary investors in SOEs, they have a vested interest in enhancing transparency and disclosure to evaluate SOE performance. Menozzi et al (2012) assert that board members in SOEs may represent the interests of various ministries that are, in several instances non-shareholders. Furthermore, the state exercises control over the SOE and may appoint directors to advance and support its policies. Consequently, the state, holding the majority or sole ownership, may possess conflicting interests with minority shareholders (PP conflict) and other stakeholder groups. Consequently, the decision-making process of the board may be significantly lean towards the State's interests (Thompson et al. 2019).

In addition, the threat of political influence and corruption is higher for SOEs. Although not all SOEs reach this extreme, the risk is significant (Musacchio and Lazzarini 2014a). Politicians might populate SOE hierarchies with well-connected individuals rather than those with high competence (Chang and Wong 2004). Furthermore, when salaries and careers are disconnected from performance, SOE managers may lose sight of the original motivation to do well (Inoue et al 2013), potentially leading to the acceptance of bribes (Shleifer and Vishny 1994). SOEs often face challenges in resisting political pressures and demands from other state institutions due to their inherent state affiliation (Kowalski et al. 2013; Wu and Zhao 2015). Consequently, various entities of the government can exert direct influence over an SOE (Hoskisson et al. 2000). In countries where political interference in SOEs is common, and robust corporate governance frameworks do not exist, SOEs often become sources of power and wealth for politicians and high-ranking bureaucrats (Apriliyanti and Randøy 2019).

Lastly, implementing effective CG in SOEs is a significant challenge for governments (Syrett and Bertotti 2012; Schwarting 2013). The use of SOEs as third-party entities for policy objectives and the delivery of goods and services has resulted in a substantial transformation within the public sector field (Lynn et al. 2000; Cristofoli et al. 2010; Borisova and Cowan 2014). This mode of public service delivery has its own set of issues and necessitates competencies from government bodies with ownership stakes in SOEs to ensure effective CG is in place (Grossi and Reichard 2008). Governments must fulfil their ownership role without excessive interfering in the company's managerial affairs (OECD 2015). Moreover, governments must ensure that CG can address the conflicting interests arising from multilevel principal-agent relationships and different objectives (Aharoni 1981; Estrin and Perotin 1991; Grossi and Reichard 2008).

2.6 State Ownership and CG

Numerous studies, such as Bruton et al. (2015); Musacchio et al (2015a); and Grosman et al (2019) have investigated the impact of state ownership on CG. Generally, agency theory suggests that state control as a major shareholder may hinder effective CG due to its distinct goals and influence over boards and top management appointments (Shi et al. 2020). However, in contrast to the clear association between state ownership and performance, the empirical findings concerning state ownership's effect on CG are less straightforward (Yiu et al. 2019). Hence, the inconclusive nature of these results emphasises the necessity for further investigation (Aguilera et al., 2012b). This is because the evaluation of state ownership's impact on CG is complicated and requires a broader perspective, acknowledging that state ownership ultimately represents the collective ownership of society rather than individual shareholders (Denis and McConnell 2003).

Moreover, malicious political influence can lead to moral issues, undermining the CG system and opening the door to potential expropriation (Shleifer and Vishny 1997; Aguilera et al. 2012b). While, in theory, state enterprises belong to the public, they are controlled by bureaucrats. Consequently, SOEs often operate in alignment with bureaucratic objectives, which, according to Shleifer and Vishny (1997), may not prioritise either social welfare or profit maximisation because bureaucrats are primarily inclined to pursue their own political interests. This political influence is reflected in board composition, with the inclusion of many government representatives, and the nomination process being directed by a government body rather than an independent committee. Furthermore, in SOEs, independent directors may be influenced by government directives when voting on strategic matters (Enikolopov and Stepanov 2013). This is likely to diminish the monitoring role of the board although it may enforce their advisory role (Aguilera et al. 2012b). In addition, SOEs may pursue objectives beyond financial performance, such as long-term growth, which can influence the sensitivity of executive compensation to financial performance. Furthermore, these firms may disclose less information than their non-state-owned counterparts due to their access to private information and reduced reliance on the capital market. Finally, the risk of hostile takeovers is minimal and contingent on the state’s willingness to sell (Aguilera et al. 2012).

The literature has witnessed a debate regarding the impact of state ownership on CG and firm efficiency, resulting from two views of the state's role in markets as classified by La Porta et al. (2002) as developmental and political. The developmental perspective suggests that firms can receive state support through legal means when necessary, which potentially enhances CG through extensive monitoring and the direct implementation of recommended policies (La Porta et al. 2002; Borisova et al. 2012). Conversely, the political viewpoint focuses on politicians' desire to leverage a firm's investments to pursue political objectives, such as increased employment and tax revenue (La Porta et al. 2002). Consequently, state ownership may have negative effects on CG and a firm’s efficiency as the state's interests may not always align with shareholders' wealth maximisation goals (Borisova et al. 2012; Pargendler 2012).

However, although most studies suggest that state ownership can be detrimental to effective CG, a recent study by Yiu et al. (2019) argues that state ownership can play a substantial governance role in firms. This is attributed to the low level of information asymmetry between the state and managers, helping managerial oversight. Moreover, some studies indicate a positive correlation between the level of voluntary disclosure and the proportion of state ownership (Wang et al. 2008a), particularly for SOEs with foreign listings (Ferguson et al. 2002), while others report no significant correlation (Huafang and Jianguo 2007) or even a negative relationship between the two factors (Xiao et al. 2004). Habib and Jiang (2015) conducted a review of CG and financial reporting quality in China, challenging the conventional belief that financial reporting quality may be lower in state-controlled firms than in private firms. They found that the evidence is far from conclusive. However, Borisova et al. (2012) found that government ownership generally hampers effective CG, supporting the notion that the state’s interests do not always align with those of the firm. Another issue is that top managers in SOEs are predominantly assessed based on their achievement of political and social objectives (Du et al. 2012). Consequently, chief executive officer (CEO) compensations are weakly correlated with financial performance in firms where the state is the controlling shareholder (Firth et al). Furthermore, SOEs tend to have lower CEO turnover-performance sensitivity compared to privately-owned enterprises (Kato and Long 2006).

2.7 Government Representative

The composition of a board of directors provides insights into the effectiveness of a firm's management and the level of checks and balances on managerial decisions. The degree of professionalism and monitoring required by a firm is likely influenced by the institutional environment and CG (Hermalin and Weisbach 2003). The inclusion of government representatives on the board of SOEs is a natural extension of the governance structure. In this context, governments, acting as principals, expect the agents to align with state objectives. This alignment, however, often conflicts with the economic goals of SOEs, potentially incurring high costs (Shleifer and Vishny 1994; Young et al. 2008). Shleifer (1998) asserts that the underperformance of SOEs is not solely due to a lack of state motivation for improved performance, but also from interference by bureaucrats and politicians in SOE operations in wealth transfer. Consequently, government representatives may be disinclined to advocate for a CG structure that could obstruct the attainment of political objectives in SOEs (Dragomir et al. 2021). Furthermore, governments may view SOE board memberships as a strategic tool for rewarding important and loyal supporters, who often lack the requisite knowledge and competencies (World Bank 2014). When the state, as a significant shareholder, appoints managers and board members based on political loyalty rather than capability, it can lead to the misuse of corporate governance mechanisms and lead to political corruption (Domadenik et al. 2016).

In addition, governments appoint their representatives to serve on SOEs as directors to enact government policies through these enterprises (Fan et al. 2007). Baysinger (1984) emphasises that government representatives adopt practices aligned with their intention to promote favourable policy objectives for their business operations. Consequently, the incentives and interventions by government representatives lead to different financial and governance characteristics in SOEs compared to private sector firms (Fan et al. 2011), resulting in weaker monetary incentives for monitoring, given their relatively insignificant financial stake (Grøgaard et al. 2019). This situation might be exacerbated in emerging economies, where political figures and bureaucrats often occupy most board positions in SOEs, seeking political gains rather than prioritising economic efficiency or government policies (Dragomir et al. 2021). Directors or managers may face replacement whenever there is a change in government structure or political alignment (Kuzman et al. 2018).

However, Jermias and Gani (2014) argued that government representatives tend to maintain strong relationships with a wide range of stakeholders and tend to possess highly developed negotiation skills. Their presence equates to having access to exclusive information about state policies, information that is typically costly and challenging to obtain through other means (Hillman et al 1999). Studies suggest that the involvement of bureaucrats has diverse effects on state-owned and privately-owned firms. In SOEs, bureaucrats appear to intervene in firms' decisions at the expense of shareholders, while their involvement in private firms tends to enhance competitiveness (Fan et al. 2011).

The significance of CG lies in its ability to limit the scope for politicians, bureaucrats, and SOE managers to prioritise their own interests over the broader social interest. A professional and independent government institution can curtail undue political interference in SOE operations (Evans and Rauch 1999), fostering robust corporate governance where the state owner is treated similarly to other owners. It is crucial to understand the incentives and the quality of bureaucrats in predicting the behaviour of SOEs (Fan et al. 2011). The assumption that government representatives act benevolently and pursue citizens' interests in overseeing SOEs is challenged by the economic theory of governance literature. This literature characterises the CG of SOEs as a multi-layered delegation structure, where voters, as the ultimate owners of an SOE, delegate control to politicians through bureaucrats and ultimately to the delegation of authority to SOE managers.

2.8 Structural Management Approach

This section provides a comparative analysis of the Structural Management Approaches adopted in SOEs in Saudi Arabia, China, and Singapore. The rationale for this comparison lies in the value of comparative CG, which is recognised as both useful and encouraged in understanding different management models (Aguilera and Jackson 2010). It is important to note that while these countries present diverse political systems, China being an autocratic state with an emerging of state capitalism and socialism, Singapore operating under a rule-based democratic system, and Saudi Arabia as a monarchy with governance influenced by Islamic principles and Sharia law. However, the relevance is supported by the global rise of New Public

Management (NPM), also known as entrepreneurial government, managerialism, and market-based public administration. NPM, largely inspired by Anglo-Saxon governance models, suggests a convergence towards a new paradigm in public sector management.

In addition, the increasing influence of sovereign wealth funds, such as the Public Investment Fund (PIF) in Saudi Arabia, the State-owned Assets Supervision and Administration Commission (SASAC) in China, and Temasek Holdings in Singapore, further justifies this comparison. These funds have played a central role in restructuring SOEs by transferring their management under these funds to enhance efficiency and better achievement of public objectives. This trend indicates an emerging homogenisation in SOE governance practices across these countries. Moreover, Singapore is often regarded as a global leader in effective SOE governance, while China has the largest number of SOEs in terms of both quantity and asset size. By comparing these countries, this analysis positions Saudi Arabia within a broader context of adopting best practices in CG for its SOEs, given their significant role in the national economy in terms of both number and asset size.

2.8.1 Saudi SOEs

SOEs typically derive a significant portion of their revenues from the sale of goods and services. They operate with self-accounting mechanisms and separate legal identities. SOEs enjoy a level of autonomy greater than government ministries and departments; however, they remain subject to more government control than private firms. In Saudi Arabia, SOEs have played a pivotal role in executing economic and social tasks within the nation. During the early 1970s, the Saudi government assumed the responsibility of meeting the country's growth demands. This was due to a shortage of infrastructure projects and the private sector's limitations in providing the necessary financial resources and administrative capacities for large-scale economic projects (Al-Dehailan 2004). To successfully realise comprehensive development plans, including industrial, social, economic, educational, and administrative activities, the state-owned enterprise model was adopted. This approach aimed to alleviate the substantial economic and administrative pressures on government bureaucracy. Ministerial departments were not able to manage these big projects and activities due to workforce shortages, limited experience in diverse fields, and the pressing need to execute development plans.

The governance of Saudi Arabian SOEs is influenced by governmental institutions overseeing these entities. Ministries such as the Ministry of Finance (MoF) and the Saudi Arabian General

Court of Audit (GCA) monitor their financial transactions. Similarly, the Ministry of Commerce (MoC) is involved in their oversight. Generally, Saudi SOEs are overseen by parent ministries aligned with their activities. The minister of the corresponding ministry often serves as the chairperson of the SOE. In addition, related ministries appoint senior officials to the SOE's board of directors. The board also comprises two or three independent directors who are experts in the field of SOE. Ministerial control significantly shapes the level of authority exercised over SOEs due to the minister's substantial power. The chain of control starts with the government, descends to the parent ministry, and then further to the board of directors, which has the ultimate influence on the executive management of Saudi SOEs. The board of directors assumes a principal governing role within the enterprise, entrusted with managing financial, administrative, and governance affairs. As a result, the Saudi SOE framework can be best described as primarily decentralised, featuring a substantial collection of SOEs under government ownership, as well as under state holding companies or sovereign funds. Recently, a trend for centralisation has emerged. This has occurred through the transfer of significant shares of strategically important SOEs to the Public Investment Fund (PIF). The PIF holds a majority of shareholdings, either solely or in partnership with other state institutions, and exercises an oversight similar to institutional investors, focusing on commercial objectives.

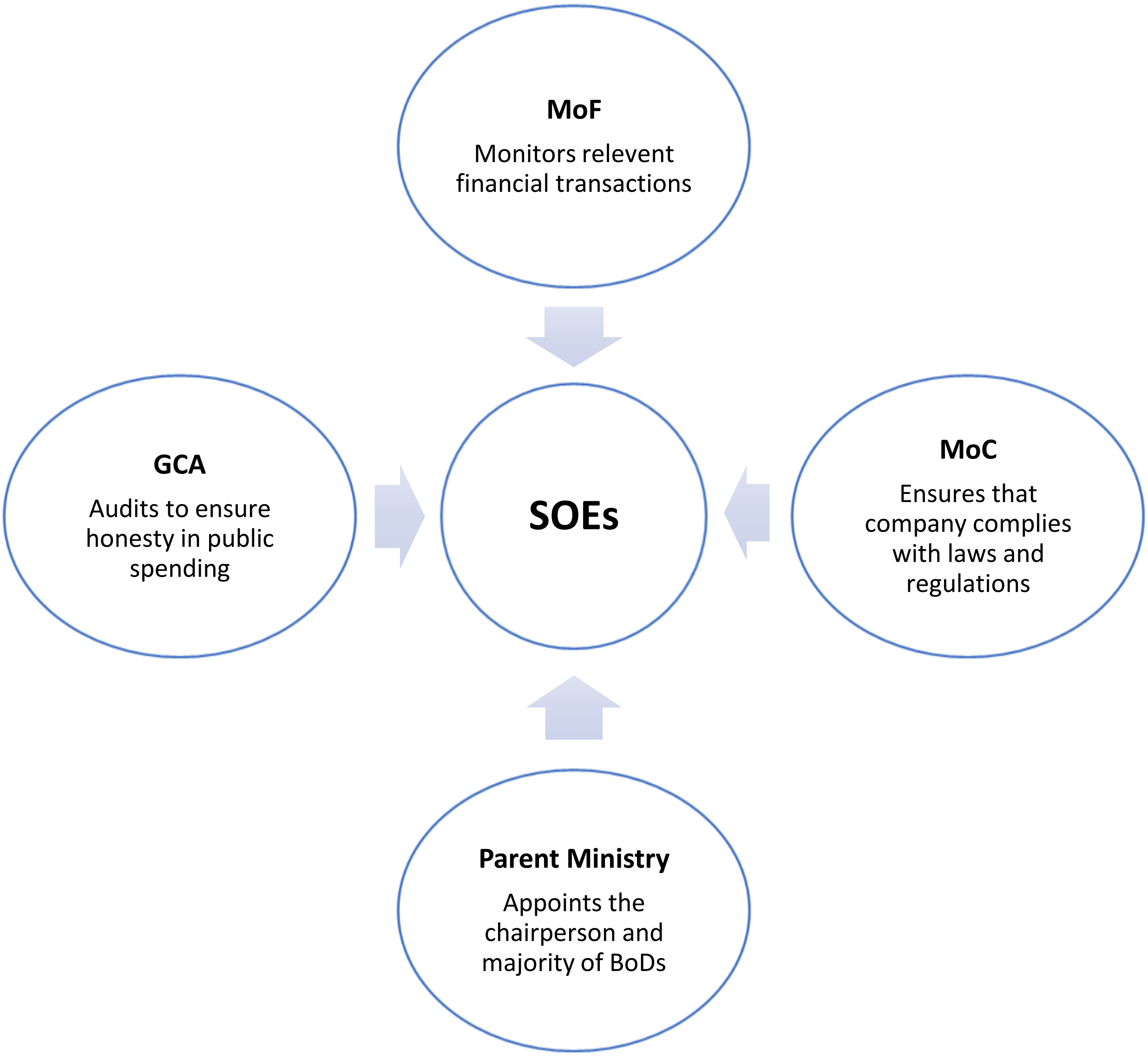

Figure 2 Governance Structure of Saudi Arabian SOEs

2.8.2 China

China is widely acknowledged as having a prevalence of SOEs, both in terms of quantity and size. It was anticipated that approximately 75% of the Chinese companies listed in the Global Fortune 500 would be SOEs (Kwiatkowski et al. 2023). By the end of 2017, China's holdings in corporations, where ownership exceeded 20%, were estimated to be about 40% of the total market capitalisation and 56% of revenue for listed firms (Rosen et al. 2018). Given China's socialist framework, the significant involvement of the state in its economy is not a surprise. China shares many similarities with France's civil law traditions, which see a high likelihood of state engagement in the economy and regulatory procedures (Lin and Milhaupt 2013). Lin (2017, p. 589) sheds light on the state's motivations, explaining that *"The ways the state owner exercises its shareholder rights suggest that the goal of the state owner is to balance the interests of multiple groups and organs (including their ruling elite) embedded in the network, rather than focusing solely on the maximisation of shareholder wealth at individual firms."* Milhaupt and Zheng (2014) contend that the relationship between public and private enterprises in China remains ambiguous, primarily due to the weak rule of law and the substantial influence of the state Party.

In China, SOEs were previously integrated within core government departments. However, a significant transformation occurred after the introduction of the company law in 1994 when most SOEs were restructured into corporations (Tong 2009). The well-known Chinese slogan and strategy of "corporatisation without privatisation" aimed to bring private-sector efficiency and corporate governance principles into SOEs while retaining state control over the economy (Howson 2017). During the 1990s, the majority of large Chinese SOEs, formerly government agencies, were transformed into corporations (Pargendler 2012). The corporatisation process in China involved transforming SOEs from core government departments into joint-stock corporations with a board of directors and shares predominantly held by the government. This allowed the state to list these corporations on the stock market and offer shares to private investors, aiming to increase transparency through exposure to market discipline. Lin and Milhaupt (2021) contend that the shift to the corporate format for SOEs was intended to address CG issues and enhance overall performance.

Following the adoption of this corporate structure for SOEs, these entities adopted characteristics relatively similar to private corporations, with two distinct personnel systems. The first is a corporate management system, similar to the conventional structure with roles such as CEO, CFO, and, a board of directors, a chairperson, and independent members. The second system is the party system, which include key positions such as the secretary of the Party Committee and the secretary of the Discipline Inspection Commission. These two systems often overlap. For example, it is common for the chairperson to also holds the position of the secretary of the Party Committee (Lin 2017). The interplay between these two systems led Lin and Milhaupt (2013) to argue that China's implementation of the "corporation without privatization" strategy ultimately extended the government's influence into the private sector.

The transformation of SOEs from core government departments to a corporate style was done to enhance coordination and reduce redundancies and bureaucracy. This shift also helped the state to organise SOEs into business groups. Within each business group, there is a parent company, which, in most cases, was once a part of a ministry (Walter and Howie 2006). These groups are interconnected through hierarchical ownership and shared interests within a specific sector or industry (He et al. 2013; Wang et al. 2022). The affiliations between these groups need not be solely motivated by economic considerations. Some groups may include entities like universities, which contribute products, innovations, and development efforts of interest to the group (Lin and Milhaupt 2013). Despite the flexible nature of these affiliations, ownership remains primarily vertical. This ownership structure helps the state to achieve policy objectives though SOEs.

The parent company within each group is organised as a wholly state-owned limited liability company (WSOLLC) in accordance with Chinese Company Law (Clarke 2003). WSOLLC is not obliged to hold an annual shareholders' meeting, and its sole shareholder is the State-Owned Assets Supervision and Administration Commission (SASAC) (Lin and Milhaupt 2013). Parent companies maintain a significant ownership stake in their affiliated groups to ensure control. They are non-listed entities and are wholly owned by SASAC. This model of group formation was an effort to emulate the rapid growth seen in the Japanese and South Korean economies, achieved through Japan's keiretsu and South Korea's chaebol business groups. It aimed to establish an economic scale, create national champions, and facilitate coordination in line with policy objectives (Milhaupt 2020).

2.8.3 Singapore

Many prominent international organisations, such as the OECD and the World Bank, have praised Singapore's approach to managing SOEs. In Singapore, these entities are referred to as Government-Linked Companies (GLCs), and they have played an important role in the country's economy since its independence. Scholars argue that Singapore's remarkable success, despite its limited natural resources, is primarily attributed to its effective CG of GLCs (Singh and Ang 1999). The People's Action Party, in power since 1959, adopted the GLC strategy in the 1960s, aligning with their belief that the state should take responsibility for the comprehensive development of the Singaporean economy (Cheng-Han et al. 2014). The Party views economic prosperity as a means to enhance its legitimacy, which explains its active involvement in the economy as an investor, regulator, and enforcer of laws and regulations. Cheng-Han et al. (2014) highlight that the success of the Singaporean CG Style in GLCs is deeply related to Singapore's fundamental characteristics, including its history, size, and political ideology. Consequently, replicating this model elsewhere may not yield the same benefits as Singapore has reaped. Nevertheless, the thriving model of Singaporean CG in GLCs challenges the prevailing notion that the private sector is fundamentally more efficient in resource allocation and effective governance.

A prevalent ownership structure in Singaporean firms is concentrated block-shareholding. According to Lull and Varottil (2015), approximately 90% of publicly listed firms have a block-holder who possesses the authority to exert control, often held by the Singaporean state. For instance, the average state ownership from 2008 to 2013 accounted for 37% of the total market capitalisation (Sim et al. 2014). Prior to the establishment of Temasek, companies with substantial government ownership were organised into groups to facilitate coordination and accelerate growth. However, these were held by different state departments (ministries), a model later copied by China (Kirkpatrick 2014). Nonetheless, Singapore recognised that grouping companies under the direct oversight of state departments might not sufficiently curb political patronage. Consequently, the state created Temasek and assumed ownership of corporations that served as the heads of their respective groups (OECD, 2014). It was estimated that the collective holdings of Temasek accounted for roughly 40% of Singapore's overall market capitalisation (Puchniak and Lan 2017).

Temasek is praised for its highly effective CG, resulting in GLCs achieving higher market valuations, higher returns on assets, and equity compared to non-GLCs, even after accounting for firms' specific characteristics. Since its established, Temasek achieved a compounded annual total return of 16% and utilised market-based incentives to motivate its managers (Kirkpatrick 2014). This distinction prompted Milhaupt and Pargendler (2017) to differentiate Temasek from entities like the Chinese State-Owned Assets Supervision and Administration Commission, emphasising its commercial orientation articulated in its charter and its noticeable independence from political intervention.

Temasek was established in 1974, as an investment holding entity owning and overseeing state interests in corporations. Temasek operates as a private investment holding company. Although it publicly discloses group summaries and portfolio details since 2004, it is exempt from filing audited financial statements. Temasek consolidates state assets previously under various state departments (ministries) (Chen 2016). The only shareholder of Temasek is the Minister for Finance (Turner 2002). However, the company is committed to operating on a commercial basis and maintaining independence from political influence (Kirkpatrick 2014). This commitment is evident in the composition of Temasek's board of directors, which currently comprises thirteen members (expanded from ten in 2015). According to the OECD (2014) report, approximately 65% of directors are independent and have substantial expertise and competence. Three of the thirteen members are international non-Singaporean citizens, including Robert Zoellick, former president of the World Bank, and Peter Voser, a retired CEO of Royal Dutch Shell (Puchniak and Lan 2017).

Crucially, there is no ministerial representation on the board. To ensure board autonomy, especially from the Ministry of Finance, the Singaporean constitution mandates that the President must approve appointments, reappointments, or removals of Temasek directors (OECD 2014). To ensure board's independence, Temasek's articles of association grant the board of directors the authority to determine dividend amounts, not the Minister of Finance (OECD 2014). As highlighted by researchers like Cheng-Han et al. (2014), despite the state's substantial ownership, Government-Linked Companies (GLCs) remain secured from rent-seeking behaviours, a prevalent concern in SOEs.

Temasek advocates for robust CG. For example, Temasek enforces the practice of separating the roles of chairperson and CEO in its portfolio. It appoints a non-executive director as chairperson, ensuring independence from the management team (Chen 2016). Temasek's approach is to ensure sound CG without directly dictating companies' operations (Tan and Wang 2007). While it's not uncommon for Temasek directors to hold multiple directorships in GLCs, it's important to note that the Singaporean CG code mandates board independence from management, not necessarily from controlling shareholders. This is a significant deviation from other CG codes that prioritise independence from controlling shareholders (Cheng-Han et al. 2014).

Approximately 40% of Temasek's top management in its portfolio comprises non-Singaporean nationals (OECD 2014). However, many of Temasek's holdings companies' boards are either current or former civil servants, military members, or members of the ruling party. This structure empowers the Singaporean state to exert influence through the board of directors rather than through the management team, as civil servants are ineligible to hold executive positions in GLCs (Turner 2002). According to Puchniak and Lan (2017), approximately 50% of the 148 board members classified as independent in GLCs have held or currently hold positions in the government. However, it is important to clarify that civil servants primarily serve a monitoring role and are shielded from political interference. This is attributed to Temasek's encouragement for GLC directors to form policy boards, rather than functional boards, and to refrain from direct involvement in day-to-day operations. Lastly, listed GLCs are subject to the same Code of CG, following a "comply or explain" framework. This code stipulates that at least one-third of the board of directors should be independent, increasing to 50% if the chairperson is not independent of management (Singapore Code 2018).

2.9 An Overview of the Institutional CG Framework in Saudi Arabia

2.9.1 Minister of Commerce (MoC)

The establishment of the Ministry of Commerce was in 1954, with the responsibility to regulate various business activities. The Ministry of Commerce has considerable authority to exercise judicial, executive, and legislative powers related to business granted by a royal decree (Gouda 2012). Over the years, the Ministry of Commerce has played a central role in overseeing and shaping the business landscape, from the time when the country’s stock market was small and there were a limited number of corporations enabling more manageable control and governance (Alotaibi 2015). In 1965, the ministry introduced the Companies Act which was an instrumental development in the country; however, the Act incorporated CG provisions to safeguard shareholders’ interests. The Act delineates the composition and responsibilities of the board of directors and the rights of shareholders. Subsequently, in 1990, the introduction of the Public Disclosure Standard by the ministry was an effort to foster a culture of voluntary disclosure and transparency in corporations. Until 2003, the Ministry of Commerce held sole jurisdiction over the regulation of all corporations. However, the establishment of the Capital Market Authority (CMA) in 2003 and the CG reforms of 2006 led to the transfer of supervisory responsibilities over listed corporations from the Ministry of Commerce to the CMA. Meanwhile, unlisted corporations, which comprise the majority of SOEs, continue to fall solely under the oversight of the Ministry of Commerce.

2.9.2 Capital Market Authority (CMA)

The establishment of the Capital Market Authority (CMA) in 2003 was a significant milestone in Saudi Arabia's regulatory environment which also led to the enactment of the Capital Market Law (CML) of 2003. This legislature was established by Royal Decree No. M/30 and by Council of Ministers Resolution No. 91. The CML comprises a comprehensive structure and includes 67 Articles organised into 10 sections (Almajid 2003). The establishment of the CMA was considered a significant development, particularly in the context of external corporate governance reforms for listed firms in Saudi Arabia (Hussainey and Al-Nodel 2008, Al-Matari et al. 2012). The CMA is an autonomous government entity operating with complete financial, legal, and administrative independence, and has a direct affiliation with the Prime Minister which enhances its regulatory authority over the stock market and CG reforms. The CMA objectives are to create an appropriate investment environment, increase, confidence levels, and enhance transparency and disclosure across all publicly listed corporations as well as safeguard the interests of investors and market participants by curbing illegal activities within the market (CMA 2023).

2.9.3 General Court of Audit (GCA)

In 1953, the General Court of Audit (GCA) was established, and in 1971 following the issuance of Royal Decree No. 9/M, the GCA was declared an independent institution. Previously identified as the General Audit Bureau (GAB), the institution operated under the authority of the Prime Minister and reported directly to him/her. In 2019, to increase GCA's independence and authority, it was to report to the king (GCA 2023). As an external control, the GCA plays a significant role in the governance of Saudi SOEs. Within Article 8 of its operational framework, the GCA's functions and responsibilities come to the fore, manifesting as follows:

1. Verify that all state revenues and receivables, including funds, assets, and services, have been properly recorded in accordance with current regulations. Ensure that all expenditures have been made in accordance with the provisions of the annual budget, as well as in compliance with the administrative, financial, and accounting rules and regulations.
2. Verify that all state movable and immovable funds are used for the purposes designated by the competent authority. Ensure that these entities have procedures in place to guarantee the integrity, proper use, and effective utilisation of these funds, and to ensure that they are not misused or used for purposes other than those for which they were designated.

3. Verify that each entity subject to the GCA’s oversight, in accordance with the provisions of Article Nine, applies the financial, accounting, and regulatory systems that it is subject to according to its specific system, in full compliance. Also, ensure that its financial transactions do not conflict with those systems and regulations.
4. Monitor the effective implementation, adequacy, and suitability of the financial, accounting, and regulatory systems to ensure their alignment with the evolving needs of the public administration in the Kingdom, address any deficiencies and provide necessary recommendations for the enhancement or modification of these systems and regulations.

To fulfil its mission, the GCA is empowered with the authority to formulate the required executive regulations. However, these regulations necessitate royal endorsement to be enforceability (Article 8). The entities subject to the GCA’s audit are outlined in Article 9 of the constitution, comprising:

- Ministries, government departments, and their affiliated branches
- Municipalities, water management entities, and water departments
- Public agencies and other autonomous entities with independent budgets, where government contributions manifest as subsidies or investments
- Enterprises or establishments with government participation amounting to at least 25% of the capital, or where a minimum profit is underwritten by the government.
- Any authority brought under the GCA's jurisdiction by royal command

2.9.4 Saudi Organization for Chartered and Professional Accountants (SOCPA)

The establishment of the Saudi Organization for Chartered and Professional Accountants (SOCPA) through Royal Decree no. M/12 in 1992 shaped profoundly the accounting profession in Saudi Arabia which led to the enactment of the Certified Public Accountants Act, which granted SOCPA the authority review, advance, and endorse auditing and accounting standards (SOCPA 2023). SOCPA is a semi-independent entity (Alsaeed 2006) which operates under the authority of the Ministry of Commerce, with its board of directors chaired by the Minister of Commerce. Prior to 1992, the profession had not attained its desired evolution, largely due to the absence of an autonomous body to oversee its enhancement (Haniffa and Hudaib, 2006).

The establishment of SOCPA emerged as a positive transformation and the expansion of the accounting profession in Saudi Arabia. Over its course, SOCPA has developed more than 20 standards, including notable ones such as the Inventory Standard in 1997, the Research and Development Expenses Standard in 1998, and the Fixed Assets Standard in 2001, and SOCPA pivotal role in facilitating the adoption of International Financial Reporting Standards (IFRS) since 2017. Alsaeed (2006) asserted that SOCPA has exercised a constructive influence on audit firms and enhance shareholders' and investors' trust in CG, disclosure and the reliability of firms' annual reports. SOCPA assumes three important roles: arranging the re-organisation of all audit firms, monitoring their quality, and issuing operational licences. Furthermore, SOCPA is responsible for formulating the guidelines for its fellowship certificate examination and plays a key role in delivering continuing education courses.

2.9.5 Public Investment Fund (PIF)

The Public Investment Fund (PIF) was found in 1971 through Royal Decree M/24. This establishment played a crucial role in supporting the nation's Five-Year Development Plan (1970–1975). Initially, PIF aimed to secure essential funding to help economic growth, encourage diversification, and advance the country's strategic business interests (Alhagas and Alhenaki 2023). In its early stages, the PIF primarily concentrated on domestic market. For example, the Fund played an important role in the establishment of some of the nation's most successful economic giants, such as the Saudi Basic Industries Corporation (Sabic), Saudi Telecom Co (STC), and the largest banking institution in Saudi Arabia, the Saudi National Bank (SNB) (Algethami, 2018).

In 2015, PIF underwent a substantial renewal and expanded its authority through its linkage to the Council of Economic and Development Affairs (CEDA). Prior to this, the fund was under the management of the Ministry of Finance (PIF 2019). Currently, the PIF engages in diverse investment projects in various sectors, such as military, industry, e-commerce, waste management, entertainment, real estate, and infrastructure. The government aims to increase PIF's managed assets from $400 billion at the end of 2020 to $2 trillion by 2030 (Kerr, 2019). The latest available data shows that PIF's current managed assets amount to $594 billion (PIF 2022).

PIF's investments are organised into six distinct areas: Saudi Equity Holdings, Saudi sector development, Saudi real estate and infrastructure development, Saudi giga projects, international strategic investments, and an international diversified pool (PIF 2022). The evolution of PIF's strategy into an active investor has influenced its role in corporate governance. The fund's annual report emphasises its commitment to reinforcing the governance of its portfolio companies by appointing experienced and knowledgeable representatives to the portfolio companies and employing rigorous and robust processes to ensure alignment of the portfolio companies with the best governance principles and practices (PIF 2022).

2.10 Regulatory Environment

Shleifer and Vishny (1997) stressed that legal investor protection is a fundamental for a robust CG system. Factors influences CG, include the legislative framework, such as laws that safeguard shareholders (La Porta et al. 1998); the efficacy of the judiciary (Klapper and Love 2004); and a helpful environment for business (Klapper and Love 2004). To gain a comprehensive insight into a nation's corporate environment, an overview of the legal requirements concerning corporate entities is helpful. Though government authority may not directly regulate personal integrity (Walker 2003), the legal framework remains a globally vital CG mechanism, safeguarding investor rights (La Porta et al. 1998; La Porta and Lopez-de-Silanes 1999; La Porta et al. 2000; Cornelius, 2005). The principal sources of CG in Saudi Arabia are founded upon several key sources, including the Company Law, the Corporate Governance Regulations for listed companies by the Capital Market Authority (CMA), and the Corporate Governance Regulations for non-listed entities issued by the Ministry of Commerce (MoC) which is voluntary guidelines.

Various laws govern corporations in Saudi Arabia. However, the Company Law established in 1965 modelled upon the British Companies Act was the first attempted (Falgi 2009; Alghamdi 2012; Branson 2012; Hill et al. 2015). The 1965 Companies Act's main focus was to legalise commercial businesses and partnerships, foreign corporations, liability entities, and joint-stock companies (Alshehri 2012; Al Mulhim, 2014). These initial legal measures represented the first attempt to address CG concerns (Rizvi and Hussain 2022). Although substantial amendments were made to this Act in 1982 and 1985, the Act continued to have limited focus on internal CG mechanisms, with only a few provisions relating to board composition. Furthermore, crucial aspects of disclosure, transparency, accountability, and shareholder protection, especially for minority shareholders, remained unaddressed by the Companies Act.

To remain aligned with global corporate trends, the Ministry of Commerce engaged in an extensive effort over a period of time to develop the legal framework. This culminated in the enactment of the Companies Act of 2015, resulting in significant changes that represented a significant advance in reforming Saudi Arabia's corporate environment (Alshowish 2016). More recently, the Companies Act of 2022 has superseded its predecessor with a more advanced and comprehensive regulatory framework. The 2022 Act delineates the operational boundaries for Saudi firms, including aspects such as incorporation, types, governance principles, structures, responsibilities, transparency, and accountability. In addition, the Act regulates the functioning, and dissolution of companies, the relationship between shareholders and companies, periodic disclosure requirements, and more detailed auditing mandates. For example, The Act prescribes specific obligations, like the preparation of company accounting records and financial statements at the close of each fiscal year (typically 12 months), aligned with Kingdom-approved accounting standards.

Closely related to CG, the Act explicitly mandates care and loyalty to be upheld by executive managers and board members. Provisions regarding transactions related to conflicts of interest, such as engaging with competitive companies or exploiting assets, are outlined. The Act empowers shareholders through the general assembly to vote for the approval of such transactions. Furthermore, a special report prepared by the company auditor, in line with the approved auditing standards of the Kingdom, must accompany such transactions or contracts. The Act also governs the board of directors' dynamics, including nomination, election, tenure, termination, and disclosure of interests in transactions and contracts (Articles 67 to 71). While the Act stipulates that the board's size is left to the companies' articles of association, it must consist of at least three members without an explicit maximum limit. Board appointments fall under the responsibilities of the general assembly, with a tenure limited to four years and the possibility of re-election. However, the Act remains silent on board composition, particularly the inclusion of independent non-executive directors and their numbers.

The Act delineates the scope of authority within the board of directors. It includes that board directors must appoint a chairman and vice-chairman from among its members. Moreover, the Act outlines the requirement for the board to appoint a chief executive officer (CEO) and a board secretary. The appointment can be either from among the board's members or externally. Nonetheless, the Act was silent on the issue of combining the roles of chairperson and CEO. This determination has been left to the regulations set by the Ministry of Commerce for unlisted companies or by the Capital Market Authority (CMA) for listed companies.

Regarding remuneration for boards and executive managements, the Act emphasises that the company's articles of association must determine remuneration and be disclosed. Remuneration can be a fixed amount, meeting attendance allowances, in-kind benefits, a percentage of net profit, or a combination of these elements. The Act mandates a minimum of four annual board meetings, to be convened upon the chairman's call and with the attendance of at least half the members, either in person or through proxies.

The general assembly is mandated to convene its annual meeting within six months after the close of the company's fiscal year. Notice for assembly meetings must be provided at least 21 days prior to the meeting date (or 30 days for request by auditors, or shareholders holding 10% voting shares). Assembly meetings are deemed valid when attended by shareholders representing at least a quarter of the company's voting shares. The general assembly holds considerable powers, including the election and removal of board members, appointment and removal of company auditors, reviewing and discussing board reports, assessing financial statements, reviewing the auditor's report, deciding on dividend distribution and reserves, and determining their utilisation.

The Act stipulates rules governing the appointment, removal, and resignation of company auditors, as well as their obligations and independence aligned with Kingdom-approved professional standards. Auditors are prohibited from engaging in technical, administrative, or advisory work within the company. To ensure effective CG, the general assembly holds authority over the appointment, fees, term, and scope of the auditor's work. However, delineation of the interaction between auditors and the audit committee remains somewhat ambiguous, despite being the only committee mandated for all types of companies. Several provisions underscore the auditors' authority to call for general assembly if management or the board obstructs their work by withholding necessary information.

2.10.1 Saudi Corporate Governance Code

The first CG Code in Saudi Arabia, titled "Corporate Governance Regulations in the Kingdom of Saudi Arabia," was introduced in 2006, following the stock market crash of the same year, which brought CG to the focus of regulatory attention (Al-Faryan 2019). The code was amended in 2009 to align with international best practices in CG and was made applicable to all companies listed on the stock market on a "comply or explain" basis (Al-Faryan 2019). In April 2017, CMA issued new regulations on CG for joint-stock companies listed on the Saudi exchange. The updated CG aimed to enhance the rights of shareholders and board members while increasing transparency regarding their roles and responsibilities (Rizvi and Hussain 2022). The 2017 code was further revised in 2023 in response to the new company law introduced in 2022, which made a significant number of the previously advisory articles mandatory.

The code of 2023 encompasses comprehensive guidelines addressing various aspects, including shareholders' rights, board of directors' roles, company committees, internal control, external auditors, professional and ethical standards, as well as disclosure and transparency. Concerning shareholder rights, the code provides detailed guidelines on the rights stipulated in the companies' Act. These guidelines explain how the board of directors and executive management should ensure fairness and equity among shareholders. For example, the code enlightens several shareholder rights, such as the board's responsibility to grant shareholders access to information impartially and communicate matters requiring shareholder approval. Furthermore, the code highlights that shareholder, through the general assembly, are responsible for board elections, utilising the cumulative voting method to elect members.

Furthermore, the code also provides details on board appointments and terminations, composition, membership conditions, and factors influencing board independence. According to the code, companies' by-laws specify the number of board members, which should ideally range from three to eleven. Board members' tenure should not exceed three years, with the possibility of re-election. In addition, a board member should not be associated with more than ten non-listed companies, and independent directors should account for at least one-third of the board. The code outlines conditions that compromise board member independence, particularly situations involving a 5% stake in the company or related entities and benefits directly or indirectly from transactions or contracts. A key recommendation of the code is the segregation of the chairperson and CEO roles.

Moreover, the code provides explicit guidance on board responsibilities and competencies. It emphasises that the board represents all shareholders and exercises fiduciary duties in managing the company's affairs. The board is entrusted to undertake actions essential for the company's overall interests, growth, value maximisation, and oversight of executive management. The code stipulates that the board has the broadest authority in company management to guide activities towards achieving objectives. Consequently, board members should possess relevant expertise, experience, knowledge, skills, and independence. Regular board meetings are encouraged, with a minimum frequency of four meetings annually. The code also recommends the appointment of a secretary with a minimum of three years' practical experience and a bachelor's degree in a business-related field. Emphasis is placed on the training and development of board members and executive management together with the establishment of the necessary methods for evaluations and assessments. In summary, the code serves as a comprehensive elaboration of company law provisions related to the board of directors.

The code highlights guidelines for board subcommittees: the audit committee, remuneration committee, and nomination committee. These guidelines encompass committee composition, duties, tenure, powers, and board oversight. A committee should typically comprise three to five members. The code prescribes, for instance, that the audit committee should include at least one independent member and may encompass non-executive members, with no executives serving on the committee. Similarly, the Remuneration and Nomination committee should follow a similar structure. The code recommends that the audit committee include at least one member with expertise in finance and accounting. It provides extensive directives for the audit committee regarding financial reporting, internal and external auditing, compliance, and conflict with the board. The code suggests a minimum of four meetings annually for the audit committee, and an annual meeting for the Remuneration and Nomination committee.

The code also outlines recommendations for internal control, advocating for the establishment of an internal audit department, and specifies the department's responsibilities, composition, and relationship with the audit committee. The code suggests that the audit committee propose the appointment and remuneration of the head of the internal audit department, who should be functionally accountable to the audit committee. It recommends that the internal audit department should possess competency, independence, adequate training, and a focused role exclusive to internal audit and control functions. In addition, the code states guidance pertaining to external auditors. It stipulates that external auditors should be appointed by the General Assembly based on recommendations from the board and audit committee. The auditors are entrusted with fiduciary duties to the company and can request a General Assembly meeting if their mission is impeded by the board or the executive management.

Furthermore, the code promotes the establishment of a policy for professional conduct and ethical values, including recommendations for social responsibility guidelines. The code also recommends appropriate levels of disclosure and transparency, describing items to be included in the board report, for example, details about board and committee members' names, qualifications, experiences, board composition, and remuneration. The code also provides instructions for audit committee reports.

The framework of the Saudi CG code is heavily influenced by the Anglo-Saxon model, which is grounded in agency theory—a theoretical approach that prioritises the protection of shareholders' interests. Hill et al. (2015) note that the Saudi CG code is largely derived from the Anglo-Saxon model, which emphasises maximising shareholder wealth and is rooted in the principles of agency theory, as opposed to the Germanic or Japanese systems of CG. Accordingly, the mechanisms within this framework are designed to ensure that managerial actions align with shareholders' interests. This design is predicated on the assumption that management's motivations are inherently self-serving and may diverge from the goals of shareholders. As a result, the board of directors is structured as a one-tier system, with a strong focus on the inclusion of independent directors to maintain the board's independence from management. This structure is intended to mitigate the influence of management, who often hold considerable power over shareholders, particularly in cases where shareholders are widely dispersed and have limited control over managerial decisions. However, it can be argued that agency theory does not fully account for the unique political, religious, and cultural context of Saudi Arabia.

2.11 Conclusion

This chapter delivered an overview of the history and the rationale of SOEs, highlighting that despite the wave of privatisations during the 1980s and 1990s, the prevalence of SOEs persists, especially in developing countries. This shows the renewing validity of state ownership as a developmental model for many nations. The discussion also covered various issues associated with SOEs' CG, shedding light on the distinctive challenges posed by state ownership and the presence of government representatives on SOEs' boards of directors. In addition, the chapter provided insights into the management of SOEs in Saudi Arabia, alongside two other countries, facilitating a nuanced understanding by highlighting both similarities and differences. Moreover, although there are indications of improvement in the CG institutional framework and regulatory environment in Saudi Arabia, particularly following the enactment of the 2022 Company Act, it remains premature to assert that Saudi SOEs operate within a well-structured governance framework and optimal regulatory environment.

The following chapter will review of literature on various facets of CG, including definitions, theories, styles, and ownership arrangements within the context of SOEs.

CHAPTER THREE: CORPORATE GOVERNANCE: A LITERATURE REVIEW

3.1 Introduction

This chapter presents a review of the existing and pertinent literature on CG. Specifically, the chapter attempts to achieve the following objectives. Firstly, in Section 3.2, the chapter outlines various CG definitions, highlighting the influence of disciplines and theories on these definitions. Secondly, Section 3.3 explores the key theories associated with CG. Thirdly, Section 3.4 provides an in-depth overview of the OECD Guidelines on the CG of SOEs. Fourthly, Section 3.5 discusses the significance of context in CG research. Furthermore, Section 3.6 explores common CG styles, offering insights into the diverse approaches employed in governance practices. Section 3.7 discusses the three primary ownership arrangements of SOEs, and finally, Section 3.8 concludes the chapter by providing a summary of its key components. This exploration aims to contribute to a comprehensive understanding of the diverse dimensions and complexities surrounding the field of CG.

3.2 CG Definitions and Goals

CG is a concept that is debated from different dimensions depending on the disciplinary lens through which it is examined. It includes a wide range of meanings and perspectives and is generally used in various disciplines such as political science, public administration, economics, and management (Almqvist et al. 2013). Economists and finance experts define CG in terms of the mechanisms ensuring lenders make a satisfactory return on their investments (Shleifer and Vishny 1997). Legally, it pertains to the structures and procedures mandated by corporate law, such as governing bodies and the allocation of roles and authority among them (Klausen and Winsvold 2021). From a sociological standpoint, CG is the strategic framework dictating the apportionment of rights and responsibilities among the various participants within a corporation (Aguilera et al. 2021c). These stakeholders include managers, shareholders, the board of directors, as well as other interested parties like employees, suppliers, and consumers. In a broader sense, as articulated by Macey (2008, p. 2), CG is “anything and everything that influences the way that a corporation is actually run.” CG refers to the strategic design of the distribution among diverse stakeholders (Aguilera and Jackson 2003). Its fundamental objective is to enhance transparency and accountability, mitigating conflicts of interest, and facilitating the efficient allocation of corporate resources (Aguilera et al. 2021).

These varying interpretations of CG find their roots in underlying theories (Solomon and Solomon 2004). For instance, Parkinson (1995), guided by agency theory, primarily defines CG as a mechanism that oversees and regulates management to ensure that agents act in the best interests of the principal. On the other hand, Freeman (2010), based on stakeholder theory, contends that managerial responsibilities extend to all those who may be economically impacted by management decisions. This aligns with the perspective of Clarkson (1995), who characterises CG as the processes and tools safeguarding the interests of a wide range of stakeholders, including shareholders, employees, creditors, suppliers, and consumers.

While CG serves various objectives, none perhaps is more evident than the pursuit of enhanced accountability and transparency in resource allocation (Aguilera et al. 2021c). Aman et al. (2021) examined the relationship between CG and transparency in Japan, employing the Nikkei CG Evaluation System. Their findings highlighted a direct correlation in which higher CG ratings were linked to more frequent and timely disclosures. Moreover, Aman et al. (2021) found that robust CG practices enhance capital market efficiency, leading to stock prices that more accurately reflect a company's true value compared to those with lower CG ratings. CG attributes serve investors by aligning the interests of managers with those of shareholders and by improving the reliability of financial information and the integrity of the financial reporting process (García-Meca and Sánchez-Ballesta 2009).

3.3 Corporate Governance Theories

CG as interdisciplinary research is shaped by theories drawn from various fields including Accounting and Finance, Management, Organizational Behaviour, and Law (Mallin 2013). The utilisation of diverse theories in CG research primarily seeks to examine it from various perspectives, rather than focusing solely on the issue of CG itself (Solomon and Solomon 2004). Tricker (2015, p. 74) asserts that, currently, CG lacks a single widely accepted theoretical foundation or a universally recognised paradigm. However, that agency theory has significantly influenced CG research (Carcello et al. 2011a). A systematic review, conducted by Alhossini et al. (2021) which analysed 304 articles published between 1991 and 2018, revealed that agency theory predominantly underpins these studies. The seminal work of Jensen and Meckling (1976) addressed agency theory considering the conflicts of interest between various contracting parties, including shareholders, management, and debt holders.

Mallin (2016) emphasised that CG research in recent years has been shaped by stakeholder theory, stewardship theory, and other non-economic theories such as Social Identity Theory and Institutional Theory. Blair (1996) identifies four CG theories: agency theory, stakeholder theory, transaction cost theory, and market myopia theory. Mallin (2013) pointed out that certain CG theories may be more applicable in one context than another. Overall, the evolution of CG is contingent on complex and dynamic factors such as culture, ownership, and legal institutions.

While the theories discussed in this section primarily relate to market-based corporations rather SOEs – with the exception of Social Identity Theory and Institutional Theory – they remain relevant due to the evolving management practices of SOEs in recent decades and the shift in their operational paradigms. The rise of neoliberalism in the late 1980s, shifted SOEs away from the focus on the idea of 'public good' towards the principles of New Public Management (NPM). As Som (2022) notes, NPM introduced private-sector practices into public sector management to enhance SOE efficiency and governance. This shift prompted many SOEs to reform their internal governance structures, such as allowing external directors on boards, incentivising managers for performance, professionalising management, and improving financial reporting. NPM emerged as a response to criticisms of the public sector's inefficiency, bureaucracy, and ineffectiveness, promoting the integration of private sector management models and market mechanisms into public administration (Olson et al. 1998; Lapsley 1999; Reichard 2010; Almquist et al. 2013). The World Bank's research highlights that a combined approach of privatisation and corporatisation, where government departments with a commercial focus are transformed into legally separate entities, such as SOEs represents the most effective strategy for managing the public sector (Shirley 1999).

Although the adoption of NPM-inspired models and approaches, largely drawn from market-based CG, is debated regarding its effectiveness in the public sector, Saudi Arabian SOEs are not exempt from NPM's influence. The corporatisation of Saudi SOEs reflects this influence, as these entities have increasingly adopted management tools and market mechanisms characteristic of the private sector. In addition, this research focuses specifically on corporatised SOEs, which further warrant the use of theories typically associated with market-based corporations.

3.3.1 Agency Theory

The popularity of agency theory can be attributed to its simplicity and its alignment with human nature; individuals tend to be inherently individualistic and self-interested. These characteristics, coupled with the contemporary structure of corporations, in which dispersed owners delegate the management of their wealth to professional managers, contribute to the relevance and acceptance of agency theory in CG research. Agency theory conceptualises modern corporations as a nexus of contracts between principals (owners) and agents (managers), arguing that individuals are rational actors motivated by the pursuit of their interests and the maximisation of their utility (Jensen and Meckling 1976). The modern corporate structure creates a division between ownership and control (Berle and Means 1932) and makes it impractical for owners to personally oversee their businesses. In addition, according to agency theory, principals face the challenge of ex-ante uncertainty regarding agents' self-interested behaviour, incurring costs in their efforts to constrain such behaviour (Williamson 1985). Jensen and Meckling (1976) contend that the separation of management and ownership creates an agency relationship, which they define as a contract through which one person (the principal) engages another person (the agent) to perform some services on his/her (the principal's) behalf. Berle and Means (1932) assert that shareholders must have the capacity to monitor management; failing to do so could lead to management exploiting company assets for personal gain rather than maximising the wealth of the company. Eisenhardt (1989) points out two agency concerns: conflicts of interest and different risk attitudes between owner and management.

Agency theory primarily focuses on mechanisms that facilitate alignment between the interests of principals and agents to achieve the goals of the principals (Jensen and Meckling 1976; Eisenhardt 1989). According to agency theory, the divergence of interests between principals and management can be mitigated using incentives and monitoring mechanisms (Okhmatovskiy et al., 2022). Therefore, governance mechanisms within the framework of agency theory can be broadly categorised into two components: governance structure, particularly the board of directors, and performance-based compensation. Both mechanisms aim to align interests in a way that encourages agents to act in the best interests of shareholders (Davis et al. 1997). The governance structure primarily seeks to align the interests of agents with those of shareholders through monitoring to ensure that agents are working towards the objectives of the shareholders. In addition, it serves as a means of facilitating communication and ensuring the realisation of the principals' objectives. The compensation scheme becomes particularly valuable in situations where agents possess a significant information advantage and monitoring becomes challenging (Davis et al. 1997). Performance-based compensation serves as a motivator for management to act in the best interests of principals, especially when management has access to critical information that creates an information asymmetry (Davis et al. 1997). It is important to note that both mechanisms cannot entirely eliminate opportunistic behaviour on the part of agents, as control is inherently imperfect (Davis et al. 1997). Moreover, excessive control can leave agents with insufficient discretion, which is essential for effectively running firms. The objective of agency theory is to minimise agency costs by implementing internal controls that regulate agents to a degree where the costs of these controls do not outweigh their benefits (Berle and Means, 1932). Garay and González (2008) highlighted that:

> *Many definitions of corporate governance stress the potential conflicts of interest between insiders (managers, boards of directors, and majority shareholders) and outsiders (minority shareholders and creditors) of the company. The set of internal and external mechanisms to balance these conflicts of interest is what it is usually known as corporate governance." Garay and González (2008, p. 196).*

Given that the application of agency theory in SOEs has been widely discussed (e.g., Bruton et al. 2015; Peng et al. 2016; Okhmatovskiy et al. 2022). In SOEs, the state serves as the de facto owner, while employees act as agents working on behalf of the state. Consequently, conflicts of interest emerge between the principals (the state) and the agents (employees), highlighting the relevance of agency theory in the context of SOEs (Peng et al. 2016). Agency issues in SOEs can be more pronounced because these entities face principal-agent problems involving a broad range of stakeholders, including politicians, civil servants, and managers (Okhmatovskiy et al. 2022; Sun et al. 2021). Moreover, the ultimate owners of SOEs are often the citizens of a nation, introducing an additional layer of principals whose interests may not always align with the governments, and who typically lack the power to influence the governance of SOEs. Musacchio et al. (2015a) have observed that government officials are inclined to appoint bureaucrats and allies to SOE boards of directors, who may have less incentives to challenge managers, who, in many cases, are also appointed by government officials. The monitoring mechanism in SOEs is further complicated compared to the traditional nexus of contracts found in private firms, primarily due to the presence of state bureaucracy (Wang and Judge 2012). Bureaucrats often lack the business skills and resources required for effective monitoring and control of SOE management, leading to information asymmetries (Okhmatovskiy et al. 2022). In essence, a new nexus of contracts emerges between the state and employees, deviating from the traditional nexus of contracts between private owners and employees (Wright et al. 2005). Furthermore, SOE employees are typically public servants who may not be primarily driven by material incentives; instead, they may aspire to attain higher government positions and greater authority.

Proponents of agency theory often argue that state ownership can lead to poor performance and weaker governance. This contention is based on the assumption that state pursues objectives other than profit, and these objectives may be contradictory (Lazzarini and Musacchio 2018; Aguilera et al. 2021a). In addition, state owners may be less effective in monitoring (Dharwadkar et al. 2000) and may exhibit a lower appetite for risk, which can impact overall performance (Tihanyi et al. 2019).

The compensation-based hierarchy and seniority criteria, often employed in SOEs, may not effectively align the interests of citizens, the government, and management. Firth et al. (2006a) found that in Chinese SOEs, manager compensations are less tied to performance, a practice widely encouraged by agency theory to foster alignment between shareholders and managers. Peng et al. (2016) have emphasised the challenge of providing incentives to constrain agent self-interest and mitigate opportunistic behaviour, particularly in the context of SOEs. For instance, material incentives such as bonuses or ownership stakes for employees are typically insignificant and often fail to align the interests of agents with those of the principals (Wang and Judge 2012). In addition, these material incentives are often linked to economic performance, but in the case of SOEs, employees may be tasked with performing non-economic tasks that are difficult to evaluate within the framework of traditional material incentive schemes. Moreover, SOE employees, who are public servants, may not always be motivated by material incentives; instead, they often seek higher government positions and increased authority. Furthermore, if incentives are utilised, they usually come from a single principal—the government—increasing the risk that agents prioritise the government's objectives. Okhmatovskiy et al. (2022) have highlighted how executives in Chinese SOEs are often disinterested in material compensation incentives, instead seeking higher positions within other SOEs or the state bureaucracy. Traditional incentives and monitoring methods may not be as effective in SOEs as they are in the private sector. Therefore, alternative forms of incentives and monitoring may be more fruitful in the context of SOEs. Okhmatovskiy et al. (2022) have called for empirical studies to assess the effectiveness of traditional incentives and monitoring mechanisms in SOEs, particularly in cases with significant political interference.

In cases of partial privatisations, SOEs experience principal-principal agency conflicts of interest, wherein blockholders may prioritise the interests of the majority over the minority (Dharwadkar et al. 2000; Young et al. 2008; Chen et al. 2019). The phenomenon of principal-principal conflicts of interest in SOEs has been the subject of investigation (Sun et al. 2016; Grosman and Leiponen 2018; Grosman et al. 2019). In SOEs, such conflicts are more apparent due to the government's role as the controlling shareholder. This position can lead to the manipulation of information, resulting in increased information asymmetry. Moreover, government officials may be appointed to managerial positions and boards, pursuing objectives that may not align with the interests of the minority shareholders (Okhmatovskiy et al. 2022). Studies have found that independent directors play a more substantial role in mitigating blockholders' issues in SOEs (Grosman et al. 2019). Another application of agency theory in SOEs is the multiple agency perspective, which stresses that agents have multiple principals for whom they do not share similar interests. Recent literature (e.g., Musacchio and Lazzarini 2018; Jia et al. 2019) has shifted the focus from state ownership to the CG of SOEs. This shift puts a greater emphasis on CG compared to previous calls for privatisation as the optimal solution for SOEs.

3.3.2 Stakeholder Theory

Stakeholder theory has experienced constant evolution since the 1970s (Solomon and Solomon 2004). A key interpretation by Freeman (1984) stands out in the development of stakeholder theory, as he introduced the concept of corporate accountability to a wide array of stakeholders (Solomon and Solomon 2004). Freeman (1984, p. 25) defines a stakeholder as "Any group or individual who can affect or is affected by the achievement of the firm's objectives." This definition shifts the focus, without eliminating it, from the sole maximisation of shareholder value to the broader goal of enhancing the wealth of a diverse set of constituents (Mallin 2013). Within stakeholder theory, a corporation is conceptualised as socio-economic organisations that aim to enhance the wealth of multiple constituencies, each of which is diverse and often possesses conflicting interests (Mitchell et al. 1997). Lewis (2019) defines stakeholders as those who have an interest in an organisation's processes and/or outcomes. Stakeholder theory regards corporations as organisational entities through which various stakeholders work towards multiple, and in sometimes contradictory, objectives (Donaldson and Preston 1995). A more detailed definition is from Post et al. (2002, p. 8), who state, "The stakeholders in a firm are individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers."

The above definition reveals that stakeholder theory does not inherently contradict the fundamental assumptions of agency theory, which assume that humans are inherently individualistic and opportunistic. Recent literature has demonstrated that stakeholder theory is no longer seen as completely opposed to agency theory, and they are no longer considered mutually exclusive (Hill and Jones 1992). However, stakeholder theory asserts that corporations exert such significant influence in society that they should consider a broader array of constituents, including employees, customers, creditors, communities, the general public, and shareholders (Solomon and Solomon 2004). This theory, form a managerial perspective, argues that management should strive to balance and acknowledge these broader constituencies' interests. Nevertheless, due to the lack of consensus on who constitutes a stakeholder, scholars such as Wheeler et al. (2003) argue that the wide scope of the theory makes it less formally defined, but more off to a comprehensive research tradition encompassing ethics, economics, law, and organisational studies. This viewpoint holds merit, given that stakeholder theory has been applied in diverse contexts, including corporate social responsibility (Wang and Huang 2006), business ethics, and management (Butterfield et al. 2004). Donaldson and Preston (1995) sought to provide a more nuanced view, asserting that management bears the responsibility of allocating resources and conducting activities for the benefit of all legitimate stakeholders. Legitimate stakeholders are those with a justifiable claim over the company that established through the existence of an exchange relationship (Freeman 1984; Hill and Jones 1992). For example, shareholders contribute capital and anticipate a return on their investment; employees offer human capital and expect fair remuneration and suitable working conditions; customers provide revenue and expect value for their expenditure; suppliers provide inputs and seek equitable prices and reliable buyers; local communities provide the company with location, infrastructure, and potentially favourable tax treatment, expecting corporate citizenship that enhances rather than undermines the quality of life; the general public, as taxpayers, provide the firm with national infrastructure, anticipating corporate citizenship that enhances quality of life and complies with the rules of the game established by the public through their legislative representatives (Hill and Jones 1992).

Hult et al. (2011) categorise stakeholders into primary and secondary groups. Primary groups are integral to a corporation's survival and growth, and there is a high level of interdependency between the firm and this group members (Clarkson 1995). This category includes customers, employees, suppliers, shareholders, and public entities such as government and communities, (Clarkson 1995; Hult et al. 2011). Secondary groups, on the other hand, includes entities like competitors, the media, trade associations, and special interest groups. While they may exert influence on or be influenced by corporations, they are not essential for a corporation's survival (Clarkson 1995). Clarkson (1995) argues that managers bear the responsibility not only of maximising returns for shareholders at the expense of other primary groups, but also for resolving inevitable conflicts among primary stakeholder groups, highlighting the need for ethical judgement.

An alternate classification of stakeholders is proposed by Mitchell et al. (1997), who categorise stakeholders based on attributes of power, legitimacy, and urgency. They argued that stakeholders possessing more of these attributes necessitate greater attention from management (for further information, see Mitchell et al. 1997; Parent and Deephouse 2007). Based on empirical studies, Parent and Deephouse (2007) assert that power exerts the most significant impact on salience, followed by urgency and legitimacy. Quinn and Jones (1995) advocate for managers to engage in morally sound behaviour in business, as well as in all other aspects of life. They emphasise that conducting business does not exempt managers from the moral obligations they hold.

Supporters of stakeholder theory argue that corporations owe their existence to the relationships and contributions of various constituents, and thus, all affected parties should be taken into consideration (Stovall et al. 2004). Given the significant prominence and influence of corporations, proponents argue that they should be accountable to society as a whole, not just to shareholders (Solomon and Solomon 2004). The growing acceptance of stakeholder theory may be attributed to the fact that the collapse of large corporations impacts not only shareholders, but broader range stakeholders. Alpaslan et al. (2009, p. 39) contend that placing greater emphasis on the stakeholder model of CG may assist corporations in recovering from crises and in preventing future ones. The theory recognises that companies exert a profound impact on various constituencies (Fowler and Cordery 2015). This is because organisations rely on the support of societal leaders and government. Stakeholder theory argues that for a firm to generate sustainable wealth over the long term, its value is contingent on its relationship with critical stakeholders (Freeman 1984; Donaldson and Preston 1995; Mitchell et al. 1997; Jones and Wicks 1999; Post et al. 2002).

Wang and Dewhirst (1992) emphasise that the board of directors bears the responsibility of safeguarding the interests of stakeholders. The definition of stakeholder theory is highlighted in defining the responsibilities of the audit committee, a board subcommittee (DeZoort et al. 2002). The authors state, "An effective audit committee has qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent oversight efforts." Mattingly et al. (2009) assert that the stakeholder management approach is associated with sound CG, high-quality ratings, and effective earnings management. Mallin (2013) argues that stakeholders function as external overseers and can have significant influence over monitoring mechanisms. Mallin (2013, p. 77; 78; 79) further states:

> *However, it is of fundamental importance that stakeholders' interests cannot, and should not, be ignored ... Given that all companies operate within a wider society, the interests of shareholders and stakeholders are often intertwined ... Companies operate in a wider society not within a defined corporate vacuum. Therefore, companies should take account of the views of various stakeholders in addition to those of shareholders.*

3.3.3 Stewardship Theory

In contrast to agency theory's economic perspective on governance, which depicts managers as individualistic, opportunistic, and self-serving, stewardship theory argues that managers are collectivists, pro-organisational, and reliable (Davis et al 1997). Grounded in sociological and psychological factors, stewardship theory offers an alternative viewpoint in which organisational actors see greater long-term benefit in prioritising pro-social and pro-organisational behaviour over self-serving, short-term opportunism (Hernandez 2012). In simple terms, stewardship theory contends that managers work towards advancing the interests of the firm rather than personal gain (Burghausen and Balmer 2017). Scholars in psychology and sociology have pointed out the theoretical limitations of agency theory, asserting that it oversimplifies the complexities of organisational dynamics (Davis et al 1997). Stewards believe that greater benefit is attained through collaborative behaviour, therefore their behaviour is seen as rational (Davis et al. 1997). The theory argues that a steward's collective behaviour leads them to pursue organisational objectives, such as profitability and sales growth (Davis et al. 1997). This is because safeguarding and maximising shareholders' wealth through performance outcomes ultimately leads to the maximisation of the steward's utility. A steward's actions will aim to fulfil shareholders' objectives and, in cases of conflicting interests among stakeholders, the steward's decisions will prioritise the collective best interest because the steward's behaviour is centred on the organisation (Davis et al. 1997). According to Caers et al. (2006), stewardship theory encompasses two branches. The first is that there may be conflicting goals between agents and principals; nevertheless, agents are motivated to act in the interest of the principals, rather than their own (Davis et al.1997). This is because agents believe that pursuing their own interests may have more costs than benefits; hence, they perceive that achieving higher utility is more likely through cooperation with principals (Caers et al. 2006). The second branch contends that agents' goals are aligned with those of the principal (Sundaramurthy and Lewis 2003).

Stewardship theory acknowledges that stewards have personal needs and interests but argues that they are guided by the belief that through pro-organisational, collective management behaviour, personal needs and interests can be fulfilled (Davis et al. 1997). Given that sociological and psychological influences are taken into consideration in stewardship theory, it identifies a broad range of non-financial motivations driving managerial behaviour. These motivations include, for example, the need for achievement, recognition, intrinsic satisfaction, respect, authority, and a strong work ethic (Muth and Donaldson 1998). Muth and Donaldson (1998) assert that this wide range of motivations in stewardship theory shifts the focus away from self-interest motivations and provides a rationale that conflicts of interest between managers and owners may not be inherent in the separation of ownership and control. Davis et al. (1997) argue that the psychological perspective of stewardship theory motivates managers to strive for higher performance in a structure that empowers them with significant responsibilities and tasks. In addition, from a situational perspective, managers achieve more in an involvement- originated environment compared to a control-oriented one.

The governance structure holds significant importance in stewardship theory as the theory argues that the performance of stewards is influenced by the organisational structure. If the structure empowers executives, their performance tends to be higher (Davis et al. 1997). A structure that imposes excessive control and monitoring runs counter to organisational behaviour, provides low motivation, and is not only unnecessary but also counterproductive (Argyris 1972; Hernandez 2012). Stewardship theory calls for a structure that empowers rather than focusing on monitoring and control. It stands as an alternative to agency theory and advocates for a board structure that differs from the norm to ensure effectiveness (Muth and Donaldson 1998). Insider-dominated boards are preferred because of the knowledge, access, and expertise they bring. Stewardship theory anticipates that shareholders benefit the most under an organisational structure that allows for control and monitoring by management (Muth and Donaldson 1998). Stewardship theorists argue that autonomy and responsibility are key drivers of employee motivation (Donaldson 2008). Early interviews conducted by Chitayat (1985) with chairpersons revealed that a majority believed their role was to provide advice and ideas, rather than restrict the powers of the CEO. However, in SOEs, chairpersons highlighted that their role extended to reviewing and controlling the CEO's activities to ensure proper resource allocation and information flow.

Stewardship theorists argue that the separation of CEO and chairperson roles hampers executives' autonomy in planning and executing the firm's objectives (Braun and Sharma

2007). Empirical findings by Braun and Sharma (2007) indicate that duality does not directly influence performance. However, they found that in cases of low family ownership, separating the CEO and board chair roles leads to higher returns for shareholders. Stewardship theory contends that corporate performance varies based on the governance structure and where executives are situated (Donaldson and Davis 1991). In a structure where power and authority are concentrated in one individual, it is clear who holds authority in a given situation. Consequently, the organisation benefits through leadership from a unified direction (Donaldson and Davis 1991). Thus, under stewardship theory, the emphasis lies on a facilitative and empowering structure rather than extensive monitoring of management. Insiders are favoured under stewardship theory (Beasley et al. 2009) due to their superior knowledge.

The role of the board of directors extends beyond mere compliance and conformance; it is integral in enhancing organisational performance (Cornforth 2003). Within the context of SOEs, the literature suggests that, to effectively mitigate CEO-related issues, the board of directors should possess a sense of stewardship, legitimacy, and a diverse range of interests and experiences (Okhmatovskiy et al. 2022). Stewardship theory emphasises long-term objectives and the collective interests of a group over individual goals (Hernandez 2012). Hernandez (2012, p. 174) defines stewardship as "the extent to which an individual willingly subjugates his or her personal interests to act in protection of others' long-term welfare." Cornelius (2005, p. 12) offers a definition of CG as "the stewardship responsibility of corporate directors to provide oversight for the goals and strategies of a company and to foster their implementation." Managers' identification with the firm, especially in cases of long tenure, tends to promote cooperative behaviour (Donaldson and Davis 1991).

3.3.4 Resources Dependency Theory

RDT is frequently employed in CG research. RDT could be seen somewhat in contrast to agency theory, given its emphasis on the board of directors as providers of resources to management, as opposed to primarily focusing on their monitoring role. Drawing on sociology and management disciplines (Nicholson and Kiel 2007), RDT highlights that BoDs serve as a critical link between the company and the requisite resources that are important for the functioning (Pfeffer 1972; Pfeffer and Salancik, 1978). Pfeffer and Salancik (1978, p163) stated "when an organisation appoints an individual to a board, it expects the individual will come to support the organisation, will concern himself with its problems, will variably present it to others, and will try to aid it."

Derived from strategic management literature, RDT emphasises the instrumental role of BoDs in facilitating the realisation of the company's strategic objectives and activities (Cohen et al. 2008). The primary function of BoDs leans more towards supporting management in crafting effective policies, rather than merely monitoring their actions (Cohen et al. 2008; Beasley et al. 2009). Pfeffer and Salancik (1978) highlighted that BoDs serve as crucial boundary spanners, to form connections between the company and the external environment to secure essential resources. Nicholson and Kiel (2007), as well as Cohen et al. (2008), highlight the paramount role of the board is to assist management to obtain these important resources. Beasley et al. (2009) argue that BoDs are intended to collaborate and assist management, rather than primarily focusing on monitoring and control.

The composition and structure of BoDs have been thoroughly discussed, and recommendations based on RDT have been emphasised. For instance, Nicholson and Kiel (2007) assert that board members with strong ties to the external environment bring valuable resources that enhance firm performance. A similar view is by Hillman et al. (2000) and Van den Berghe and Levrau (2004), who argue that increasing the number on the BoDs can broaden the pool of expertise; consequently, larger boards are more likely to possess a wealth of knowledge compared to smaller counterparts. In addition, in line with RDT assumptions, directors with multiple directorships are believed to have a positive impact on company performance due to their extensive networks, specialised expertise, and ability to bring resources. Jahan et al. (2021) conducted a study to investigate whether holding prestigious multiple board memberships is positively correlated with firm performance. They found that companies with more prestigious multiple board members have higher levels of both accounting and market performance, thus supporting RDT assumptions. Directors who serve on multiple boards are exposed to a diverse range of organisational practices which increase their contributions as they acquire a wide range of skills, networks, knowledge, and experiences (Jahan et al. 2021).

However, it is important to acknowledge that both board size and the practice of holding multiple directorships present their own set of challenges. For instance, Yermack (1996) provided evidence suggesting that smaller boards tend to be more effective than larger ones. Jensen (1993) argued that as group size increases, effectiveness can be compromised due to coordination and process issues, which may outweigh the benefits of having a larger size. Therefore, Jensen (1993) recommended that BoDs should ideally consist of no more than seven or eight members.

According to Li and Lan (2021), companies are dependent on their external environment. They face the task of striking a balance between the costs associated with coordination and potential free-rider issues when considering adjustments to the size of their BoDs. The authors further emphasise that the advantages derived from monitoring and advisory roles are contingent on the specific business environment in which the company operates. For example, increasing the number of independent directors on the BoDs signifies that the company may relinquish a portion of its control rights in exchange for increased access to external resources (Li and Zhang 2018). It is difficult to precisely determine the nature of the required resources because it can be context-dependent. Nonetheless, a key function of BoDs is their capacity to facilitate access to necessary resources (Nicholson and Kiel 2007). It has been highlighted, for instance, that BoDs serve to reduce dependency between a company and external contingency resources (Pfeffer and Salancik 1978), mitigate uncertainty (Pfeffer 1972), and lower transaction costs (Williamson 1985; Li and Lan 2021).

The application of RDT in SOEs is a universal consideration. SOEs may face limitations in pursuing business objectives, as they are often subject to state-driven directives that dictate resource allocation (Okhmatovskiy et al. 2022). Regarding BoDs, RDT argues that appointing board members for advice and strategic decision-making can mitigate dependency and facilitate resource acquisition, while also enabling coordinating actions with external stakeholders. However, studies evaluating these assumptions provide mixed results, particularly within the context of SOEs (Okhmatovskiy et al. 2022). Some research suggests that external directors in SOEs bring advantages, such as facilitating relationships with external stakeholders and providing valuable expertise. On the other hand, researchers like Malatesta and Smith (2014) have emphasised that external directors may diminish organisational autonomy if their objectives diverge from those of the organisation. Studies by Okhmatovskiy (2010), Kang and Zhang (2018), and Pascual-Fuster and Crespí-Cladera (2018) investigate the involvement of current or former politicians on boards, and collectively, they do not find a positive correlation between current or former politicians and performance or governance.

3.3.5 Transaction Cost Theory

Williamson's (1996) pioneering exposition of TCT has prompted CG researchers to integrate TCT into their studies, aiming to enhance the depth of CG research. Generally, TCT and agency theory both highlight the divergence of interests between management and shareholders. However, Williamson (1996) acknowledged a key distinction between the two, is the use of taxonomy (Solomon and Solomon 2004). He explained that “Transaction cost analysis entails an examination of the comparative costs of planning, adapting, and monitoring task completion under alternative governance structures." (Williamson 1996, p. 58). Solomon and Solomon (2004) point out that while TCT and agency theory share foundational similarities, they diverge in certain aspects. TCT assumes opportunistic behaviour from agents, while agency theory addresses moral hazards and agency costs. Furthermore, agency theory focuses on agents pursuing their own perquisites, whereas TCT is concerned with agents' opportunistic behaviour in structuring transactions. Consequently, the unit of analysis in agency theory is agents, whereas in TCT, it is transactions. Nonetheless, both theories share the aim of ensuring that management acts in the best interests of shareholders, rather than solely in its own interest (Solomon and Solomon 2004). The emphasis on transactions arises from the fact that corporations incur substantial economic costs, as well as corresponding economic advantages, with each transaction they undertake (Williamson 1996). Given that markets are not perfectly efficient, and management has influence over transactions, there is a possibility of structuring transactions in a manner that serves the best interests of management.

The application of TCT in SOEs has yielded divergent findings. On one hand, sceptics argue that state ownership may increase transaction costs due to the potential for political interference, which in turn heightens the risk of contract obligations not being fulfilled. Conversely, proponents argue that state ownership can mitigate transaction costs by reducing the likelihood of fraudulent behaviour within firms (Okhmatovskiy et al. 2022). At a local level, particularly in developing economies, SOEs continue to exist for reasons beyond political ideology. They may be more efficient in economising transactions compared to the market, as argued by Coase (1937). Scholars like Peng et al. (2016) advocate for the integration of theories of the firm into studies on SOEs, including TCT. They hold that despite the imperfections of SOEs, they serve to lower transaction costs in economies with severe market failures or underdeveloped markets (Peng et al. 2016). Furthermore, in many developing nations, the private sector is often underdeveloped and lacks the requisite capabilities to drive economic development and ensure the provision of essential goods and services. However, it is necessary to acknowledge that state involvement in SOEs comes with its own set of drawbacks, such as issues of multiple agencies, conflicting objectives, and the administrative costs associated with bureaucracies (Kornai 1992).

3.3.6 Neo-Institutional Theory

The interest in neo-institutional theory can be attributed to the seminal works of Meyer and Rowan (1977) and DiMaggio and Powell (1983) in the field of organisational theory. Meyer and Rowan (1977) assume that firms in modern societies are significantly influenced by institutional contexts, including various professions, policies, and programmes, which exert considerable influence. However, many firms incorporate elements of the institutional context for symbolic purposes, as they provide a sort of rationality. Thus, firms' structural modifications are not solely for the pursuit of enhancing operational efficiency, but also for aligning the organisational structure with the prevailing institutional context. This alignment facilitates firms to acquire legitimacy, resources, stability, and a better possibility for survival. Kim (2016) contends that organisational practices tend to homogenise under the pressure of various institutional forces. Boolaky et al. (2020) argue that a fundamental assumption underlying the neo-institutional perspective is that participants seek legitimacy within the prevailing institutional environment by adhering to specific standards of behaviour that are viewed as socially appropriate.

DiMaggio and Powell's (1983) seminal work significantly contributes to the establishment of the theory by introducing the analysis of institutional processes that subject firms to isomorphism. Isomorphism is a constraining process that compels units within a population to resemble other units facing similar environmental conditions (DiMaggio and Powell, 1983). Boolaky et al. (2020) assert that, according to neo-institutional theory, firms are subject to transnational, international, and national pressures, collectively driving them towards adopting similar practices, policies, and structures across nations. This adoption is a response to institutional pressures that may occur at both the individual and organisational levels (Carpenter and Feroz 2001). DiMaggio and Powell (1983) theorised that the institutional context enforces isomorphism through three processes: coercive, mimetic, and normative. Coercive pressure arises from firms' dependency on critical resources essential to their functioning and their concern for legitimacy (Judge et al. 2010). Generally, this pressure is exerted by the government, other firms, or cultural expectations. Mimetic pressure arises from uncertainty, prompting firms to emulate the structures and practices of leading organisations in their field that are seen as successful and legitimate (Judge et al. 2010). Touron (2005, p.856) argues that in situations of uncertainty, firms tend to mimic others. The author asserts, "managers of companies facing situations of uncertainty are more likely to adopt the behaviour of organisations with which they would like to be assimilated. The benchmark firms are either companies exercising the same activity (the sector), or the most talented companies (leaders)." Normative pressure arises from values, rules, and norms, often set by professionals. It is the pressure created by the standards and cognitive frameworks that are established and controlled by professional bodies.

Regarding CG, agency theory primarily emphasises the economic aspect of CG and is criticised as being "under-socialised," because it neglects the influence of the institutional environment on CG (Chizema and Buck 2006). Neo-institutional theory provides a deeper understanding of firm behaviour regarding the adoption of generally accepted CG practices. Firms within the social system may face various pressures—coercive, mimetic, and/or normative—to adopt new practices such as CG and standards (Aguilera and Cuervo-Cazurra 2004; Zattoni and Cuomo 2008; Judge et al. 2010; Ponomareva et al. 2022). Such adoption is socially expected and leads to social acceptance. Consequently, adhering to internationally recognised governance standards enhances legitimacy. In addition, compliance with widely accepted governance norms may enhance efficiency by reducing agency costs through improved monitoring and facilitating access to valuable resources (Aguilera and Cuervo-Cazurra 2004). This also helps attract capital, avoid penalties, and prevent further regulations (Aguilera et al. 2008). Moreover, adopting practices that are internationally recognised and understood further enhances legitimacy (DiMaggio and Powell 1983).

Ponomareva et al. (2022) argue that globally accepted governance practices result from rationalised norms. The authors provide examples of how the introduction of internationally accepted governance practices creates coercive pressure, such as the separation between board chair and CEO positions to enhance board independence. In the context of SOEs, governments or the owning entities (parent ministries) may exert pressure to adopt governance practices by making resource allocation contingent on their level of adoption. Previous studies have also highlighted mimetic pressures, where companies emulate practices before they are mandated by legislators, such as creating a governance committee (Jones et al. 2015). This is driven by the pressure to conform to globally accepted practices and gain legitimacy (Zattoni and Cuomo 2008). Companies may imitate others, not only due to coercive pressure or moral obligation, but also as an efficient response to uncertainty. Firms often rely on routines and frequently emulate peers considered similar, successful, and prestigious (Krenn 2016). In the context of SOEs, which face various CG challenges, there is a tendency to blindly adopt practices, even if they may not be practical for them (Klausen and Winsvold 2021).

In addition, normative pressure compels firms to fulfil social obligations, which may not always align with their interests. Compliance is expected and carries a moral obligation to meet these expectations. In the domain of SOEs, values, rules, and norms play a critical role, influencing the adoption of CG practices, often for broader societal benefits, and not solely for the firm's advantage (Papenfuß and Schmidt 2022). Chen and Moers (2018) argue that normative pressure has led to an increase in the market for independent directors, as firms seek to signal their commitment to adopting best CG practices.

Empirically, Aguilera and Cuervo-Cazurra’s (2004) findings support the argument that the adoption of best practices in CG codes is driven by both efficiency and legitimacy needs. Interestingly, they find that countries with stronger shareholder protection rights are more inclined to adopt such codes for efficiency reasons. Zattoni and Cuomo (2008) examined whether the proliferation of CG codes in civil law countries aims to improve the efficiency of the national corporate governance system or to legitimise local companies in the global financial market. They discovered that the issuance of codes in civil law countries is prompted more by legitimation reasons than by a determination to enhance the governance practices of national companies. These results complement Krenn's (2016) argument, suggesting that companies’ CG arrangements are shaped by reflection of the coercive, mimetic, and normative elements outlined in neo-institutional theory.

3.3.7 Social Identity Theory

The Social Identity Theory posits that individuals comprise various identities, with social categories forming the basis of these identities rather than roles (Hogg 1992). This theory primarily explores the socio-psychological factors underlying group formation and the sociological aspects of intergroup behaviour (Tajfel and Turner 2004). Each social group to which an individual belongs provides a definition of self-based on the characteristics of that group. Social identity theorists argue that behaviour is more influenced by a specific social identity when it is contextually relevant (Ashforth and Johnson 2012). Thus, the stronger an individual's identification with a particular identity, the more likely their behaviour will be influenced by it (Hillman et al. 2008).

Social identity theory (Tajfel 1974; Hogg 1992; Hogg and Abrams 2006) regards social categories (e.g., nationality, ethnicity, gender, political affiliation) as memberships that contribute to defining one's sense of self. It includes several socio-cognitive subtheories addressing how interactions and behaviour are shaped by the various categories that individuals belong to (Hogg and Terry 2000; Hogg 2006). This theory deals with the processing of how individuals are categorised into groups (by themselves and others) and how categorisation and identity influence interactions among individuals from different groups (Chen et al. 2016). Crucially, Social Identity Theory asserts that collective phenomena cannot be adequately explained solely by individual differences or personality traits (Turner 1996). A superordinate group, representing multiple categories (e.g., a board of directors), can serve as a context where inter-subgroup distinctions are heightened (Hogg 2006).

Research indicates that such inter-subgroup distinctions are intensified in two distinct ways (Yzerbyt and Demoulin 2010). Firstly, categorisation is linked to an "interindividual-intergroup discontinuity effect" (Wildschut and Insko 2007), whereby intergroup responses tend to be more hostile than interindividual responses. This is because members of the ingroup (or outgroup) are more likely to perceive their interactions with others as interactions with the depersonalised category itself rather than with specific individuals (Chen et al. 2016). Consequently, directors may articulate their opinions and discussions based on the collective opinions of their group, such as government representatives, rather than on individual merit, experience, and professionalism. Secondly, individuals react differently to ingroup members compared to outgroup members, through ingroup favouritism and outgroup derogation (Hewstone et al. 2002). They tend to allocate more resources and support the opinions of ingroup members, while feeling discomfort around, or avoiding, outgroup members (Yzerbyt and Demoulin 2010). In response, outgroup members, especially when they represent marginalised or minority categories (e.g., independent members on corporate boards), may perceive these biases as threats to their identity and may be anxious to avoid confirming negative stereotypes (Branscombe et al 1999).

In the context of SOEs, government officials are often appointed to corporate boards by central government and government agencies such as "state assets management bureaus" that oversee SOEs (Xu and Wang 1999; Tenev and Zhang 2002). As state representatives, government directors have a fiduciary duty to uphold government policies (Su et al. 2008). Moreover, satisfactory performance may lead to their promotion within government institutions (Li and Zhou 2005). These politically-based directorships may lead to differences in the strength of government directors' identification with SOEs compared to their identification with private firms. The prevalence of government directors and intense state involvement in SOEs' boards provide an ideal setting in which to investigate how directors' multiple identifications shape board functions and how such effects may be contingent on the dominance of state ownership (Zhu and Yoshikawa 2016).

3.4 International Guidelines on CG for SOEs

The government manages its ownership in SOEs in the public's interest and aims to maximise societal value by efficient allocation of resources. A transparent ownership policy should be established which should define reasons, governance roles, strategies, and accountability. Regular updates and justification for owning SOEs are crucial. For effective SOE governance, the state should act as an informed, accountable owner. The government should standardise SOE legal forms based on corporate norms, grant operational autonomy, and respect the independence of boards. Centralised ownership under a capable entity that is accountable to relevant representative bodies is important. The state's active ownership should coordinate with each enterprise's legal framework.

The legal framework for SOEs should ensure fair competition, the state should separate its ownership function and other roles such as market regulator, and ensure impartial legal processes for stakeholders, creditors, and competitors. Transparent disclosure for SOEs performing economic activities and policy objectives should define the cost and revenue assigned to these activities. The state should fund and disclose policy-related costs. SOEs undertaking economic activities should not be exempt from general laws, tax codes, and regulations. SOE's legal structure enables creditors to press their claims and initiate insolvency procedures. SOEs' economic activities should face market-consistent conditions concerning access to debt and equity finance.

In SOEs with non-state shareholders or listings, the establishment of equitable shareholder rights and access to information are important. Implementation of OECD Corporate Governance Principles is crucial when the state is not sole owner, and even when it is. Listed and unlisted SOEs should follow national governance codes, ensuring transparent information regarding public policy objectives is disseminated to non-state shareholders.

State ownership policy should recognise SOEs' responsibilities to stakeholders, and report to them. The state should explicitly define responsible business conduct expectations. The state should respect stakeholder rights as per law or agreements. In the case of listed or large SOEs, reporting should include labour, creditors, and affected communities. Boards should establish controls, ethics, and anti-corruption measures based on norms. SOEs should adhere to high standards of responsible business conduct, and the government's expectations in this regard should be publicly disclosed. SOEs should avoid political funding and campaign contributions for impartiality.

SOEs should match listed firms' transparency employing robust accounting, disclosure, compliance, and auditing norms. They should provide extensive financial and non-financial data similar to global corporate standards, focusing on areas of significant concern for both the state as an owner and the general public, particularly concerning activities carried out in the public interest. Independent external audits for SOEs' annual financial statements, should ensure quality auditing beyond the state supreme audit. The owning entity should institute uniform reporting procedures and publish an annual aggregate report covering all SOEs, preferably through online media.

Guidelines concerning SOE boards stress the importance of authority, competencies, and integrity for the board to fulfil its responsibilities. The board should ensure unbiased treatment of shareholders and set effective strategies concerning management supervision, the power to appoint/remove a CEO, and have numeration policy that is aligned with long-term goals. The SOE board composition should ensure objectivity and independent members should be conflict-free. The board should ensure mechanisms are in place to prevent conflicts of interest and political interference. The board can recommend establishing specialised committees in audit, risk, or remuneration. The board chair should be separate from the CEO, and the chair is expected to enhance efficiency and communication between the ownership entity and the SOE.

3.5 Islamic Corporate Governance

As this study seeks to examine the challenges of implementing effective CG in Saudi Arabian SOEs, it is essential to explore the framework of Islamic CG. Peter Drucker has critiqued the traditional corporate focus on 'shareholder value,' suggesting it is overly concerned with short-term gains at the expense of long-term sustainability (Heller 2000). Similarly, Charles Handy advocates for a "citizen company" model, where businesses operate as communities rather than mere properties, highlighting the moral and social responsibilities of corporations (Handy 1998). International principles of good governance and the emergence of Islamic CG increasingly reflect this shift, emphasising that CG extends beyond profitability and efficiency to include ethical conduct aligned with societal values (Gooden 2001). These global shifts closely align with the principles of Maqasid al-Shariah (Objectives of Islamic Law), which emphasise achieving social good and overall well-being, that goes beyond traditional voluntary social responsibility (Mergaliyev et al. 2021). Moreover, they reflect the concept of Maslaha (Public Interest), which prioritises societal welfare and ethical responsibility in decision-making. Organisations operating in the Islamic world are expected to abide by Sharia law, which guides how Muslims conduct trade, commerce, and business, ensuring fairness and justice towards stakeholders and adherence to God's commands (Haqqi 2009). In Islam, accountability and responsibility are ultimately trusted to God, the supreme authority. This framework goes beyond formal roles and power; it encompasses an internal moral drive to fulfil responsibilities according to the principles of Islamic Shariah, highlighting that CG is both a legal and a moral obligation (Abu-Tapanjeh 2009).

Islamic CG shares some similarities with conventional governance structures, such as corporate supervision and control; however, it is distinctively shaped by Islamic values and principles. Islamic CG aims to guide legal systems and governance according to moral values rooted in Islamic law (Shariah), emphasising justice, accountability, and the protection of stakeholders' rights (Shahzad Bukhari et al. 2013; Ajili and Bouri 2018). Central to Islamic CG is the concept of Tawhid (the oneness and sovereignty of God), which highlights the unity and interrelation of all aspects of governance, ethics, and existence (Sencal and Asutay 2021). This philosophical grounding translates into practical governance measures that prioritise the well-being of all stakeholders, not just shareholders, aligning closely with the concept of Maslaha, which refers to actions or decisions made to achieve the common good and avoid harm, even in the absence of direct textual evidence from the Quran or Sunnah. Unlike conventional governance, where decision-making power is often concentrated in the hands of senior management and boards of directors, Islamic CG extends responsibility to all stakeholders, reflecting a more inclusive and participatory approach (Abu-Tapanjeh 2009). In this way, Islamic CG promotes a model where stakeholders are given full rights to voice their concerns and contribute to CG reforms. The Islamic CG framework is further underpinned by the belief that God is the ultimate owner of everything, while human beings are merely successors on Earth, entrusted to conduct their affairs with justice, fairness, and honesty, as guided by Shariah principles (Haqqi 2009). These powerful moral principles are designed to promote transparent, just, and honest business dealings.

In the Islamic CG framework, corporate managers are accountable not only to shareholders but to all stakeholders, including employees, customers, and society at large. Corporations and organisations are thus expected to establish their relationships with all stakeholders within a framework of justice (Asutay 2013). This broader sense of accountability reflects the principles of Maqasid al-Shariah and Maslaha, which guide governance decisions toward achieving societal welfare and preventing harm (darar). Islamic scholars often employ Maslaha when explicit rulings are absent in primary sources, allowing them to derive solutions that align with the common good, such as policies promoting healthcare, education, and poverty alleviation. Maslaha's adaptability allows it to address specific governance challenges unique to SOEs, such as ensuring that SOEs operate not merely as profit-driven enterprises but as vehicles for broader social and economic development. This is particularly relevant in Saudi Arabian SOEs, where integrating Maqasid al-Shariah and Maslaha into CG can promote transparency, accountability, and ethical conduct. For instance, governance frameworks can employ Maslaha to ensure ethical corporate actions that consider the public interest, such as reducing fraud, enhancing operational accountability, and ensuring that the enterprises contribute positively to the national economy and social welfare. The application of Islamic CG, guided by the principles of Maqasid al-Shariah and Maslaha, offers a unique framework that addresses the ethical and moral dimensions of governance. It challenges the conventional focus on shareholder primacy, and advocates instead for a balanced approach that considers the rights and responsibilities of all stakeholders. For SOEs, particularly in Islamic contexts like Saudi Arabia, this model provides a robust and adaptable framework that aligns corporate objectives with the public interest, enhancing governance practices that are just, ethical, and socially responsible.

3.6 The Significance of Research Settings in CG Studies

Comparative studies in CG have underscored the substantial impact of institutional settings and raised important concerns regarding the external applicability of CG research (Aguilera and Jackson 2010). It is well-accepted that much of the CG literature is influenced by the Anglo-Saxon CG model, characterised by high ownership dispersion and a robust capital market (Aguilera et al. 2021c). This influence has led to the emergence of CG best practices that are not attached to any specific country or jurisdiction. However, an excessive emphasis on board independence from management may not provide as many benefits in environments with predominant blockholders. This is because, in settings where management holds significant power and shareholders are dispersed to a degree that makes it challenging for them to exert influence, board independence assumes this critical role. Conversely, in environments dominated by blockholders, board independence becomes paramount in safeguarding the interests of minority shareholders from potential expropriation by controlling shareholders seeking to derive private benefits of control. Cheng-Han et al. (2014) and Puchniak and Lan (2007), for example, recommend that rather than striving for a universal model of CG, if there is any, it is more pragmatic to seek a governance system tailored to a specific jurisdiction, economy, institution, culture, and political system. Similarly, Fainshmidt et al. (2018), Surroca et al. (2020), and Aguilera et al. (2021c) collectively highlight the significance of institutional settings in advancing CG research. They have both directly and indirectly advocated for the incorporation of the work of Hall and Soskice (2004) on the varieties of capitalism into CG research.

Hall and Soskice's (2004) categorisation of liberal market economies (LMEs) and coordinated market economies (CMEs) is grounded in various institutional characteristics. LMEs are marked by a robust financial market, high competition, and managers with considerable autonomy and undisputed decision-making power (Aguilera et al. 2021c). Conversely, CMEs are characterised by the predominant influence of banks or the state in the economy, accompanied by robust employment protections and a strong network prioritising stakeholder interest (Kang and Moon 2012).

Empirically, Surroca et al. (2020) examined the relationship between firms adopting Managerial Entrenchment Provisions (MEP), Corporate Social Responsibility (CSR), and firms' financial performance measured by Tobin's Q. They discovered that MEP and CSR enhance Tobin's Q in firms operating within LMEs, but not in CMEs. The researchers explained their findings, concluding that in CMEs, MEP and CSR are already safeguarded by the inherent characteristics of the economy. Introducing additional mechanisms could potentially divert managers' attention and diminish financial performance.

Kang and Moon (2012) explored firms' motivations for CSR and introduced a third type of economy, state-led market economies (SLME), in addition to Hall and Soskice's (2004) classification. Their findings demonstrate that CSR motivations are aligned with the prevailing institutional setting. CSR in LMEs complements the emphasis on shareholders' value, while in CMEs, it emphasises stakeholders' value, and in SLMEs, it highlights the public value of CG. In a meta-analysis, Habib et al. (2020) found that none of the highly recommended characteristics under the Anglo-American CG model, such as audit committee size, independence, diligence, and financial expertise, offer convincing evidence for reducing financial restatements in different CG models like the Germanic System or the Latin European System of CG.

The inconsistency in empirical findings within CG research, as attributed by researchers like Aguilera and Jackson (2010), has led to the conclusion that context plays a pivotal role in CG research. Gilson and Roe (1993, p. 881) point out the significance of context in CG research, stating:

Viewing the Japanese system through Berle-Means blinders, in the belief that it reflects only an effort to bridge the separation of ownership and control, will cause us to misunderstand it and, as a result, to miss the lessons that comparative analysis can offer.

3.7 Corporate Governance Styles

CG covers a range of diverse styles that frequently exhibit intersections. As explained by Moerland (1995), foundational factors such as historical origins, ownership structures, and financial frameworks influence the configuration of CG styles and their optimal arrangements. Consequently, no style can be seen as better than another. Moerland (1995) further contends that CG styles are shaped by market systems within a nation which could be categorised as market-oriented frameworks and network-oriented frameworks. The former is prominent within Anglo-Saxon nations, which is characterised by well-established markets, widespread ownership, and where the market assumes a role in corporate governance. The converse prevails in nations where financial institutions, and state and family ownership play a substantial role in both corporate financing and control. Within this framework, less dispersed ownership, and high inter-corporate ownership exist. Subsequent sections explain four principal CG styles predominantly identified within industrialised nations.

3.7.1 Anglo-Saxon System of CG

The framework of CG in the Anglo-Saxon System is highly influenced by agency theory, which focuses on safeguarding shareholders’ interests. Consequently, CG mechanisms are designed to ensure that managerial actions are in line with the interests of shareholders. This is because of the assumption that management’s motivations are inherently self-interested and can diverge from shareholders' interests. Therefore, the board of directors takes on a one-tier structure, with an emphasis on the role and the inclusion of independent directors. This design is to ensure the board's independence from a management that has substantial authority over shareholders who possess limited influence in managerial decision-making due to their widespread dispersal.

Under this style of CG, managerial authority is subject to vigilant scrutiny and regulation by an active marketplace in countries such as the UK and the US (Allen 2005). Laws and regulations are to delineate the relationship between shareholders and management, with the latter bearing fiduciary responsibility toward the former (Allen 2005; Hamid et al. 2011). This is in sharp contrast to the Japanese CG style, where management’s fiduciary responsibility to shareholders is absent (Scott 1998). Unlike the Japanese or Germanic CG models, corporate legislation within the Anglo-Saxon System imposes restrictions on banks to engage in corporate activities such as share ownership or participate in control and monitoring functions (Gilson and Roe 1993). Instead, the legal framework is largely dedicated to articulating the relationship among directors, management, and shareholders (Weimer and Pape 1999).

3.7.2 Japanese System of CG

The Japanese system of CG differs from the Anglo-Saxon System in several respects. For example, within Japan's financial framework, banks assume an important role in overseeing and intervening in critical situations concerning a corporation's decision-making process (Arikawa and Miyajima 2007). This is due to the relationship-based financial system in Japan whereby banks are expected to reassure lenders as mediators in addressing the information asymmetry between lenders and borrowers (corporations). In this model of CG, both government entities and family interests contribute to the supervision and the governance of corporations, although families' involvement is less prominent compared to banks due to the high degree of inter-corporate ownership existing between corporations and banks (Moerland 1995; Jackson and Miyajima 2007; Bauer et al. 2008).

Distinct from the Anglo-Saxon model, the Japanese CG model focuses on stakeholders. Corporations are expected to have an extended role and contribute to society in various aspects. For instance, they engage in the development of workers' skills, rotational schemes, and promotions based on a rank-hierarchy system. This is in contrast to the narrow focus on economic advancement through employment demonstrated in the Anglo-Saxon approach (Koike and Saso 1988). In Japan, while laws delineating the relationship between corporations and employees are less explicit, social norms and a commitment to employment security hold significant influence. The employee interests are also reflected in the structure of the board of directors. Boards are usually characterised by a strong presence of insiders and a hierarchical structure that grants substantial authority to senior management which has the ultimate authority in decision-making processes. External board members are uncommon and, if present, they are predominantly affiliated with banks and government ministries (Kaplan and Minton 1994). However, the Japanese CG model has changed, especially after 1990 (Jackson and Miyajima 2007). Distinctive features began to converge with elements of the Anglo-Saxon System. For example, the role of banks diminished, foreign investors gained a prominent role in governance, cross-shareholding declined, and reforms within the board of directors' structure were introduced. For instance, outsiders and non-executive board systems began to appear in the Japanese CG model (Dore 1994; Jackson and Miyajima 2007).

3.7.3 Germanic System of CG

The Germanic model of CG is popular in countries such as Germany, the Netherlands, and Switzerland, where institutional dynamics play a significant role in shaping this model of governance. For instance, in Germany, the role of banks is significant because they serve as substantial providers of both loans and equity capital. This gives banks a crucial role in CG. Banks' long-standing relationship with firms makes them effective mechanisms for monitoring and controlling management on behalf of individual shareholders, who typically hold a relatively small fraction of the total outstanding shares (Aoki and Patrick 2002). This contrasts with the Anglo-Saxon System, where, for instance, in the United States banks are not to own equity (Jensen and Meckling 1976). Jensen and Meckling (1976) heightened the potential conflicts between providers of debt and equity, leading proponents of the Germanic System to argue that this framework may mitigate such conflicts.

In most countries that follow the Germanic System, the composition of the board of directors is characterised by a two-tier structure - a management board and a supervisory board. The supervisory board holds the authority to appoint or dismiss members of the management board to ensure a balance of power between the management and shareholders. Regarding employees, for example in Germany, the concept of codetermination is protected in the legal framework because employee interests are perceived as a matter of public concern (Jackson and Moerke 2005). Furthermore, collective bargaining exists at a high level, with unions and employee organisations collectively negotiating terms. Legal provisions provide employees with the right to exercise their influence in corporations. For example, employees can occupy up to half of the seats on the supervisory board. This large representation enables shareholders and employees to become involved in the decision-making process equitably.

3.7.4 Latin European System of CG

The Latin European system of CG emerges as a blend of attributes from both the Germanic and Anglo-Saxon systems; however, the extent to which countries adhere to this system can vary based on the involvement of financial institutions (Weimer and Pape 1999). For instance, in France, the role of banks is significant, reflecting a tendency toward the Germanic CG model because banks can influence corporate management through their substantial shareholdings (Moerland 1995). Conversely, in Italy, while banks remain substantial sources of finance, their impact on CG is minimal. Italy is similar to the US in that banks are prohibited from direct ownership of shares in non-financial corporations (Ferri and Pesaresi 1996).

The structure of the board of directors is not uniform across Latin European nations. For instance, French corporations can have the option to choose either a one-tier or a two-tier board system (Weimer and Pape 1999). In Italy, corporations' boards of directors consist of both the board of directors and the board of statutory auditors, the latter being appointed by shareholders (Melis 2000). In French corporate law, shareholders have similar granting them the authority to remove directors. However, there are differences, for example, notably in financial institutions and cross-shareholdings, unlike in Italy where family interests have significant influence on decision-making (De Jong 1991). Consequently, managerial power abuse is not solely a result of management's self-interest but can be attributed to blockholders who exercise substantial influence to alter management's decisions in their favour (Melis 2000). In contrast to the Germanic System, the Latin European framework has inferior employee rights because employees do not have a strong collective organisation (De Jong 1991).

3.7.5 Saudi Arabian system of CG

The philosophical foundation of CG system in Saudi Arabia closely mirrors the Anglo-Saxon system. The influence of the United Kingdom and the United States, as well as Saudi Arabia's historical business ties with these nations, has significantly shaped its CG framework. It can be argued that, following the introduction of its first CG code in 2006, Saudi Arabia transitioned from a context-specific, undefined model of CG to one that increasingly adopts Anglo-Saxon principles. This transition aimed to introduce mechanisms and practices that align the interests of managers with those of shareholders. However, the adaptation of the Anglo-Saxon model in Saudi Arabia can be critiqued, as this model was developed in highly individualistic business environments, such as those in the UK and the US, which do not entirely align with the unique socio-political and cultural context of Saudi Arabia.

The social contract in Saudi Arabia is different from that of countries where the Anglo-Saxon CG model evolved. Saudi Arabia is a monarchy, and Saudi society is deeply influenced by its Arabic heritage and Islamic values (Al-Rumaihi 1997; Aba-Alkhail 2003; Al-Nodel 2004). Islam is the only practiced religion in the country, with all Saudis being Muslim, and the nation holds a central position in the global Muslim community. Al-Rumaihi (1997) describes Saudi society as one where personal influence and power, family, and friendship networks often take superiority over formal regulations. This societal structure is collectivist, with a strong emphasis on personal relationships over tasks, and a tendency towards maintaining a high level of confidentiality. It is important to note that in Islamic societies, the primary objective of corporations should not solely be the maximisation of shareholder wealth. As Iqbal and

Mirakhor (2004) suggest, a stakeholder-oriented governance system, with appropriate modifications, is more aligned with Islamic values.

3.8 Ownership Arrangements in SOEs

The configuration and organisation of SOEs are influenced by factors such as the overall organisation of a country's public sector, the ownership structure and roles of SOEs, and the country's experience with public sector reforms (Simpson 2014). Ownership arrangements in SOEs can be classified into three primary structures. The first model is a decentralised structure where line ministers bear responsibility and accountability for SOEs (OECD 2012; Musacchio et al. 2015b). This is a traditional approach in which SOEs are part of specific ministries, or under their influence. In contrast, some countries adopt a dual structure where both the line ministry and a "central" ministry (typically the Ministry of Finance) jointly exercise ownership rights (OECD 2012). In this model, both ministries collaborate in appointing the board of directors, approving strategic plans, major transactions, and other critical decisions. While one ministry may focus on financial and fiscal aspects, the other is dedicated to operational and regulatory oversight, performance monitoring, and policy coordination to ensure goal alignment. The dual model is commonly employed in developing nations. The main advantage of decentralised and dual is the comprehensive control over the SOEs by ministries.

However, it has been identified that decentralised and dual structures open avenues for government entities to exert influence and interfere in SOEs, which potentially lead to conflicting objectives that can impact their performance (World Bank 2006; Musacchio et al. 2015). Moreover, in these structures, ministries and ministers are more likely to intervene in board member nomination and appointment procedures, which may result in the appointment of politically affiliated individuals (Kuzman et al. 2018). These arrangements also face critique for not clearly delineating ownership functions from regulatory and policy-related roles. In addition, it can become ambiguous as to who is actively overseeing the SOE, given the high level of involvement of the sector ministry in day-to-day operations.

The centralised model has been identified and recommended as a means to mitigate opportunities for political interference (World Bank 2014). Under this model, an independent government body assumes responsibility for ownership functions over all or the majority of SOEs. This approach offers various advantages. For instance, board member nominations and appointments within centralised ownership models are shielded from political pressures because they are primarily based on professional criteria (World Bank 2014). According to

Kuzman et al. (2018), SOEs in countries with centralised ownership models are expected to experience less political interference, which may have a positive impact on SOEs' performance. In countries adopting this ownership model, the independent government body or agency may directly report to the king, president, or prime minister. This model not only facilitates the attraction and retention of scarce expertise from both private and public sectors, particularly in areas such as reporting, auditing, and governance, but it is also more likely to promote comprehensive reporting on SOEs, contributing to standardised disclosure and governance practices across the board.

3.9 Conclusion

The third chapter of this thesis has thoroughly examined diverse definitions and objectives of CG. The exploration reveals that CG definitions tend to vary based on the specific influences of each discipline. Despite this diversity, the overarching purpose of CG can be articulated as the enhancement of accountability and transparency in resource allocation, alongside safeguarding the interests of a wide range of stakeholders. Furthermore, a detailed analysis of various CG theories in this chapter highlights the interdisciplinary nature of CG research, drawing on insights from various fields. While Agency Theory continues to significantly influence CG research, other theories such as Stakeholder Theory, Stewardship Theory, Resource Dependency Theory, Transaction Cost Theory, Neo-Institutional Theory, and Social Identity Theory emerge as valuable perspectives for investigating the challenges of CG in SOEs. This comprehensive review advocates for the adoption of a multiple-theoretical framework in conducting CG research, which contributes to a better understanding of the issues and challenges in SOEs' CG. In addition, the chapter explores the common CG styles and SOE ownership arrangements. This exploration shows that foundational factors, including historical origins, ownership structures, and financial frameworks, exert influence on the configuration of CG styles and their optimal arrangements. Consequently, no single style can be deemed superior to another, emphasising the contextual nature of CG practices.

As this study focuses on investigating the challenges and obstacles of implementing effective CG in Saudi Arabian SOEs from the perspectives of board members, senior managers, and internal and external auditors, the following chapter sheds light on the roles played by them in CG.

CHAPTER FOUR: THE ROLES OF BOARD, SENIOR MANAGERS, AND AUDITORS IN CG: A LITERATURE REVIEW

4.1 Introduction

The preceding chapter explored pertinent CG literature, explaining aspects such as definitions, theories, international guidelines on SOEs, and CG styles and ownership arrangements. The current chapter aims to scrutinise the literature concerning key players in CG, specifically those individuals involved in the current study, highlighting their roles within the CG framework. Following this introductory section, the chapter is organised as follows: Section 4.2 explores the role of the board of directors and its committees in CG and provides an examination of their functions. Section 4.3 outlines the crucial role of top management in CG, shedding light on the significant contributions and responsibilities of this key player. The roles of internal and external auditors in CG are presented in Sections 4.4 and 4.5, respectively. Lastly, Section 4.6 provides a conclusion.

4.2 Board of Directors and its Subcommittees' Role in CG

Boards of directors (BoDs) play an important role in CG and are arguably its most critical mechanism. Habib et al.'s (2020) meta-analysis research highlights that board independence and the separation of CEO and chairperson have a significant negative relationship with the occurrence of financial restatements. Their analysis also reveals that larger board sizes and a higher proportion of insiders are associated with an increased likelihood of restatements.

In the context of SOEs, Munisi et al. (2014) found that SOEs in sub-Saharan firms tend to have a higher proportion of independent BoDs compared to private firms. However, Ding et al. (2014) found, in the case of Asian firms, that BoDs are less independent in SOEs than in private firms. Nevertheless, the relationship between ownership type and board independence warrants careful observation. For instance, Li et al. (2015) asserted that state ownership lessens the impact of board independence in the Chinese context, a reduction that may not be readily apparent when board independence is regressed against performance due to the unique nature of SOEs in China. Similarly, Ding et al. (2014) examined the influence of politically connected executives on a firm's performance and concluded that state ownership weakens the independence of directors, despite the high accounting performance associated with state ownership. Building on their literature review, Federo et al. (2020) argue that state ownership exerts a shaping influence on board structure, composition, and processes. However, it would be an overstatement to conclude that state ownership universally undermines all aspects of board governance. For example, Stathopoulos and Voulgaris (2016) investigated actual board decision-making processes and found an insignificant relationship between state ownership and these processes.

The arguments presented above show that BoDs in SOEs have greater complexity compared to their counterparts in private firms, due to a multitude of factors shaping their functioning. For example, BoDs in SOEs are predominantly composed of government officials and public servants. Zhu and Yoshikawa (2016) raise caution against state representatives on boards, arguing that government directors may exercise a negative influence on the monitoring of SOEs. It is important, therefore, to appoint professionals and individuals of high competence to BoDs in SOEs (Trebat 1983; Wilson 2019). Such professionals can maintain a healthy separation between the enterprise and the state, preventing SOEs from becoming mere political instruments (Krueger 1990; Haber 2002).

Empirically, Kuzman et al. (2018) investigated the process of board elections in SOEs across six former Socialist Federal Republic of Yugoslavia countries. Their findings reveal that board member elections are often driven by political motivations rather than performance-based criteria. Consequently, this practice leads to a negative correlation between board turnover and the productivity and profitability of SOEs (Kuzman et al. 2018). Interestingly, Kuzman et al. (2018) found that board turnover has no significant link to productivity and profitability when SOEs are overseen by a consolidated independent holding entity. This presents a supporting evidence for the OECD's recommendation regarding the consolidation of SOEs under a government-owned holding company, similar to the Singaporean holding entity, Temasek.

Applying Social Identity Theory, Zhu and Yoshikawa (2016) examine the value-added activities of government directors in China. Their research reveals that, overall, directors' alignment with the government is positively associated with both managerial monitoring and resource provision. However, within SOEs, the authors note a relatively weaker positive relationship with monitoring compared to private firms. They attribute this disparity to the argument that government representatives in Chinese SOEs often serve as mere rubber stamps, with ultimate decision-making authority resting in the hands of the government, the ultimate owner.

The role of BoDs has sparked significant debate within SOEs, particularly concerning the state's direct participation in day-to-day operations and the potential to bypass BoDs. Harrison (1998) found that BoDs have less autonomy in decision-making processes within UK SOEs.

Similarly, in Indonesia, Apriliyanti and Randøy (2019) observed heavy government involvement in the decision-making processes of SOEs. Musacchio et al. (2015a) contend that a merit-based selection process by the government in selecting board members and managers responsible for policy implementation and development could substantially enhance overall performance of SOEs.

State ownership and board composition have also received attention. Saeed et al. (2016) provide evidence supporting a negative relationship between state ownership and female representation in India and Russia. In China, Farag and Mallin (2016) found that as state ownership increases, female representation on boards tends to decrease. Calls to enhance diversity within BoDs are rising. Advocates argue that board diversity not only improves the efficacy of BoDs but also provides favourable outcomes, such as reducing financial restatements (Habib et al. 2020). Post and Byron (2015) found a positive correlation between board diversity and accounting performance. However, they noted a negative association between diversity and market performance in countries characterised by high gender inequality. This highlights the vital role of institutional settings, a highly influential factor in CG studies. Friedman (2020) examines whether investor-level preferences for director characteristics influence portfolio choices. In alignment with the notion of bias-based preferences shaping portfolio allocations, the author's findings show that funds from countries with greater gender inequality tend to invest less in firms with more female directors and hold smaller stakes in such firms.

The complications of contemporary business operations have emphasised the importance of a more in-depth exploration of the advisory role undertaken by Boards of Directors, rather than exclusively emphasising their monitoring function, as argued by agency theory. In a systematic review of 304 articles, Alhossini et al. (2021) observed a relative dearth of attention and research about the advisory role of boards and their subcommittees, such as risk committees. The significance of board subcommittees is highlighted by the necessity for specialised expertise in particular areas. For instance, Neville et al. (2019) found that the independence of audit committees demonstrates greater efficacy in reducing corporate misconduct compared to other board subcommittees. Alhossini et al.'s (2021) review disclosed that CG research predominantly leans towards the supervisory aspects of governance, with an emphasis on oversight mechanisms like audit, compensation, and nomination committees. Nevertheless, a recent increase has been noted in research related to the advisory dimension of governance, including explorations into the advisory role of the board and its committees (see, for instance, Adams and Ferreira 2007; Faleye et al. 2011, 2013; Kim et al. 2014; Muravyev et al. 2016; Kang et al. 2018; Zalata et al. 2019). In addition, there are calls to investigate both the visible and less visible attributions of the board and its subcommittees (Kang et al. 2007). This section has provide an overview of what could influence the role of BoDs in CG, with a particular emphasis on the state ownership influence on the BoDs.

4.3 Top Management's Role in CG

The critical role of top management in CG has received less attention in comparison to other CG mechanisms such as the Board of Directors and internal and external auditors. This could be attributed to the dominance of agency theory in CG studies, which emphasises the monitoring role of the Board of Directors in ensuring that executives work for the best interests of shareholders and avoid self-interest and opportunistic behaviour. However, recent academic and professional insights have highlighted the importance of top management in CG. The OECD (2015) identified that the challenges of CG in SOEs are driven by the fact that performance accountability involves a chain of agents, including management. The OECD (2015) also notes that management should be allowed the appropriate freedom to conduct day-to-day business without interference. The Toolkit of CG in SOEs by the World Bank (2014) emphasises the role of management in CG. Academically, Cohen et al. (2002) note that the inclusion of top management in the CG mosaic is inconsistent with agency theory, which emphasises the monitoring role of the Board of Directors. However, Cohen et al. (2002) argue that top management inclusion in CG is consistent with the view that CG is under the influence of top management. The role of top management in CG is further supported by Cohen et al.'s (2002) interviews with auditors. One auditor stated that "the CEO helps set the ethical spine that permeates all other corporate governance mechanisms," while another noted that "if top management does not want to be governed, other mechanisms such as the board are unlikely to be effective." According to the same interviews, the majority of auditors view management as a driver of CG.

The stewardship theory recognises the role of management in CG, viewing managers as stewards who are honest and responsible for the company's resources (Nicholson and Kiel 2007). Due to their superior knowledge of the company, senior managers and inside directors are seen as better positioned to run the company and protect the interests of stakeholders. Beasley et al.'s (2009) study showed that audit committee members pay special attention to management's capabilities and attitude towards sound CG before accepting a position in a company, highlighting the involvement of management in audit committee members selection. This study clearly shows the role of top management as a CG mechanism. The quality of audit committees does not automatically lead to better CG because the substantive monitoring effectiveness of audit committees depends on the CEO's power (Lisic et al. 2016). A similar study to Cohen et al. (2002) was conducted by Cohen et al. (2010) in the post-SOX era, which found that CG has improved substantially, particularly with audit committees becoming more active, diligent, knowledgeable, and powerful. However, management still retains power in many cases, particularly regarding auditors' appointments and terminations. Carcello et al.'s (2011b) study also highlighted the role of top management in the CG mosaic through their involvement in board member selection. The acknowledgement that effective CG is inextricably intertwined with top management's commitment towards sound CG has led to recognition of the need for further research in this area (Cohen et al. 2002).

The role of top management in CG has been increasingly recognised in recent literature. Researchers have investigated various top management characteristics, particularly CEOs and CFOs, and their impact on CG outcomes. For example, Velte (2023) found that gender diversity in top management decreases financial misconduct. Zhang (2019) studied background homogeneity and long-shared experience of top management teams on financial reporting quality and found that they are each distinctly related to a higher likelihood of restatements. Rashid (2020) found that the presence of professional accounting positively affects the financial report quality. Schumann et al. (2023) argued that top management teams have considerable discretion over firms' financial reporting because they choose whether and how to manage earnings. The authors found that in listed firms in Germany, diversity in top management in terms of nationality and gender positively affects accounting quality. According to Cohen et al. (2010), external auditors believe that the CEO and CFO certification requirements under SOX have a positive effect on the integrity of the financial report. Top management's decision on what information to disclose about the company is seen as a key role in CG (Kwak et al. 2012). Muttakin et al. (2019) found that CFO tenure and board membership improve financial reporting quality by increasing accounting conservatism. Huang et al. (2012) found a positive relationship between CEO age and financial reporting quality. Other studies have also investigated the role of top management in CG, such as Presley and Abbott (2013); Rijsenbilt and Commandeur (2013); Ham et al. (2017); and McManus (2018).

The role of management in CG has been widely studied in relation to various outcomes, including firm performance. For instance, You and Du (2012) found that politically connected

CEOs are less accountable for firm performance and are less likely to be fired. Management accountability to performance is an indicator of healthy CG (Defond and Hung 2004; Firth et al. 2006b). Similarly, Smith et al. (2006) found that having women in top management and executive positions positively affects firm performance, particularly if they possess the necessary qualifications. Lai and Liu (2018) found that the size of top management, their qualifications, prior executive experience, and experience serving on the boards of other companies can positively impact investment efficiency. Concerning corporate social responsibility disclosures, studies such as Khan et al. (2013) and Voinea et al. (2022) have investigated the impact of CEO duality with mixed results. Studies such as Jensen and Meckling (1976) and Ang et al. (2000) have argued that companies with higher proportions of management ownership tend to have lower agency costs. Furthermore, Bedard et al. (2014) found a negative relationship between CFO inside directorship and restatements, while Conyon and He (2016) documented a significantly negative correlation between CEO equity-based compensation and corporate fraud. Lastly, Zhou et al. (2018) emphasised that CEO and CFO equity compensation reduces enforcement actions.

Overall, the contemporary literature highlights the crucial role of top management in CG, in addition to the traditional emphasis on the Board of Directors' role as advocated by agency theory. While the focus of agency theory on monitoring and board independence is crucial, it may not be adequate to provide a comprehensive understanding of the challenges involved in ensuring effective CG, especially in the case of SOEs. Therefore, it is essential to acknowledge and examine the significant role of management in CG to enhance its effectiveness in companies. The findings of recent studies underscore the critical role of management in CG and highlight the influence of various management characteristics on the outcomes of firms.

4.4 Internal Auditors' Role in CG

The role of Internal Audit (IA) has gained widespread recognition as an integral component of CG. While the level of acknowledgement may vary between jurisdictions, there is consensus on the benefits that IA brings to CG. For instance, in the United States, the New York Stock Exchange (NYSE) Rule 303A.07(d) has mandated that, since October 2004, all listed firms should maintain an Internal Audit Function (IAF). Although NASDAQ has not yet made it a requirement, it actively encourages listed firms to establish an IAF as part of its best practices (Harrington 2004). In the United Kingdom, IA is not compulsory for listed firms. Nevertheless, the merits of IA were recognised years ago, as highlighted by the Cadbury Committee in 1992, and these principles continue to be in the current UK CG code issued by the Financial Reporting Council (FRC 2018). Similarly, in Australia, the Australian Securities Exchange (ASX) does not impose a mandatory requirement for companies to have an IAF. However, ASX explicitly references the Corporate Governance Council (CGC), highlighting the significance of the IAF and its role in CG (Soh and Martinov-Bennie 2011). Interestingly, despite the relatively recent emphasis on CG in China, listed firms have been mandated to establish an IAF since 2006 (Chen et al. 2020).

Internationally respected organisations, such as the International Institute of Internal Auditors (IIA), have identified internal audit function as one of the four fundamental mechanisms for CG, alongside AC, senior managers, and external auditors (IIA 2005). Echoing the IIA's emphasis, Prawitt et al. (2009) emphasise that internal audit function stands apart as the only mechanism among the four that actively engages in day-to-day work while maintaining independence from management. Likewise, scholars such as Hermanson and Rittenberg (2003) and reports like the Treadway Commission (1987) assert that a robust CG model sees internal audit function as an indispensable component. The evolving role of internal audit function in CG, both from a regulatory and scholarly perspective, is an ongoing area of development (Mertzanis et al. 2019).

Historically, the demand for internal audit services as a monitoring mechanism was primarily prevalent in high-risk industries, particularly financial institutions (Siyaya et al. 2021). However, the significant rise in business complexity along with the aftermath of corporate scandals like Enron and WorldCom has pushed the focus on the role of internal audit in CG across all types of corporations. Moreover, the traditional monitoring function of the internal audit function has expanded beyond its conventional scope, and now includes an emphasis on value-added services related to strategic objectives, operational objectives, compliance, and financial reporting (Lenz and Hahn 2015).

Brody and Lowe (2000), as well as Carey et al. (2000b), assert that the internal audit function has transitioned from a predominant focus on control to a broader embrace of risk management and CG. Al-Twaijry et al.'s (2003) review of literature classified internal audit function' role into two distinct components: the conventional and the contemporary. The conventional aspect is largely focused on financial auditing systems and internal controls, primarily aimed at preventing and detecting irregularities stemming from fraud or errors. Conversely, the contemporary facet entails a performance audit, which assesses aspects of economy, efficiency, and effectiveness, and attempts to add tangible value to a firm's operational performance.

International internal audit standards affirm the aforementioned arguments and define internal audit function as "an independent, objective assurance and consulting function designed to add value to an organization and improve its operational efficiency" (IIA 2012). In other words, the objective of internal audit function is to enhance the processes of an institution by emphasising risk management, governance, and internal control procedures (IIA 2012; Alzeban and Gwilliam 2014). The ASX CGC Guidelines further advise that an IAF typically conducts an independent analysis and appraisal of the adequacy and effectiveness of a company's risk management and internal control system (CGC 2019). Carcello et al. (2017) argue that the internal audit function directly influences firms' operational efficiency through the provision of strategic recommendations and the evaluation of risk management effectiveness. This assertion is confirmed by Jiang et al. (2020), who found a positive association between both the conventional and contemporary roles of the internal audit function and operating performance. Moreover, Li et al. (2016) highlight the link between internal control and a firm's performance, showing that firms addressing reported weaknesses in internal control show significant improvements in performance compared to those that do not. Mertzanis et al. (2019) conducted interviews with 15 internal auditors, confirming the vital role of internal audit function in CG and emphasising the critical considerations of efficiency and effectiveness in the execution of internal audit function responsibilities. The criteria for success are defined by the internal audit function' ability to achieve its set objectives (Dittenhofer 2001).

Empirical findings have, indeed, highlighted the crucial role played by the internal audit function in CG (Gramling et al. 2004; Soh and Martinov-Bennie 2011; Eulerich et al. 2013). While the significance of internal audit function in CG is not a recent revelation (Schneider and Wilner 1990; Anderson et al. 1993), Schneider and Wilner (1990) highlighted that internal audit function, like external audits, can serve as a deterrent against irregularities. Felix et al. (2001) contend that the internal audit function contribution plays a notable determinant in external audit fees. Their empirical findings show that, considering the inherent risk associated with the firm's environment, higher internal audit quality leads to a reduction in external audit fees. This observation aligns with Wallace's (1984) perspective, arguing that internal audit function can serve as a viable substitute for external audits. However, divergent perspectives have also emerged. Hay et al. (2008) found evidence in support of the complementary view, that there is a positive correlation between internal audit function and external audit fees. In contrast, Carey et al. (2000b) found no significant relationship between fees and the level of internal audit contribution.

Furthermore, the literature on internal audit function has expanded to highlight its advantages, including its role in enhancing risk assessments (Sarens and De Beelde 2006; Asare et al. 2008), bolstering earnings quality (Doyle et al., 2007; Prawitt et al., 2009), strengthening internal control frameworks (Lin et al. 2011), safeguarding assets (Beasley et al. 2000), acting as a deterrent against management misconduct (Ege 2015), enhancing audit quality (Prawitt et al. 2012), enhancing audit efficiency (Felix et al. 2001; Prawitt et al. 2011; Pizzini et al. 2015), and mitigating fraud risks (Beasley et al. 2000).

The International Standards for the Professional Practice of Internal Auditing (ISPPIA) unequivocally state that the internal auditing department should operate independently, with internal auditors maintaining objectivity throughout their activities. Furthermore, this independence should be through unfettered access to records and the capacity of internal auditors to communicate directly with the highest individuals in a company (IIA 2012). Standard 1100 highlights that, to ensure an appropriate level of independence and objectivity, the head of the internal auditing department should report to both senior management and the board of directors. This dual-reporting structure is classified by Siyaya et al. (2021), who explain that the head of the internal auditing department should have an administrative reporting line to senior management, while also maintaining a functional reporting line to the audit committee of the board of directors. This arrangement, including direct access and communication, is anticipated to enhance independence.

It has been highlighted that the independence of internal audit function stands as one of the most crucial contributors to its effectiveness, particularly in comparison to other departments (George et al. 2015). Professional governance guidelines and standards also recommend a robust reporting relationship between the Chief Audit Executive (CAE) and audit committees, as a key determinant for internal audit objectivity (Gramling et al. 2004). Asare et al. (2008) demonstrate that the internal audit function is responsive to management behaviour.

Another highly recommended characteristic of internal audit department is highlighted by ISPPIA 1210, which emphasises the importance of internal auditors possessing an appropriate level of knowledge, skill, and competence to execute auditing engagements. Alzeban and Gwilliam (2014) correlate competence with educational attainment, field experience, and professional qualifications. Standard 1210 explicitly asserts that "internal auditors must possess high skills, knowledge and competencies to perform their responsibilities." Lin et al. (2011) conducted a study examining the impact of internal auditors' educational levels on the scope of internal audit activities and its influence on the disclosure of internal control weaknesses.

4.5 External Auditors' Role in CG

The literature categorises CG mechanisms into two primary components: internal mechanisms like boards of directors, internal audits, and audit committees, and external mechanisms such as external audits and regulators. This section focuses on the significant roles played by external audits in CG.

The necessity for external auditors has evolved in line with the development of modern corporations. As ownership became separate from management, and management gained control of corporate operations, agency issues arose, leading to information asymmetry between owners and managers (Lin and Hwang 2010). External auditors were then perceived as independent individuals capable of offering an opinion assuring, not guaranteeing, that the company's financial statements are fairly presented and in conformity with GAAP. However, due to the human element in audit work, the quality of audits may vary. DeAngelo (1981, p. 186) defines audit quality as "The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach."

Historically, the role of external auditors in CG has not been directly investigated to the same extent as that of boards of directors and their subcommittees. Nevertheless, accounting disclosures, which are of paramount concern to external auditors, are exemplified in La Porta et al.'s (1998, p. 1140) assertion:

> *Accounting plays a potentially crucial role in corporate governance. For investors to know anything about the companies they invest in, basic accounting standards are needed to render company disclosures interpretable. Even more important, contracts between managers and investors typically rely on the verifiability in court of some measures affirms' income or assets.*

Recent literature has highlighted the direct role of external auditors in CG. For example, Cohen et al. (2002) emphasised that a crucial aspect of CG is ensuring an appropriate level of financial reporting and mitigating fraud. This highlights the monitoring role of external auditors as an essential component of CG structure. Audited financial accounting information provides investors with independently verified data about managers' performance (Sloan 2001). Thus, the role of external auditors is inherently linked to CG. While the role of external auditors in assuring financial accounting information could be seen as conventional, a semi-structured interview conducted by Cohen et al. (2002) revealed a new and more explicit dimension to their role in CG. One of the partners interviewed stated, "I think over the extent of my career, we've moved from auditing transactions to auditing controls to auditing corporate governance" (Cohen et al. 2002, p. 587). This illustrates the inseparable link between external auditors and CG. Researchers such as Francis et al. (2003) and Sloan (2001) asserted that external auditors are important institutional elements in CG. External auditors collaborate closely with internal CG mechanisms like audit committees to ensure the quality of financial reporting, ultimately protecting the interests of shareholders (Beasley and Salterio 2001).

Griffin et al. (2008) argued that auditing is one of the CG mechanisms that boards of directors should implement to achieve optimal CG. They emphasised that companies establish an optimal CG portfolio by selecting an appropriate combination of internal and external CG mechanisms. Others, such as Cohen and Hanno (2000) and Bedard and Johnstone (2004), argue that audit firms tailor their audit efforts based on the effectiveness of the client's CG and increase their scrutiny when deficiencies are identified. The role of external auditors in CG can also be attributed to pressure from big audit firms, as the majority of clients seek audits from these firms as a sign of audit quality. However, James S. Turley, Chairman and CEO of Ernst & Young, stated,

> *Our client acceptance and reacceptance processes have been re-engineered with an increased focus on determining which companies we really want as audit clients and culling out those that we do not believe have adapted to the new environment and demands of a public company. (Browning 2005).*

James S. Turley's statement was confirmed by Beaulieu (2001), Johnstone and Bedard (2001), and Asare et al. (2005). They collectively emphasised that the client-acceptance phase serves as the initial line of defence in managing audit firms' business risk. Therefore, clients with effective CG practices appear more attractive for audit selection (Cohen and Hanno 2000). Cohen et al. (2002) conducted interviews with audit partners and found that 67% of them considered CG in the client-acceptance decision. This is attributed to the fact that ineffective CG in clients is seen as a signal of high-risk companies with a potential for fraud and litigation.

Studies on auditor-client realignments suggest that the client's CG may be an additional risk factor, alongside others like earnings manipulation and litigation risk, influencing auditors' decisions to realign with a client. Cassell et al. (2012) investigated auditor-client realignments using a matched sample of clients that switched from Big 4 to non-Big 4 audit firms, and a matched sample of Big 4 clients that did not switch audit firms. The results indicated that Big 4 firms pay attention to clients' CG mechanisms. These findings are consistent with Sharma et al. (2008), who showed that client-acceptance decisions, risk assessments, and the extent and timing of audit procedures are sensitive to clients' CG.

The role of external auditors in CG is further evidenced in the examinations of Lee et al. (2004), where they found that external auditors are more likely to resign than be dismissed when internal CG is weak. This suggests that external auditors can serve as a reference point for evaluating CG in corporations, contributing to the literature on the challenges of implementing effective CG. For instance, Cohen et al.'s (2002) interviews revealed an interesting, albeit contrasting, perspective on agency theory regarding the primary driver of CG. The interviews indicated that partners consider management as the keystone of CG. This shows the extent to which external auditors' perspectives could be valuable to CG research.

In line with prevailing investigations that examine internal CG mechanisms and seek to establish associations, such as board independence, audit committee independence and expertise, Lin and Hwang's (2010) meta-analysis, which included 48 studies, revealed that auditor tenure, size, specialisations, and independence have negative associations with earnings management. Gul et al. (2009) further observed that the link between short-tenure audit firms and lower earning quality is mitigated when the audit firm specialises in a particular industry. Moreover, Cenciarelli et al. (2018) found that companies audited by Big 4 firms, long-tenure firms, and industry experts face a lower probability of defaulting. Griffin et al. (2008) asserted that audit quality, as proxied by audit fees, has a countervailing relationship with CG. They refuted the assumption that CG affects audit but not vice versa, arguing that boards purchase higher audit quality to influence CG. Consequently, they argue that these elements are co-determined, a relationship that is not accurately captured by traditional regression methods.

Studies by Carcello et al. (2002), Abbott et al. (2003), Fan and Wong (2005), and Goodwin-Stewart and Kent (2006a) found a positive correlation between CG effectiveness and auditing costs. They argue that robust CG practices prompt companies to engage in higher quality audits, as a result increasing fees. Conversely, Tsui et al. (2001) found a negative relationship between board independence and audit fees, suggesting that robust CG reduces audit risk and, consequently, fees. Despite these conflicting results between CG mechanisms and external audits, it is evident that external auditors play an important role in CG. When boards demand greater involvement from external auditors, it signifies their incorporation as an additional CG mechanism. Conversely, when auditors perceive robust CG practices, they may reduce certain attesting and monitoring activities. For instance, Cohen and Hanno (2000) find that external auditors are more inclined to reduce substantive testing in response to effective CG.

Ownership characteristics may also explain the role of external auditors in CG. While Mitra et al. (2007) identified a significant positive association between audit fees and the diffusion of institutional ownership, they also found a significant negative association between audit fees and block-holder ownership. Nevertheless, in East Asia, Fan and Wong (2005) found that Big 4 auditors consider their auditees' ownership structure when determining pricing and opinions. In essence, Big 4 firms charge more for clients with controlling owners who may have a misalignment of interests with minorities. This overall argument substantiates the existence of agency problems and underscores the role of external auditors in CG within emerging markets. Furthermore, Habib et al. (2020) conducted a meta-analysis encompassing various CG variables to determine their impact on financial restatements. The authors concluded that larger audits and the timeliness of audit opinions have a negative correlation with the occurrence of financial restatements.

4.6 Conclusion

This chapter has presented and examined the literature pertaining to key players in CG, specifically the roles played by the boards of directors, top management, internal auditors, and external auditors. The discourse on the role of Boards of Directors in CG highlights its paramount significance as a critical CG mechanism. The chapter has also drawn attention to the role of top management in CG, addressing a relative gap in the literature that often emphasises the monitoring role of the board of directors, influenced by agency theory. Contrary to this perspective, the chapter highlights the critical role of top management in CG, as emphasised by Cohen et al. (2002), who assert that top management's inclusion in CG is pivotal.

Furthermore, the chapter has explained the role of internal auditors in CG, tracking the historical development of internal audit which showed its expanded scope, including matters beyond conventional domains, to include CG. Prawitt et al. (2009) emphasise the unique position of internal audit as the only mechanism actively engaged in day-to-day operations while maintaining independence from management. Lastly, the chapter explored the inseparable link between the work of external auditors and CG. External auditors collaborate closely with internal CG mechanisms, such as audit committees, ensuring the quality of financial reporting and ultimately safeguarding the interests of shareholders, as underscored by Beasley and Salterio (2001).

The following chapter (Chapter 5 - Research Methodology) will explain the research data collection methods and methodology employed in the present study.

CHAPTER FIVE: METHODOLOGY

5.1 Introduction

Research methodology refers to the approach used in conducting research, which involves a variety of methods (Jill Collis and Hussey 2021). It serves as a roadmap for collecting, analysing, and presenting data to achieve research objectives. Thus, the main purpose of this chapter is to provide a detailed description of the research methodology, including the research design and methods used to address the research problems outlined in Chapter One. This chapter is structured as follows: Section 5.2 outlines the research objectives, while Section 5.3 presents the research design and methods employed. The data collection methods used in this study, namely questionnaire and interview surveys, are discussed in Sections 5.4 and 5.5, respectively. Section 5.6 describes the statistical tools utilised for analysing questionnaire survey data, while Section 5.7 explains how interview survey responses were analysed. Section 5.8 highlights the ethical considerations, and finally, Section 5.9 provides a summary of the chapter.

5.2 Research Objectives

The primary objective of this study is to offer valuable insights into the challenges of implementing effective CG practices in Saudi Arabian SOEs. To achieve this objective, the study will engage with four crucial groups of respondents, namely: (i) board of directors, (ii) senior managers, (iii) internal auditors, and (iv) external auditors of SOEs in Saudi Arabia. The research objectives are exploratory in nature, and in alignment with this intent, the study endeavours to achieve the following specific goals:

1. To explore the principal challenges linked to the role of the ownership entity (parent ministry) in the successful implementation of effective CG practices in Saudi SOEs.
2. To explore the principal institutional challenges that pose obstacles to the implementation of effective CG in Saudi SOEs.
3. To explore the main challenges associated with the role of boards of directors in the endeavour to implement effective CG practices.
4. To explore the extent to which Saudi SOEs are subjected to an appropriate level of external audit and disclosure.
5. To identify the key elements that impede the efficient functioning of internal auditing in Saudi SOEs.

6. To investigate the primary challenges linked to the role of executive management in the implementation of effective CG practices in Saudi SOEs.
7. To explore and identify major strategies and measures that can be adopted to overcome the challenges of the implementation of effective CG practices in Saudi SOEs.

5.3 Research Design

The research design refers to the comprehensive plan for linking the theoretical research problem to relevant and feasible empirical research (Ghauri et al. 2020). It involves strategic choices that guide the researcher throughout the research process, considering various constraints (Bryman 2012; Frankfort-Nachmias et al. 2015). By specifying the research methodology and method(s) to be employed in investigating the research question(s) (Collis and Hussey 2021), the research design provides a framework for data collection and analysis. As a natural progression, it follows the researcher's understanding of the research problems, assumptions, concepts, and the formulation of research questions and objectives (Ghauri et al. 2020).

Research methods, on the other hand, encompass the techniques used to gather and analyse data (Ghauri et al. 2020). These methods may involve the use of specific instruments, such as self-completion questionnaires or structured interview schedules, or employ participant observation techniques where the researcher listens to and observes others (Bryman 2012). Research methods are typically categorised into quantitative and qualitative approaches, and researchers may choose to utilise a combination of both to investigate a research problem. The selection of a research design is based on the nature of the research problem, the researcher's personal experience, and the target participants of the study. In some instances, larger studies might incorporate elements of both quantitative and qualitative methods, as their merits are often viewed as complementary to gain a comprehensive understanding of phenomena in the social sciences (Collis and Hussey 2021).

5.3.1 Quantitative Research

Quantitative research embodies statistical techniques that can quantifiably measure the extent to which, for example, people agree or disagree with a certain issue. Punch (2014) argues that quantitative research encompasses not just the use of numerical data and statistical analysis but represents an entire way of thinking about the investigated social reality and approaching and conceptualising this reality through methods that primarily focus on collecting quantifiable data. This type of research is primarily concerned with testing objective theories by investigating the relationship between variables measured using instruments that generate numerical data analysed through statistical procedures (Creswell 2009). Therefore, quantitative research has traditionally aimed at theory verification (Punch 2014). The strategy of quantitative studies is to collect and analyse quantifiable data, promoting a deductive approach to investigate the relationship between research and theory, employing the standards and practices of natural sciences and adopting an external and objective perspective of reality (Bryman 2012).

Quantitative research involves examining the quantities or amounts of variables of interest, with variables typically measured in numerical ways using instruments designed to assess psychological characteristics or behaviours, such as questionnaires and rating scales (Leedy and Ormrod 2015). Quantitative research primarily produces numerical information that can be reduced to meaningful numbers (Leedy and Ormrod 2015). The data collection and analysis follow a sequential order (Ghauri et al. 2020). The structured design of quantitative research and the neutrality of the researcher help ensure comparability (Maxwell 2013). Quantitative research is suitable when the focus is on a large sample due to time constraints and when the goal is to build a foundation for generalisation (Lune and Berg 2017). Quantitative research heavily focuses on the accuracy of the instruments used to measure variables to establish reliability, validity, and generalizability (Bryman 2012).

However, quantitative research has not been without criticisms. It has been criticised for its static view of social science and the elimination or neutralisation of the role of the researcher (Bryman 2012). Robson and McCartan (2016, p. 410), in their criticism of the use of statistical analysis in real-world research, state that "a field where it is not at all difficult to carry out an analysis that is simply wrong or inappropriate for your data or your purposes. And the negative side of readily available specialist statistical software is that it becomes that much easier to generate elegantly presented rubbish." In addition, the measurements of variables and their representations often possess an artificial sense of precision and accuracy (Bryman 2012).

5.3.2 Qualitative Research

Qualitative research is focused on understanding and exploring individuals' meanings toward a particular research issue. Maxwell (2013) highlights that qualitative research provides a better understanding of the perspectives and meanings of study participants because researchers can view the world from their point of view, enabling investigation into the influence of social and cultural contexts on participants' perspectives. Qualitative studies tend to be more explorative and less structured than quantitative studies, as they emphasise social processes rather than social structures, which are the focus of quantitative research (Ghauri et al. 2020). Maxwell (2013) concurs with Ghauri et al. (2020) that qualitative research is process-oriented and employs an inductive approach to address research problems, giving qualitative research its strengths.

In qualitative research, data collection and analysis occur simultaneously (Ghauri et al. 2020). This inherent flexibility allows researchers to modify the design during the research based on discoveries and tentative relationships. Maxwell (2013) emphasises that qualitative research focuses on particularistic rather than comparative and generalising aspects and is not bound by the rules of statistics, which do not allow significant alterations after data collection has begun. Qualitative research deals with non-numerical data, but Colin Robson and McCartan (2016) point out that the distinction between qualitative and quantitative research based solely on the type of data is only the tip of the iceberg; they are shorthand for research paradigms. Qualitative research encompasses various ways of thinking and methods to gather data and is typically concerned with theory generation (Punch 2014). Consequently, qualitative research involves a relatively small number of individuals and maintains the individuality of participants in the analyses, rather than collecting data from a large sample in aggregated form across individuals (Maxwell 2013). However, many researchers do not adhere to the traditional view that only quantitative research can establish credible causal relationships (e.g., Britan 1978; Denzin 1978; Erickson 1986). Miles and Huberman (1986, p. 132) stated, "Much recent research supports a claim that we wish to make here: that field research is far better than solely quantified approaches at developing explanations of what we call local causality—the actual events and processes that led to specific outcomes."

Maxwell (2013) mentions some threats to validity in qualitative research, such as researcher bias and the effect of research on the participants, known as Reactivity. Bias can take various forms, but concerning qualitative research, it may be evident in the selection of data that aligns with the researcher's theory and goals, supporting their assumptions (Miles et al. 2014). This is not to say that qualitative research attempts to eliminate the influence of the researcher's theories and beliefs. In actuality, qualitative research is interested in how the researcher's values and expectations may influence the conduct and conclusions of the research. Providing a comprehensive explanation of how the researcher has influenced the research and acknowledging the possibility of bias enhances the validity and trustworthiness of the research.

5.3.3 Mixed Research

Until the mid-20th century, quantitative and qualitative research dominated the field of social science. However, during the late 20th century, there was a growing interest in the development of mixed-method research (Creswell 2009). The concept of mixed methods originated in 1959 when Campbell and Fisk used multimethods to study the validity of psychological traits (Creswell 2009). Punch (2014) highlights a recent increase in the development of mixed methods research, where qualitative and quantitative methods are utilised and combined. Researchers like Tashakkori and Teddlie (2010), Tashakkori and Creswell (2007), and Ghauri et al. (2020) support Punch's assertion that mixed method research is defined as a study in which the researcher collects and analyses data, integrates the findings, and draws inferences using both qualitative and quantitative approaches within a single study. Tashakkori and Teddlie (2010) state that mixed methods research has evolved to the point where it is a separate methodological orientation with its own worldview, vocabulary, and techniques. The development of qualitative research in social science reached a stage where it became a legitimate methodology, leading quantitative researchers to recognise the importance of qualitative research and the potential benefits of incorporating qualitative and quantitative research (Brinkmann 2018).

The combination of methods that gather quantitative and qualitative data represents only the tip of the iceberg. In reality, mixed methods research is a representation of philosophical assumptions, suggesting that incorporating both approaches strengthens the investigation of the research problem (Creswell 2009). Researchers believe that inherent bias in a single method can be minimised or eliminated by using the other method (Creswell 2009). It is also argued that mixed-method research designs provide more evidence than single methods, allowing for a comprehensive analysis of complex issues (Creswell and Clark 2018). In this type of research, researchers may use sequential mixed methods, where the results of one method inform the selection of the other method's participants, or the results of one method lead to further investigation using another method (Tashakkori and Teddlie 1998). However, this approach may be time-consuming (Creswell and Clark 2018). Mixed methods can also be used concurrently, where data from different sources are combined, and the findings of one method complement or challenge the findings of the other method. For example, qualitative quotes may support statistical results (Creswell and Clark 2018). Although most researchers tend to emphasise one approach over the other, qualitative and quantitative methods can be combined and used in the same study (Ghauri et al. 2020). Many scholars claim that the two approaches are complementary and should not be used in isolation from each other (Ghauri et al. 2020).

5.3.4 The Methods for the Study

Choosing the most suitable method(s) for a particular study can be challenging as it depends on the nature of the research, including the type of questions, aims, context, and constraints. For instance, if a researcher aims to investigate the dynamics of board decision-making, observation might be the most appropriate method. However, if access to board meetings is almost impossible in a specific context, interviews could be used instead. Punch (2014) emphasised that different types of questions require different methods to answer them. De Vaus (2014, p. 131) stated:

> *In the end, it is impossible to decide which method is best: the relative strengths and weaknesses vary according to the characteristics of the survey. Decisions about sample size and distribution, the number of callbacks, types of questions, nature of the population, survey topic, amount of money available, availability of skilled personnel, and time constraints must all be considered when selecting a method of administration.*

As mentioned earlier, the main objective of this study is to provide critical insights into the challenges of implementing effective CG practices in Saudi SOEs by eliciting the opinions of various groups, namely the board of directors, senior managers, internal auditors, and external auditors. As this study is explorative in nature and no prior studies have examined the challenges and obstacles of implementing effective CG practices in Saudi ArabianSOEs, interviews and a questionnaire survey were deemed appropriate methods to employ. Given the difficulties associated with gaining access and approval to conduct interviews, a questionnaire survey was pragmatically used to support the interviews. The decision to use interviews and a questionnaire survey was based on a thorough review of the literature, including published articles, World Bank, and OECD reports, as well as discussions with experts in the field in Saudi Arabia. This review aimed to identify the most suitable and practical methods to investigate the research issues. The discussions highlighted that a parallel design was more appropriate due to ease of access and time constraints. Therefore, this study utilised both qualitative (interviews) and quantitative (questionnaire survey) methods in a parallel design.

Greene (2007) presented a popular typology of mixed-method research: component and integrated designs. In the component design, data gathering is implemented separately and remains distinct throughout the research. The combination of methods occurs at the level of interpretation and conclusion, not at a prior stage (Greene, 2007; Caracelli and Greene 2010;

Cronholm and Hjalmarsson 2011). On the other hand, the integrated design involves the continuous and dynamic interplay of methods throughout the research, associated with different paradigms (Greene 2007; Caracelli and Greene 2010). According to Teddlie and Tashakkori (2009), mixed methods can be implemented in a parallel or sequential manner. In sequential mixed methods, the phases occur in consecutive order, while in parallel mixed methods, the research includes phases that occur either simultaneously or with some time lapse. In this study, a component and parallel mixed method approach was employed.

5.4 Questionnaire Survey

Questionnaire surveys are widely used in social science research (Easterby-Smith et al. 2015; Babbie 2021). De Vaus (2014) pointed out that questionnaire surveys are the most common method of collecting data. The data collected through this method can vary depending on the objective of the research. Generally, questionnaire surveys are used to collect and quantify factual information, such as asking respondents to rate the extent to which they agree or disagree with a statement. However, questionnaire surveys can also be used to collect qualitative data, such as questionnaires with open-ended questions (Zikmund et al. 2013). Survey questionnaires are often structured as statements, where the researcher aims to determine the extent to which respondents express their attitudes or perspectives toward each statement, providing them with options ranging from agree to disagree (Babbie 2021). The statements or questions in a questionnaire are designed to solicit information that can be analysed to provide answers to the research questions.

Many researchers have highlighted the advantages of questionnaire surveys (Bryman 2012; De Vaus 2014; Robson and McCartan 2016; Ghauri et al. 2020; Babbie 2021). Collectively, the advantages of questionnaire surveys are:

- It is cheaper and quicker to administer, particularly with a large sample.
- The processing and analysis of data are usually cost-effective.
- The absence of the researcher's influence provides more anonymity for the respondents and allows them to answer questions at their convenience and without the influence of the researcher.

However, questionnaire surveys also have disadvantages, such as the inability of the researcher to probe or prompt the respondents, difficulties in motivating respondents, uncertainty about whether the right person is answering the questions, and the possibility of a low response rate (Ghauri et al. 2020). Weighing the advantages and disadvantages of questionnaire surveys, and considering that the current study uses interviews, it is deemed appropriate to use a self-completed questionnaire alongside the interviews.

5.4.1 Questionnaire Study Population and Sample

Sampling is a critical step that researchers must carefully consider. It involves the careful selection of a targeted population to ensure that the sample accurately represents that population. The population of the current study comprises all SOEs in Saudi Arabia audited by the Saudi Arabian General Court of Audit (GCA). The researcher focused on Saudi SOEs audited by the GCA to overcome certain limitations. For instance, in the literature, it has been highlighted that there is no clear-cut line to differentiate between SOEs and private companies, which is particularly pronounced in developing countries where publicly available data may be scarce. According to OECD (2015) guidelines on CG of SOEs, any corporate entity recognised by national law as an enterprise, and in which the state exercises ownership, should be considered as an SOE. This includes joint stock companies, limited liability companies and partnerships limited by shares. Therefore, focusing on the companies audited by the GCA allows the researcher to have an inclusive list of companies owned by the government with 25% or more ownership. By law, companies with 25% or more government ownership must be audited by the GCA. The researcher successfully obtained a list of all such companies, comprising 52 companies as of 28 February 2022.

As previously mentioned, this study employed interviews as the main method, complemented by a questionnaire survey. Consequently, extensive efforts were made, both formally and through personal connections, to reach out to companies with at least 50% government ownership. Out of the 52 companies, 38, constituting 73% of the total, met the inclusion criteria. However, the researcher was only able to conduct interviews or distribute questionnaires in 21 out of 36 companies to key participants of the study, including members of the board of directors, senior finance officials, senior managers, internal auditors, and external auditors. Given the different nature of the external auditor group, the study included the partners of auditing firms that performed the statutory audit for the 21 companies in the last five years. As of April 2022, there were 287 audit firms licensed in Saudi Arabia. Surprisingly, the 21 companies were audited by only 9 audit firms, including the big four. This suggests that the audit industry is dominated by the big four and a few large regional firms. It also reflects the tendency of SOEs in Saudi Arabia to prefer hiring large and well-known audit firms.

Justifying why the current study focuses on the key participants mentioned above is crucial. The literature chapters have already detailed the essential roles of these key groups. To reiterate, previous studies such as Kang et al. (2007), Ding et al. (2014), Munisi et al. (2014), Li et al. (2015), Federo et al. (2020), and Habib et al. (2020) have collectively highlighted the crucial responsibilities of the board of directors and its members regarding CG issues. Therefore, eliciting the opinions of board members seems appropriate. Concerning the second group, management members, they are required to implement the board's strategies regarding CG issues, and they are actively engaged in day-to-day activities. Their role in CG has been highlighted by prior research such as Cohen et al. (2002), Cohen et al. (2010), and Schumann et al. (2023). Their views can enrich the research by providing perspectives that may differ from those of the board members. As for the role of internal auditors, they can be considered an independent internal mechanism for CG. Mertzanis et al. (2019) interviewed 15 internal auditors who confirmed the fundamental role of the Internal Audit Function in CG. Other studies, such as Wallace (1984), Schneider and Wilner (1990), Felix et al. (2001), and Hay et al. (2008), have also emphasised the role of Internal Audit Function in CG. The benefits of internal audit have also been highlighted by leading countries in CG, such as the UK's Cadbury Committee (1992) and FRC (2018). In the US, the New York Stock Exchange (NYSE) Rule 303A.07(d) has emphasised the role of internal audit in CG. Regarding external auditors as an external mechanism for CG, researchers like La Porta et al. (1998) have asserted that the responsibility of external auditors in CG is to provide assurances on a company's disclosures, which investors rely on to evaluate performance and hold management accountable. Beasley and Salterio (2001) contended that external auditors work hand in hand with internal CG mechanisms such as audit committees and Internal Auditors to ensure the quality of financial reporting. Studies by Francis et al. (2003) and Sloan (2001) have also asserted that external auditors are instrumental in a corporation's CG, and Griffin et al. (2008) argued that auditing is one of the CG mechanisms that boards of directors implement to achieve optimal CG, suggesting that companies establish an optimal CG portfolio by choosing an appropriate level of internal and external CG mechanisms.

Most of the survey questionnaires were distributed during the field visits to conduct the interview. This approach proved to be very helpful to the researcher in two ways. Firstly, the researcher was able to inquire about the number of individuals within the targeted groups present in each company and the name audit firms. This information was valuable for understanding the size and composition of the groups and ensuring adequate representation in the survey responses. Secondly, the field visits provided an opportunity to establish connections and rapport with individuals who assisted in the distribution of the survey questionnaires. Building these personal connections enhanced the cooperation and willingness of participants to respond to the questionnaires, leading to a higher response rate.

Table 5. 1 Questionnaire Survey Sample

Sample Group	Sample Size	Percentage
Board members	142	30%
Executive Managers	123	26%
Internal auditors	130	27%
External auditors	79	17%
Total	**474**	**100%**

5.4.2 Questionnaire Design

The current study utilises a self-completion questionnaire with predominantly close-ended questions. Self-completion questionnaires allow respondents to express their attitudes, beliefs, and opinions independently and at their own pace (Bryman 2012). Questionnaires are widely used in social science research to collect primarily quantitative data from individuals (Robson and McCartan 2016). Self-completion questionnaires can be distributed through various methods, such as postal or online, or handed out in person by the researcher for collection at a later time, which may positively influence the response rate (Bryman 2012). In designing the questionnaire, it is paramount to structure it carefully, considering the content, format, sequence, and wording of questions (Ghauri et al. 2020). Non-response rates can be affected by the type and wording of questions, the questionnaire's construction, length, and method of administration (De Vaus 2014). Moreover, in the absence of the researcher, the questionnaire must be clear and concise so that respondents do not require clarification (Bryman 2012).

There is a disagreement about the appropriate style of questions in questionnaires, particularly regarding the use of open-ended and close-ended questions. Self-completion questionnaires should generally have fewer open-ended questions and more close-ended questions because close-ended questions are easier and shorter, reducing respondents’ fatigue, especially in the absence of researcher motivations (Bryman 2012). Close-ended questions seek opinions and use predetermined answer options to gauge the extent to which a respondent agrees or disagrees with a particular statement (Collis and Hussey 2021). They can be answered with “yes” or “no,” a list of predetermined answers, or a brief factual response. Close-ended questions provide higher uniformity of responses, making processing and analysis easier compared to open-ended questions (De Vaus 2014; Babbie 2021). They are faster and more straightforward to answer, particularly in long questionnaires with low respondent motivation (De Vaus 2014).

If close-ended questions are chosen, two important requirements must be fulfilled: the response categories should be exhaustive, meaning all possible answers are available for respondents to choose from, and mutually exclusive, meaning respondents should not feel compelled to choose more than one answer (De Vaus 2014; Babbie 2021). In contrast, open-ended questions allow respondents to provide longer, more detailed responses in their own words, which may increase the precision of data collection (Collis and Hussey 2021). Open-ended questions do not suffer from the issue of creating false opinions by providing an insufficient range of predetermined answers, as can sometimes happen with close-ended questions that are not well-structured. However, open-ended questions run the risk that the researcher may be tempted to focus on well-articulated responses and ignore less articulated ones (De Vaus 2014).

Considering the objectives of this study, which aims to supplement the interviews and gain an understanding of the challenges and obstacles of implementing effective CG practices in Saudi Arabian SOEs, a self-completed questionnaire with close-ended questions was deemed appropriate. Close-ended questions using the Likert Scale are employed, with a five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree) for each statement. The Likert Scale is known for its economic use of space, ease of use, and ability to encourage respondents to complete the questionnaire (Collis and Hussey 2021). Furthermore, common rating scales, such as the Likert Scale, are less likely to have exclusiveness issues (De Vaus 2014). The questionnaire's statements are structured, worded simply and concisely, and each statement is designed to measure one specific dimension. Suggestive and double-barrelled questions are avoided, and the logical order of the statements is arranged from general to specific.

5.4.2.1 Questionnaire Structure

The questionnaire was carefully designed to gather comprehensive information from respondents on three main aspects, each presented in three distinct parts. *Part One* of the questionnaire aimed to gather information about the respondents' education, experience, and their respective organisations. This part comprised 10 questions, with the initial six questions designed to gather information about the respondents' highest level of education, major field of study in their last educational attainment, professional qualifications, job group, current work experience, and previous work experience. Questions 7 to 10 were also multiple-choice questions. These questions provided essential background information about the respondents and their organisations. All four sample groups received the same set of questionnaires, except external auditors who were asked only the first six questions, with the question about the Big 4 firms replacing the question about their job group. The primary goal of *Part One* was to facilitate data analysis, provide basic classification, and establish relevant relationships.

Part Two of the questionnaire constituted the main section, designed to collect the perspectives of respondents on 41 statements related to the obstacles that hinder the implementation of effective CG practices in Saudi Arabian SOEs. This part was divided into six sections (A to F), and respondents were asked to rate their agreement with each statement using the Five-Point Likert Scale: Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree, corresponding to numerical values ranging from 1 to 5, respectively. Section (A) focused on ownership challenges, Section (B) covered institutional challenges, Section (C) addressed challenges related to the Board of Directors, Section (D) pertained to external auditing and disclosure challenges, Section (E) explored internal auditing challenges, and Section (F) examined management challenges. Through this section, the researcher sought to gain valuable insights into the various challenges faced by Saudi Arabian SOEs regarding the implementation of effective CG practices.

The *Third Part* of the questionnaire comprised ten statements aimed at eliciting suggestions from respondents for improving the implementation of effective CG in SOEs in Saudi Arabia. This section provided respondents with an opportunity to offer their valuable recommendations for enhancing CG practices in the context of Saudi Arabian SOEs.

Section (A) Ownership Challenges

The five statements in this section were carefully crafted after conducting an extensive review of the literature on SOEs, which included notable works by Howson (2017), Musacchio and Lazzarini (2018), Lin and Milhaupt (2021), Milhaupt (2020), Aguilera et al. (2021a), and Okhmatovskiy et al. (2022). In addition, international guidelines, and recommendations from authoritative sources such as the World Bank (2014) and OECD (2015) were taken into consideration. Recognising the unique nature of SOEs and the significant influence of government ownership on their governance, these statements aim to gather the opinions of respondents regarding the role of ownership in various aspects of SOEs' functioning. Specifically, these statements seek to explore respondents' perspectives on whether the ownership entity (parent ministry) has clear objectives for the SOE, provides adequate autonomy for the SOE to achieve these objectives, plays an active role through the general assembly, establishes clear and fair policies and procedures for the nomination of SOE board members based on merit and transparency, and offers an attractive remuneration policy for SOE board members.

Therefore, the statements included in this section are as follows:

1. The ownership entity (parent ministry) has clear objectives for the SOE.
2. The ownership entity (parent ministry) gives the SOE autonomy to achieve its objectives.
3. The ownership entity (parent ministry) plays an active role through the general assembly.
4. The ownership entity (parent ministry) has clear and fair policies and procedures based on merit and transparency for SOE board of directors' nomination.
5. The ownership entity (parent ministry) has an attractive remuneration policy for SOE board of directors.

The null hypothesis formulated for this group is as follows:

Hypothesis 1 [Ho (1)]: Differences observed in the mean scales of the four sample groups (Board Members, Senior Managers, Internal Auditors, and External Auditors) with respect to CG ownership challenges are statistically insignificant.

Section (B) Institutional Challenges

This section includes five statements aimed at gathering respondents' perspectives on the institutional context and its role in promoting effective CG implementation in Saudi Arabian SOEs. Okhmatovskiy et al. (2022) argue that market discipline through competition is a critical external CG mechanism. Musacchio and Lazzarini (2014b) emphasise the importance of robust regulatory bodies to establish the necessary checks and balances and prevent intervention that could harm the performance of SOEs. Bortolotti et al. (2013) highlight that a strong external regulatory framework is a critical factor in shielding SOEs from direct interference. According to Estrin et al. (2016), clear, consistent, and transparent reporting requirements mandated by capital market institutions enable minority shareholders to effectively monitor management performance, making it difficult for decision-makers in listed SOEs to hide or pursue self-serving agendas. Beekes et al. (2016) stress the importance of protecting shareholder rights and ensuring equitable treatment of shareholders as widely agreed elements of good CG. The review also includes the (OECD 2015), Guidelines on CG of SOEs and the (World Bank 2014) report on CG. Therefore, the statements included in this section are:

1. SOEs are subjected to fair competition.
2. SOEs are subjected to strong regulator.
3. Listed SOEs are subjected to same market regulation as private corporations.
4. Legal and regulatory requirements relating to CG in SOEs are clear, consistent, and transparent.
5. Legal and regulatory requirements relating to CG ensure equitable treatment of shareholders.

The null hypothesis for this group is:

Hypothesis 2[Ho (2)]: Differences observed in the mean scales of the four sample groups (Board Members, Senior Managers, Internal Auditors, and External Auditors) with respect to CG institutional challenges are statistically insignificant.

Section (C) Board of Directors' Challenges

This section comprises eleven statements that aim to solicit the perspectives of respondents on the challenges faced by boards of directors in Saudi SOEs. The statements are intended to explore some of the key attributes of boards that influence the effective implementation of CG practices. These statements were formulated based on a comprehensive review of the literature on board attributes, specifically in the context of SOEs. The review includes works such as Pargendler (2014) and Milhaupt and Pargendler (2017), as well as guidelines from leading organisations like the World Bank (2014) and OECD (2015). Other important contributions to the literature that informed the formulation of these statements include works by Ding et al. (2014); Munisi et al. (2014); Li et al. (2015); Zhu and Yoshikawa (2016); Jiraporn et al. (2018); Apriliyanti and Randøy (2019); Federo et al. (2020); Habib et al. (2020).

For example, Milhaupt and Pargendler (2017) examined the question of whether politicians and regulators should be allowed to serve on the boards of listed SOEs, while Zhu and Yoshikawa (2016) explored the role of government directors in both SOEs and non-SOEs. In addition, Sonnenfeld (2002) argued that even well-functioning boards can benefit from a properly conducted evaluation, while Van den Berghe and Levrau (2004) called for more explicit attention to be paid to the issue of board evaluation. The authors also explore the impact of board size, board composition, and the role of the board of directors. Kiel and Nicholson (2006) highlight that board evaluations are recommended by most guidelines, such as The

Principles of Good Corporate Governance and Best Practice Recommendations (ASX Corporate Governance Council, 2003) in Australia and the Combined Code on Corporate Governance (FRC 2018) in the UK. Federo et al. (2020) argue that having a minimum percentage of independent directors is a crucial aspect of good CG, while Garcia-Lacalle et al. (2023) emphasise the importance of size, independence, and diligence for CG. For instance, Carcello et al. (2002) find that a high frequency of board meetings could indicate a higher level of control. Therefore, the statements included in this section are:

1. Board of directors has the necessary autonomy to carry out its CG responsibilities.
2. Board of directors devotes the necessary time to CG affairs.
3. Board of directors has a charter which outlines its objectives, duties, and responsibilities.
4. Board of directors has the necessary authority to carry out its CG responsibilities.
5. Board of directors has the necessary authority over the nomination, appointment, and removal of CEOs.
6. Board of directors has the necessary authority to design a proper managerial incentive to ensure CG.
7. Board of directors has the necessary knowledge to carry out its CG responsibilities.
8. Board of directors has the necessary number of independent directors to carry out its CG responsibilities.
9. Board of directors has the appropriate size to carry out its CG responsibilities.
10. Board of directors has too many governments representative members.
11. Board of directors' members is evaluated following formal and standard procedures to evaluate and appraise members.

The null hypothesis for this group is:

Hypothesis 3[Ho (3)]: Differences observed in the mean scales of the four sample groups (Board Members, Senior Managers, Internal Auditors, and External Auditors) with respect to CG board of directors' challenges are statistically insignificant.

Section (D) External Auditing and Disclosures

This section comprises eight statements aimed at obtaining the views of the respondents regarding the level of external audit in SOEs. The statements also seek to gather insights on the adequacy of disclosures made by SOEs and whether the external auditors' selection adheres to the best CG practices and possesses the necessary knowledge of the SOEs' operations. Previous research by Francis et al. (2003), Sloan (2001), and Beasley and Salterio (2001) have highlighted the critical role of external auditors in promoting effective CG in corporations. Cohen et al. (2002) shed light on the evolving and explicit role of external auditors in CG, with one of the interviewed partners stating that their role has progressed from auditing transactions to auditing controls to auditing corporate governance. Andrades Peña and Jorge (2019) investigated the extent of mandatory non-financial information disclosed by SOEs including details relating to salaries of senior management and also grants and subsidies received. Other relevant studies that have been reviewed include Cohen and Hanno (2000), Carcello et al. (2002), Abbott et al. (2003), Bedard and Johnstone (2004), Lee et al. (2004), Fan and Wong (2005), Goodwin-Stewart and Kent (2006a), Griffin et al. (2008), Sharma et al. (2008), and Cassell et al. (2012). In addition, recommendations from the Treadway Report (1987); the BRC (1999); the Sarbanes-Oxley Act (2002); and the Combined Code (2003) as well as the guidelines provided by OECD (2015) were reviewed. The statements included in this section are:

1. The SOE is subject to an adequate level of audit from the General Court of Audit.
2. The SOE is subject to an adequate level of audit from an independent external audit.
3. The work between the General Court of Audit and the external auditor complements each other.
4. The SOE discloses all aid, grants, and subsidies it receives.
5. The SOE discloses information related to CG such as governance structure, board remuneration, board selection, and diversity.
6. The financial statements and disclosures are relevant, reliable, and comparable.
7. External auditors are appointed and/or removed upon the recommendation of the AC.
8. External auditors have relevant scientific and practical experience in the operations of the SOE.

The null hypothesis for this group is:

Hypothesis 4[Ho (4)]: Differences observed in the mean scales of the four sample groups (Board Members, Senior Managers, Internal Auditors, and External Auditors) with respect to external auditing and disclosure challenges are statistically insignificant.

Section (E) Internal Auditing

This section of the questionnaire aims to explore the challenges faced by the internal audit in Saudi Arabian SOEs, and it comprises seven statements that were presented to the respondents.

The role of internal audit in CG has been recognised for many years, as exemplified by the Cadbury Committee (1992) and is articulated in the UK CG code (FRC 2018). Similarly, the Australian Securities Exchange's (ASX) Corporate Governance Council (CGC) in Australia highlights the importance of internal audit's role in CG (Soh and Martinov-Bennie 2011). In the United States, the New York Stock Exchange (NYSE) Rule 303A.07(d) mandates all listed firms to maintain an internal audit since October 2004. Furthermore, international organisations such as the Institute of Internal Auditors (IIA) have recognised internal audit as one of the four fundamental mechanisms of CG, along with audit committee, executive management, and external auditors (IIA 2005). To develop the statements in this section, a review of relevant literature was conducted, including studies by Wallace (1984), Schneider and Wilner (1990), Brody and Lowe (2000), Carey et al. (2000a), Carey et al. (2000b), Al-Twaijry et al. (2003), Hermanson and Rittenberg (2003), Doyle et al. (2007) Prawitt et al. (2009), Prawitt et al. (2011), Prawitt et al. (2012) Alzeban and Gwilliam (2014) Lenz and Hahn (2015) Carcello et al. (2017) Mertzanis et al. (2019), as well as recommendations from the Treadway Commission (1987), IIA (2012), and (OECD 2015). The statements included in this section are:

1. The head of the internal audit department has direct communication with the AC.
2. The head of the internal audit department is appointed and terminated following the recommendation and approval of the AC.
3. The internal audit department has adequate resources to carry out its responsibility.
4. The internal audit department has a charter reviewed and updated regularly.
5. The SOE has strong internal controls.
6. The internal auditors are independent.
7. The internal audit department is supported by the AC.

The null hypothesis for this group is:

Hypothesis 5[Ho (5)]: Differences observed in the mean scales of the four sample groups (Board Members, Senior Managers, Internal Auditors, and External Auditors) with respect to internal auditing challenges are statistically insignificant.

Section (F) Management Challenges.

This section aims to explore the challenges faced by top management that affect the implementation of effective CG in Saudi SOEs and includes five statements. Top management plays a critical role in the implementation of effective CG and their role has been discussed in the literature. Academic and professional insights highlight the importance of top management in CG. The OECD (2015) identifies that the challenges of CG in SOEs are driven by the complexities of performance accountability involving a chain of agents, including management. The OECD (2015) also notes that management should be allowed the appropriate freedom to conduct day-to-day business without interference. The Toolkit of CG in SOEs by the World Bank (2014) emphasises the role of management in CG. To develop the statements in this section, a review of relevant literature was conducted, including studies by Jensen and Meckling (1976), Cohen et al. (2002), Beasley et al. (2009), Cohen et al. (2010), Carcello et al. (2011b), Kwak et al. (2012), Bedard et al. (2014), Conyon and He (2016), Lisic et al. (2016), Muttakin et al. (2019), Zhang (2019), and Velte (2023). The statements included in this section are:

1. The executive management has appropriate and adequate freedom to make timely and effective business discussions.
2. The CEO or top executive in the management team takes responsibility for CG implementation.
3. The governmental hierarchical system of promotion hampers the effectiveness of CG in SOEs.
4. The compensation for executive management ensures alignment of management interests with the long-term objectives of the organisation.
5. The executive management has a clear structure for reporting that ensures an effective CG is in place.

The null hypothesis for this group is:

Hypothesis 6[Ho (6)]: Differences observed in the mean scales of the four sample groups (Board Members, Senior Managers, Internal Auditors, and External Auditors) with respect to management challenges are statistically insignificant.

Section (G) Future Direction for Enhancing Corporate Governance

Part Three of the questionnaire addresses suggestions for improving the implementation of effective CG in SOEs in Saudi Arabia. Statements were formulated based on a careful review of the literature and recommendations from highly regarded institutions. Emphasis was placed on the context of the country and the applicability of such suggestions. This part consists of ten statements designed to obtain respondents' opinions, enabling the researcher to highlight the most effective ways to improve the implementation of CG in SOEs from their point of view. The ten statements are as follows:

1. SOEs should be privatised.
2. SOEs should be partially listed on the stock exchange.
3. SOEs should be completely listed on the stock exchange.
4. SOEs' ownership rights should be centralised under one single professional entity.
5. Government officials' representation on the board of directors should be reduced.
6. A tailored CG code for SOEs should be established.
7. Qualification in CG should be required before board appointment.
8. The number of multiple directorships should be limited.
9. A government entity should be established to monitor and enforce CG regulations.
10. The financial reports of all SOEs should be publicly disclosed.

The null hypothesis for this group is:

Hypothesis 7[Ho (7)]: Differences observed in the mean scales of the four sample groups (Board Members, Senior Managers, Internal Auditors, and External Auditors) with respect to ways of enhancement are statistically insignificant.

5.4.3 Questionnaire Testing and the Pilot Study

Pre-testing and piloting are fundamental procedures researchers take to ensure the quality of a research instrument before final distribution. These procedures are particularly important in fixed design instruments, such as questionnaire surveys, because questionnaire surveys have standardised characteristics and, once final distribution occurs, modifications are rarely implemented (Corbetta 2003). Further, pre-testing and piloting of a questionnaire are essential to secure an acceptable level of validity and reliability (Stebbins 2001). In addition, pre-testing and pilot studies give researchers an indication of the response rate, a major criterion for questionnaire survey quality (Collis and Hussey 2021). Babbie (2021) pointed out that regardless of a researcher's expertise and experience, and considerations taken in designing a data collection instrument, there is a risk that some questions will be ambiguous, and some questions may look clear to a researcher, but not to the respondents. Ghauri et al. (2020) also emphasised the need for pre-testing and piloting to ensure that the respondents understand the questions, because what is clear to the researcher may not be obvious to the respondents.

The current study's questionnaire went through multiple stages to ensure its quality before final distribution. In the first stage, a questionnaire draft was developed based on the literature review and then refined based on multiple consultations with the principal supervisor. At this stage, the content, structure, wording, and format of the questions were achieved. This draft was then translated from English to Arabic, and the two versions were circulated to six individuals with a personal connection to the researcher. The researcher's aim in distributing the questionnaire among the six individuals was to establish a dialogue which would result in constructive comments and feedback. Leedy and Ormrod (2015) highlighted the importance of a dialogue between the research instrument designer and respondents in pilot studies to ensure ambiguity is minimised and measures are truly what they intended to measure. In fact, in addition to the comments received, two of the six individuals had phone conversations with the researcher, offering their suggestions and ways of enhancements. Collis and Hussey (2021) asserted that although it is recommended to try out the questionnaire on people who carry similar characteristics to those in the targeted sample, it might be beneficial to consult individuals with no familiarity with the subject matter. Two of the six were academics in Saudi Arabia universities and were familiar with current research issues; three were professionals in accounting and finance; and one worked in a Saudi SOE. The comments and feedback were helpful and mainly concerned the wording, sequence, translation, and structure of the questionnaire. After incorporating the comments and feedback, a revised Arabic draft was produced and distributed among four board directors, four management members, four internal auditors, and four external auditors. Corbetta (2003) and Babbie (2021) asserted that pilot tests should involve the same class of people the researcher intended to distribute the final questionnaire to, and they should be encouraged to answer the questionnaire themselves. The aim of piloting in this stage was to evaluate the validity and reliability of the research instrument. In other words, whether the variables measured what the researcher intended to measure and whether the instrument would produce the same score for each occasion it is used (Easterby-Smith et al. 2015).

The questionnaires were sent out for piloting, accompanied by a cover letter. The letter explained the study's objectives, its nature, and its significance. It also included details about the researcher, such as email and phone contact information. Participants were requested to complete the questionnaires and to provide any observations or recommendations they may have. The feedback received during the piloting phase was valuable and primarily focused on the content, wording, and sequence of the questionnaire. However, no major alterations or corrections were suggested, indicating that the questionnaire was well-received and understood by the pilot participants.

Table 5. 2 Analysis of the Response Rate of the Pilot Study

Piloting Groups	Sent	Received	Response rate
Board of directors	4	2	50%
Senior managers	4	3	75%
Internal auditors	4	4	100%
External auditors	4	4	100%
Total	**16**	**13**	**81%**

5.4.4 Questionnaire Survey Administration

As previously mentioned, the questionnaires were distributed to the participants during the field visits conducted from March 2022 to May 2022. However, the data collection for the survey continued until June. The questionnaire bundle (Appendices C, D, and F) included a cover letter, a consent statement, and the actual questionnaire. The bundle also contained a participant information sheet. The cover letter explained the nature and objectives of the study. It asked respondents to answer the questionnaire, emphasising the importance of the study and the value of their engagement in enhancing CG in Saudi SOEs. It has been acknowledged that a well-crafted cover letter is essential in helping to obtain a higher response rate. The participant information sheet provided all the necessary information that participants needed to know, such as the form of participation, confidentiality measures, and what would happen to the data at the end of the study. This sheet was thoroughly reviewed and received a favourable ethical approval from the Cardiff Business School Ethics Committee.

Most of the questionnaires were completed during the field visits; however, the researcher had to revisit some participants and provide reminders to encourage them to complete the questionnaire, aiming to increase the overall response rate. The next section will provide a summary showing the response rate to the questionnaire survey.

5.4.5 Questionnaire Survey Responses

A total of 170 questionnaires were collected during the data collection process. However, 13 questionnaires (three from board members, three from senior managers, five from internal auditors, and two from external auditors) were found to be unusable due to missing data, resulting in 157 questionnaires deemed usable for further analysis. Efforts were made to enhance response rates through revisits and reminders. Overall, the response rate for the questionnaire survey was deemed satisfactory. The data collected from the 157 usable questionnaires will be utilised for further analysis in the study.

5.4.6 Validity

Validity is a critical criterion for researchers, making the validation of the research instrument essential (Bryman 2012). According to Collis and Hussey (2021), validity refers to the extent to which a test measures what the researcher intends to measure. In other words, validity represents how accurately the measures and findings provide a representation of the things they are expected to describe (Easterby-Smith et al. 2015). Leedy and Ormrod (2015) also define the validity of a measurement instrument as the extent to which it measures what it is intended to measure. They highlight two forms of validity relevant to the current research: content validity and construct validity. Similarly, Frankfort-Nachmias et al. (2015) emphasise the importance of content and construct validity in research. It is crucial to note that validity is an independent criterion as reliability alone may not be sufficient; an instrument may be reliable but not valid (Ghauri et al. 2020).

5.4.6.1 Content Validity

Content validity is crucial to ensure that the research instrument adequately covers all aspects of the phenomenon under investigation (Leedy and Ormrod 2015). It involves determining whether the measurement instrument includes all the attributes of the concept being measured and whether there are any irrelevant elements included in the questionnaire that do not relate to the research problem (Frankfort-Nachmias et al. 2015). To ensure content validity, the questionnaire should be compared with other questionnaires on the same subject, and knowledgeable individuals should review and consult on the questionnaire to ensure that all elements of the phenomenon are captured. Unlike other types of validity, content validity does not have precise and replicable procedures for evaluation (Frankfort-Nachmias et al. 2015). It mainly concerns itself with whether the construct is covered sufficiently and whether the questionnaire includes all relevant information, ensuring that all relevant dimensions are included, and no important dimensions have been omitted (Ghauri et al. 2020).

5.4.6.2 Construct Validity

Construct validity, also known as measurement validity, is concerned with whether a measurement accurately reflects the concept it is intended to measure (Bryman 2012). In the context of social science research, where concepts and attributes are constructed, it is crucial to establish construct validity to ensure that the instrument captures more than just descriptive information. It is about ensuring that the instrument effectively measures the underlying theoretical assumptions and concepts under study. The construct validity in this study is further supported by the similarity between the findings from interviews and the questionnaire responses. When both methods yield similar results, it increases confidence in the validity of the findings. In addition, the use of the Five-Point Likert Scale in the questionnaire has also contributed to improving construct validity. This scale allows respondents to express their level of agreement or disagreement with statements, providing a quantitative measure of their perspectives on the research topic (Robson and McCarten 2016).

Colin Robson and McCartan (2016) refer to construct validity as whether an instrument measures what the researcher intends it to measure. They acknowledge that no single method of data collection is without limitations and recommend using multiple methods to gather data. This approach can help to triangulate findings, meaning that similar patterns of results from different data collection methods enhance confidence in the validity of the findings. Construct validity is particularly important in measuring observed characteristics that are not easily observable but are assumed to exist based on patterns of behaviour (Leedy and Ormrod 2015). In this study, the research instrument was carefully designed to capture these underlying constructs, ensuring that the data collected is aligned with the research objectives and theoretical framework.

5.4.7 Reliability

The reliability of data is an important criterion that researchers must consider before conducting any statistical analysis (Ghauri et al. 2020). Reliability refers to the extent to which a measurement produces consistent results. In other words, it addresses the question of whether the outcomes are repeatable. In the field of social science, reliability is of utmost importance as researchers aim to understand the consistency of measures designed for various concepts (Bryman 2012). Oppenheim (2000) defined reliability as the consistency between methods, while others view it as the degree to which an instrument produces the same outcomes each time it is used, whether by different researchers or on different occasions. In essence, reliability is the degree to which an instrument generates consistent results under various conditions.

5.4.7.1 Reliability Test

Frankfort-Nachmias et al. (2015) described three common methods for estimating reliability: the test-retest method, Parallel-Forms Technique, and Split-Half Method. Collis and Hussey (2021) also noted Cronbach's alpha coefficient for testing the reliability. The *test-retest* method involves distributing the questionnaire to the same respondents at a different time. The *test-retest* reliability scores generated from the two occasions are examined to investigate whether the two sets of scores covary with one another. If the two rates are similar, then there is a good indication of stability, a fundamental criterion for reliability (Ghauri et al. 2020). However, this method runs the risk that respondents may be affected by the first exposure to the instrument and their response may influence their second time answering the questions. Also, for a PhD student, it is difficult to administer the questions at two different times, given the time constraints.

The *parallel form* technique requires the researcher to develop two parallel versions of the research instrument and administer them to the same respondents. The results obtained from the two parallel versions must be correlated to estimate reliability. Nevertheless, this technique raises a concern about whether the two versions are, in fact, parallel. In addition, respondents, in most cases, are not willing to answer two versions. The *Split-Half* Method estimates reliability by dividing the research instrument into two or more parts and treating each part as a separate scale. Each of the two sets of questions is treated as a separate questionnaire and scored accordingly. The researcher then examines the degree of covariation between these two sets of results.

Lastly, the *Cronbach's alpha coefficient*, a commonly used method, is a test to check the internal reliability of multiple-item scales (Jill Collis and Hussey 2021). The Cronbach's alpha coefficient gives a summary measure of the inter-correlations that exist among a set of items. It is the method that shows an item's correlation with every other item across the sample, and the average inter-item correlation gives a measure of the overall reliability of the scale. According to De Vaus (2014), alpha values of 0.7 and higher can be considered reliable. In the current study, the Cronbach's alpha coefficient was used. Due to practical difficulties in adopting the other three methods, the researcher decided to use the coefficient alpha score to measure the reliability of the survey questionnaire. Reliability tests were carried out on all groups of data (i.e., (A) ownership challenges; (B) institutional challenges; (C) Board of directors' challenges; (D) external auditing and disclosure; (E) internal auditing; (F) management challenges; and (G) ways of enhancement). The test results are summarised in the following table.

Table 5. 3 Analysis Showing the Reliability Analysis Scale

Groups	Coefficient Alpha Value				
	BoDs	Manager	Internal auditor	External auditor	Combined
A	0.809	0.830	0.813	0.785	0.804
B	0.731	0.778	0.771	0.797	0.763
C	0.847	0.779	0.863	0.885	0.841
D	0.874	0.758	0.743	0.866	0.818
E	0.832	0.899	0.700	0.788	0.834
F	0.754	0.725	0.825	0.770	0.750
G	0.773	0.814	0.829	0.800	0.809

5.4.7.2 Non-Response Bias

Non-response bias is a critical concern that should be thoroughly investigated in questionnaire surveys. It occurs when a large number of distributed questionnaires are not returned, raising the question of whether the overall results would have been different if those questionnaires had been returned (Creswell 2009; Fowler Jr 2013). Hudson et al. (2004) highlight that non-response bias arises when the characteristics of respondents differ systematically from those of non-respondents. Since it is challenging to observe the characteristics of non-respondents directly, testing for non-response bias can be difficult. Wallace and Mellor (1988) introduced a common technique that involves comparing the characteristics of early respondents with those of late respondents, assuming that late responders are equitable "surrogates" for non-respondents. In this study, the first 20 questionnaires (5 from each group) were considered "early" responses, and the last 20 questionnaires (5 from each group) were considered "late" responses. The Mann Whitney Test was then used to investigate whether there were significant differences between the two groups. The results of the Mann Whitney test showed $p > .05$, implying that there was no significant difference between the early and late responses. Therefore, it can be concluded that the results do not suffer from non-response bias.

Table 5. 4 Analysis Showing Non-Response Bias Investigating

Description	Mean	Frequency	S.D.	Mann Whitney U Test	
				Value	Sig
Early Response	3.6559	20	0.31395	-0.311	0.756
Late Response	3.6755	20	0.30333		

5.4.7.3 Investigating Self-Selection Bias

Self-selection bias is a common concern in questionnaire surveys, as it arises when respondents voluntarily choose to participate in the survey, and their ex-ante factors or predispositions may influence their answers (Whitehead 1991; Li and Hitt 2008; Bethlehem 2010; Smironva et al. 2020). Participants who self-select to respond may have specific characteristics or motivations that differ from those who choose not to participate, potentially skewing the results of the study (Chen et al. 2021).

To address the potential self-selection bias in this study, diligent efforts were made to investigate this issue. Specifically, the researcher considered experience and expertise as criteria for testing self-selection bias. Two groups were formed for each criterion: a control group consisting of respondents with 10 years' experience or more and those who possessed professional certifications in governance-related issues, and an experimental group comprising respondents with less than 10 years of experience or lacking such certifications. The rationale behind forming these control and experimental groups based on experience and expertise was the assumption that individuals with more experience or expertise might find the questionnaire survey more interesting, leading to higher levels of participation. To evaluate the presence of self-selection bias, the Mann Whitney U Test was conducted, and the obtained p-value was greater than 0.05. This indicates that no statistically significant self-selection bias was detected in the study.

Table 5. 5 Analysis Showing Self-Selection Bias Investigating (Professional Qualification)

Description	Mean	Frequency	SD	Mann Whitney U Test	
				Value	Sig
Have Professional Qualification	3.5255	55	0.30180	-1.638	0.101
Do not have Professional Qualifications	3.6028	102	0.32274		

Table 5. 6 Analysis Showing Self-Selection Bias Investigating (Experience)

Description	Mean	Frequency	SD	Mann Whitney U Test	
				Value	Sig
Less than 10 years of Experience	3.5722	88	0.30490	-0.541	0.588
More than 10 years of Experience	3.5803	69	0.33347		

5.5 Interview Survey

Interviews are the primary method employed due to the exploratory nature of this study. According to Sekaran and Bougie (2016), business-related research is primarily concerned with social phenomena, and much of the information required to make decisions in the workplace comes from people. As a result, interviews are a common method in business research that allow researchers to collect a wide variety of data. Brinkmann (2018) defines an interview as "a face-to-face verbal exchange, in which one person, the interviewer, attempts to elicit information or expressions of opinion or belief from another person or persons." Collis and Hussey (2021) assert that interviews are a popular method for collecting data in which the interviewees are asked questions to observe their feelings or opinions. It is a form of conversation between the interviewer(s) and interviewee(s) aimed at obtaining information (Marshall and Rossman 2016). Interviews are particularly helpful for gathering individuals' perceptions, attitudes, thoughts, and feelings (Cohen et al. 2007). Moreover, interviews are desirable for asking complex and in-depth questions (De Vaus 2014; Frankfort-Nachmias et al. 2015).

In this research, although the questionnaire survey investigates the same issues, it was deemed that interviews would allow for a deeper understanding of challenges and obstacles of implementing effective CG Saudi SOEs. This is because the phenomenon is relatively new, and closed-ended questions alone would not provide the research with sufficient information to accomplish the research objectives. Furthermore, one-to-one face-to-face interviews, in contrast to group interviews, were chosen to encourage interviewees to engage more freely in the dialogue. This decision was made considering the sensitivity of the topic of CG, particularly in the context of Saudi Arabian SOEs.

5.5.1 Type of Interview

In general, an *unstructured interview* is a form of very flexible conversation in which the researcher has little role in directing the discussion. Questions in this type of interview are not prepared in advance but instead evolve during the interview (Collis and Hussey 2021). The format of the questions is open-ended, requiring lengthy answers. The role of the researcher is not to ask specific questions but rather to facilitate the interviewee in sharing more information. While the topic of the interview may be planned, the actual flow of the conversation will vary significantly based on the responses of each interviewee (Lune and Berg 2017). Parker (2005a) agrees with Lune and Berg (2017) who state that a completely unstructured interview does not exist because, in reality, the interviewer may come to the conversation with a topic of interest or idea, although it might not be apparent during the interaction. This type of interview is very suitable for bringing preliminary issues to the surface, which can then be further investigated in-depth (Sekaran and Bougie 2016). Unstructured interviews have certain disadvantages, primarily being time-consuming. In addition, the researcher may find it difficult to control the specific topics that are discussed during the interview. Due to the significant variation from one interview to another, data analysis can also become complicated (Collis and Hussey 2021).

On the opposite side of the continuum, a *structured interview* is the most rigid form of an interview. It is employed in a similar manner and logic as a questionnaire survey, using standardised ways of asking questions, which allows for the possibility of comparison and quantification (Brinkmann 2018). Researchers who adopt structured interviews are assumed to have a high level of certainty about the information they want to obtain and discover (Lune and Berg 2017). Therefore, it is assumed that the interview instrument is comprehensive and adequate to obtain from interviewees all the information needed which is relevant to the study. Structured interviews are conducted when it is known at the outset what information is needed (Sekaran and Bougie 2016).

The questions in a structured interview are mostly closed-ended, and the order in which the questions are asked is the same for all interviewees. The responses provided are fixed categories, which allow for statistical analysis (Ghauri et al. 2020). However, a widespread critique of structured interviews is that predetermined structures may not capture the full meanings and interpretive frames of the respondents, leaving the researcher with an incomplete understanding of the conversation (Brinkmann 2018). One critique of this type of interview is that it can result in passive recordings of people’s opinions and attitudes, without delving deeper into the underlying reasons behind their responses (Brinkmann 2018).

The *semi-structured interview* is the most widespread type in human and social sciences (Brinkmann 2018). In this type of interview, greater skills are required from the interviewer because the information wanted is usually of a personal, attitudinal, and value-laden nature, which calls for social sensitivity (Ghauri et al. 2020). Semi-structured interviews can be differentiated from other types of interviews based on the topic and issue to be discussed, the sample size and people to be interviewed, and the questions to be asked (Ghauri et al. 2020).

In semi-structured interviews, several predetermined questions focus on a particular topic. Lune and Berg (2017) highlight that questions are asked in a systematic and consistent order to the interviewee, but interviewers are allowed, or in fact expected, to probe further beyond the interviewee's answers. The questions are prepared as a guide to encourage the interviewee to talk about the main topic or issue during the interview. In this type of interview, not all pre-prepared questions must be asked because the interviewee may provide information that covers the pre-prepared questions in another way, and the order in which the questions are asked is flexible. Although some believe that semi-structured interviews could address the limitations of unstructured and structured interviews, semi-structured interviews have limitations, such as the influence of the researcher's background on the interview and interpretations, which may challenge objectivity. Easterby-Smith et al. (2015, p. 135) mentioned that semi-structured interviews are preferable when the logic is not clear, the subject of interest is highly confidential or commercially sensitive, and there are possibilities that the participants may be reluctant to be truthful.

5.5.2 The Type of Interview Used in the Study

The semi-structured interview was adopted in the current study for several reasons. Firstly, this type of interview was deemed more appropriate for dealing with sensitive topics such as CG in Saudi ArabianSOEs because it allows for clarification and probing, which can lead to the gathering of more comprehensive and nuanced information. The flexibility to adjust the level of language and alter the sequence of questions based on the interviewee’s response also supports the suitability of semi-structured interviews in this study. Given that CG in Saudi Arabia is still in the process of development and is associated with issues like corruption and bribery, unstructured interviews, which provide complete freedom to respondents, might result in interviewees avoiding discussing sensitive topics. In addition, the use of unstructured interviews, along with the questionnaire survey, could be inappropriate and time-consuming, considering the working professionals who participated in the study.

Furthermore, the exploratory nature of the current study necessitated a certain level of flexibility, which would not have been achievable with structured interviews. As Weller (2014) argues, semi-structured interviews play a crucial role in developing exploratory models and preparing for a systematic form of investigation. The researcher believes that using structured interviews, which share many similarities with the questionnaire survey, would not have allowed for a deeper and more comprehensive understanding of the research topic, nor would it have had the ability to elicit in-depth responses. Instead, semi-structured interviews provided an opportunity to amplify the themes explored in the questionnaire and to better ascertain the reasons behind respondents' answers, enabling more nuanced interpretations of the survey results.

5.5.3 Interview Administration

As mentioned earlier, the interview participants comprised board directors, senior managers, internal auditors, and external auditors. Companies with a minimum of 50% government ownership were contacted to obtain permission for conducting interviews. Access to these companies was challenging, especially considering the sensitive nature of the topic CG in Saudi Arabian SOEs. Therefore, there was variation in gaining access, and official contacts for these companies yielded only a small number of approvals. However, participants in the companies where the researcher gained official approval were helpful in referring to other individuals who met the criteria of the current study (belonging to either of the four groups and working in one of the companies targeted). Personal connections and individual contact played a crucial role in persuading participants to take part in the study, especially when the researcher assured confidentiality and anonymity.

Before commencing each interview, a consent form (Appendix E) was signed by each interviewee, and the researcher verbally reiterated the principles of confidentiality and anonymity. The researcher also provided a brief personal introduction and an explanation of the purpose of the study. The interviews lasted, on average, between an hour and an hour and a half. The interviews were guided by a set of predetermined questions (Appendix H). At the end of each interview, the researcher asked the interviewee to recommend other individuals who met the research criteria.

To ensure a comprehensive coverage with the interview questions, they were first shared with the principal supervisor, and minor modifications were made accordingly. The interview questions were also discussed and piloted with a board member, senior manager, internal auditor, and external auditor to ensure their adequacy and inclusion of all critical points. The guide questions were organised into two sections. The first section gathered background information about the interviewee, including name, position, education, and years of experience. The aim was to commence the interview by discussing non-controversial or non-threatening themes to establish rapport between the interviewer and interviewee and help the interviewee feel at ease during the conversation. Spradley (2016) suggested that incorporating some casual conversation at various points during the interview can yield significant benefits in building rapport. 36 of the interviews were tape recorded, but where interviewees objected to this, for any reason, notes were taken and then written up immediately afterwards.

5.5.4 Interviewees' Profile

A brief profile of the 40 interview participants is presented in Table 5.7. The table displays the academic qualifications, professional qualifications, and years of experience of the four groups who participated in the interviews.

Table 5. 7 Analysis Showing the Profile of Interviewees

Interview	Position	Academic Qualification	Professional Qualification	Years of Experience
1	Board Member	Master's	GRC	10
2	Board Member	Master's	NO	23
3	Board Member	Bachelor's	NO	16
4	Board Member	Bachelor's	CPA	13
5	Board Member	PhD	NO	18
6	Board Member	Master's	CIA	15
7	Board Member	Master's	NO	20
8	Board Member	Master's	NO	9
9	Board Member	Bachelor's	NO	14
10	Board Member	Master's	NO	24
1	Senior Manager	Master's	NO	13
2	Senior Manager	Bachelor's	SOCPA	12
3	Senior Manager	Bachelor's	NO	16
4	Senior Manager	Master's	NO	21
5	Senior Manager	Bachelor's	GRC	20
6	Senior Manager	Master's	NO	14
7	Senior Manager	Bachelor's	SOCPA	8
8	Senior Manager	Master's	NO	15
9	Senior Manager	Bachelor's	NO	11
10	Senior Manager	Bachelor's	GRC	13
1	Internal Auditor	Master's	CIA	5
2	Internal Auditor	Bachelor's	No	12
3	Internal Auditor	Bachelor's	NO	12
4	Internal Auditor	Master's	CIA	7
5	Internal Auditor	Bachelor's	NO	9
6	Internal Auditor	Master's	NO	4
7	Internal Auditor	Bachelor's	CIA	10
8	Internal Auditor	Bachelor's	SOCPA	17

Interview	Position	Academic Qualification	Professional Qualification	Years of Experience
9	Internal Auditor	Master’s	NO	16
10	Internal Auditor	Bachelor’s	CIA	13
1	External Auditor	Master’s	NO	8
2	External Auditor	Bachelor’s	SOCPA	2
3	External Auditor	Master’s	NO	9
4	External Auditor	Bachelor’s	NO	17
5	External Auditor	Master’s	CPA	5
6	External Auditor	PhD	SOCPA	14
7	External Auditor	Bachelor’s	NO	11
8	External Auditor	Bachelor’s	NO	5
9	External Auditor	Bachelor’s	SOCPA	10
10	External Auditor	Bachelor’s	NO	5

5.6 Analysis of Questionnaire Survey Data

Data obtained through research methods must undergo analysis, processing, and interpretation to effectively address the research objectives and questions (Saunders et al. 2012). Statistical analysis plays a crucial role in summarising data, measuring associations between variables, and making inferences from samples to populations, thereby transforming large datasets into manageable and comprehensible forms (Babbie 2021). The preceding sections of this chapter have outlined the data collection methods employed in this study. This section presents the statistical tests utilised to analyse the survey responses and examine significant differences in responses within samples concerning various aspects of CG challenges in Saudi Arabian SOEs.

Prior to the statistical analysis of the questionnaire survey data, significant effort and care were invested in designing the questionnaire to ensure reliable inferences. Subsequently, the data collected underwent thorough editing and coding to ensure accuracy and completeness. Statistical analysis primarily involves two forms: descriptive statistics and inferential statistics (Collis and Hussey 2021), which will be discussed in detail in the following sections. Furthermore, the choice of appropriate statistical tests largely depends on the number of independent and dependent variables, the scale of measurement (metric or nonmetric) of the variables, whether the assumptions of parametric tests are met, and the size of the sample (Sekaran and Bougie 2016).

Inferential statistics encompass parametric tests and non-parametric tests (Collis and Hussey 2021). To choose the appropriate test, researchers often consider the nature of the data (Robson and McCarten 2016; Collis and Hussey 2021). Parametric tests rely on four key assumptions as outlined by Field (2009):

- Data should follow a normal distribution.
- There must be homogeneity of variance throughout the data.
- Variables should be measured on an interval scale.
- Data should be independent, meaning the behaviour of one participant does not influence others.

Non-parametric tests have gained favour in behavioural and social science research due to their compatibility with the characteristics of such data. According to Siegel (1956), non-parametric techniques are well-suited to behavioural sciences as they do not assume normal distributions, require interval scale measurements, or demand homogeneity of variance. When the assumptions of parametric statistics are not met, non-parametric statistics are preferred to avoid flawed results (Leedy and Ormrod 2015).

Considering the questionnaire survey responses in this study consist of opinions on a scale-based format, the use of non-parametric tests is more appropriate for statistical analyses. Descriptive and inferential statistics are invaluable tools for social scientists to comprehend complex social phenomena, aiding in the analysis, representation, and interpretation of relationships (Frankfort-Nachmias et al. 2015). The statistical techniques employed in analysing the data of this research will be discussed in the following section.

5.6.1 Descriptive Statistics

Descriptive statistics serve as techniques to present and summarise data in a more understandable format (Frankfort-Nachmias et al. 2015). They aid in comprehending the features of a specific dataset and reveal patterns that may not be apparent in the raw data (Collis and Hussey 2021). Descriptive statistics are employed to describe the characteristics of a population or sample. Commonly applied approaches include calculating the mean and standard deviation to describe a sample (Zikmund et al. 2013). In the current study, descriptive statistical measures such as means, frequency distribution, percentages, ranks, and standard deviations were utilised.

5.6.2 Inferential Statistics

Inferential statistics are more advanced than descriptive statistics as they go beyond merely describing specific observations to making inferences about the larger population from which the sample was drawn (Babbie 2021). These statistics allow researchers to draw conclusions about entire populations based on their investigation of samples. For instance, if a mean is computed and then compared to a predefined standard, inferential statistics are employed

(Zikmund et al. 2013). In the current study, inferential statistics are utilised to assess the significance of responses and draw inferences about the population parameters based on the sample statistics through hypothesis testing.

5.6.2.1 Testing the Significance of Responses

To assess the significance of the responses to the 51 statements in the questionnaire, the Wilcoxon Signed Rank Test was employed. The Wilcoxon Signed Rank Test is a non-parametric test used for determining significant differences between two related samples or repeated measurements on a single sample. It serves as an alternative to a paired samples t-test when the population does not meet the assumptions of a parametric test (Robson and McCarten 2016; Sekaran and Bougie 2016). This test calculates the difference between the sample mean and the hypothesised value. In this study, the mean score of responses was compared with 3 (the mid-score of the 5-point scale) to examine the significance of agreement or disagreement, utilising the Wilcoxon Signed Rank Test.

5.6.2.2 Hypotheses Testing

As the primary objective of this study is to explore and emphasise the main challenges and obstacles in implementing effective CG in Saudi SOEs, it is important to investigate whether different participating groups hold differing opinions on these challenges. This investigation will provide a deeper understanding of the phenomenon and enable inferences to be made from sample statistics to population parameters. Therefore, hypothesis testing was conducted to compare the opinions of respondents regarding the challenges of implementing effective CG in Saudi SOEs. To test the stated hypotheses formulated for the study, the researcher employed two non-parametric tests: the Kruskal-Wallis test and the Mann Whitney U test. The following discussions provide a brief introduction to these two testing techniques.

The Mann Whitney U Test

The Mann Whitney test is a non-parametric test used to compare the differences between two independent or dependent samples for ratio, interval, or ordinal variables (Collis and Hussey 2021). It serves as the non-parametric counterpart to the t-test for two independent samples and is particularly appropriate when dealing with categorical variables and at least one ordinal variable (Cohen et al. 2007). Instead of relying on the assumption of interval data, the Mann Whitney test compares the medians of the two groups when the data are ordinal and assesses whether the ranks for the two groups differ significantly. This method is based on ranks, which allows for a comparison of how many times a score from one sample ranks higher than a score from the other sample, effectively addressing the issue of low cell frequencies in the chi-square test (Cohen et al. 2007). In the current study, the Mann Whitney test was utilised to compare the responses from two groups, categorised based on the professional qualifications, length of experience of the respondents, and whether they have work-related experience or not.

The Kruskal-Wallis Test

The Kruskal-Wallis test is a non-parametric equivalent of the analysis of variance (ANOVA) for three or more independent samples and is particularly suitable when dealing with one categorical variable and one ordinal variable (Cohen et al. 2007). This test compares the medians of three or more groups when the data are ordinal, rather than assuming interval data. In essence, it serves as the non-parametric alternative to ANOVA and is utilised when the assumptions of parametric tests cannot be met. When the obtained value of the Kruskal-Wallis (H) test is significant, it indicates that at least one of the groups differs significantly from at least one of the others. To identify which specific groups are different, the Kruskal-Wallis pair-wise comparison was employed.

5.7 Analysis of Interview Survey Data

The main objective of conducting semi-structured interviews in this study is to delve deeper into the challenges and obstacles of effectively implementing CG in Saudi Arabian SOEs, complementing the findings obtained from the questionnaire analysis. The choice of semi-structured interviews is justified by the sensitive nature of the topic, as it allows the interviewees the flexibility to provide detailed insights and experiences related to the study. To analyse the interview data effectively, a cross-case analysis approach, as proposed by Miles and Huberman (1986), was adopted. This approach comprises three methods for data analysis: case-oriented analysis, variable-oriented analysis, and a combined strategy that blends the two.

In the case-oriented analysis, the focus is on preserving patterns and characteristics of individual cases or groups of cases under study. By identifying similarities and constant associations among cases with different outcomes, more general explanations can be derived. On the other hand, variable-oriented analysis focuses on specific variables or themes across cases. Instead of focusing on individual cases, this method emphasises the interrelationships between variables, resulting in broad patterns across a variety of cases. For this study, a synthesis of both variable and case-oriented analyses was utilised. This approach allows for a higher degree of generalisability compared to a strict case-oriented approach while benefiting from the in-depth exploration enabled by case-oriented analysis. Hence, this mixed approach was considered suitable for producing fair and comprehensive results from the interview data, considering the exploratory nature of the study.

The interview data analysis process involves three concurrent activities: data condensation, data display, and drawing conclusions (Miles et al. 2014). Data condensation entails selecting, focusing, simplifying, abstracting, and transforming the data from field notes or transcriptions. Before the analysis, the interviews were transcribed to facilitate a thorough examination. The data from each transcript were then manually coded to reduce data for analysis, with themes based on the issues investigated in the questionnaire survey. These themes include ownership challenges, institutional challenges, board of directors' challenges, external auditing and disclosures, internal auditing, management challenges, and measures to enhance CG implementation in Saudi Arabia's SOEs.

Data display is facilitated by entering related data from the coded transcripts into matrices, which helps in drawing conclusions. Each matrix corresponds to a main theme of the study and may also include emerging issues related to the research. The rows in the matrix represent the variables investigated within each theme, while the columns represent the types of respondents. The data in each cell of the matrix are labelled with the source transcript and page for easy tracing and verification as suggested by Lune and Berg (2017). Ensuring that no important coded data are omitted is crucial for further analyses.

Drawing conclusions and interpretations involve analysing the data in the matrices. Patterns, explanations, causal flows, and propositions are noted from the responses of different respondent groups, allowing a comprehensive understanding of the research issues. In addition, the data in the matrices can be further analysed through partitioning and clustering to highlight contrasts between cases on specific variables of interest, facilitating deeper insights into the challenges and obstacles of implementing CG in Saudi Arabian SOEs.

5.8 Ethical Considerations

This study adhered to the legal and ethical standards of Cardiff University and Cardiff Business School, ensuring full compliance and the prevention of misconduct during data collection. Ethical considerations were addressed in accordance with the specified requirements of Cardiff University and Cardiff Business School. The paramount commitment to ethical responsibility in this research was maintained to guarantee a respectful, non-discriminatory, and non-harmful approach that prioritises the protection of vulnerable individuals.

Prior to the data collection phase, ethical approval was obtained from the school's ethics committee for each method employed in the study (Appendix A and B). At the start of the data collection process, 'participant information sheets' were distributed to potential participants to allow thorough comprehension of the study's details, facilitating any queries to be addressed during subsequent meetings. Participants, if they agreed, were requested to sign, and return the informed consent forms before the interview. In the case of the questionnaire survey, participant information sheets and informed consent forms were included in the questionnaire bundle. Throughout the informed consent process, participants were explicitly informed of their non-obligation to participate in the research and assured that they had the freedom to withdraw at any point without facing adverse consequences. Clear explanations were provided on how anonymity and confidentiality would be maintained throughout the study. For the interviews, consent was also obtained for the interviews to be audio-recorded and transcribed. All participants willingly volunteered and had knowledge of the interview and survey durations.

To ensure participant safety and comfort, the majority of interviews were conducted in participants' offices, while some opted for alternative venues such as cafés or open spaces like meeting rooms. Participants were assured of confidentiality at the beginning of each interview to foster open discussions (Creswell 2014). Importantly, participants were not compelled to respond to any questions perceived as inappropriate or invasive of their confidential information. Both the questionnaire responses and interview discussions were voluntary, allowing participants to express themselves freely and spontaneously.

5.9 Conclusion

This chapter outlines the research design employed in the study, including both quantitative and qualitative research methodologies. The rationale behind adopting a mixed-method approach is explained, highlighting the influencing factors that led to this decision. A comprehensive discussion of the questionnaire survey is provided, covering aspects such as the study population, sample selection, design, and structure. The implementation of the pilot study is explained, including its development, execution, the valuable insights gained, and how it was administered. To ensure validity and reliability, measures taken to address these issues are presented, as well as the procedure for analysing the questionnaire data.

In addition, the chapter explained the second method utilised in this research - the semi-structured interviews, with a total of 40 interviews conducted. An explanation of the approach used to analyse the interview data is presented. The following chapter explores in greater detail the descriptive and inferential analyses of the data obtained from the questionnaire survey.

CHAPTER SIX: ANALYSIS AND DISCUSSION OF THE QUESTIONNAIRE SURVEY FINDINGS

6.1 Introduction

The objective of this chapter is to present and examine the outcomes of the questionnaire survey. The chapter is organised as follows: Section 6.2 provides an overview of the respondents' background; Section 6.3 presents the descriptive statistics derived from the collected responses. Section 6.4 and 6.5 discuss the results obtained from the statistical tests. Finally, in Section 6.6, a summary is provided.

6.2 Participant Background Information

Introducing the background of survey respondents is critical in understanding the level of participants in any survey. To facilitate a better understanding of the respondents, this section provides a detailed analysis of the education, qualifications, and experience of the questionnaire survey respondents. This will provide insight into the characteristics of the survey participants, thus enhancing the overall validity and reliability of the survey results.

6.2.1 Education

The educational qualifications of respondents are critical indicators of their backgrounds. To provide insight into this aspect, the final academic degree of the four sample groups is presented in the following table.

Table 6. 1 Analysis Showing the Educational Qualification of Respondents

Education Level	BoDs		Manager		Internal Auditor		External Auditor		Total	
	No	%	No	%	No	%	No	%	No	%
Bachelor’s	12	30	21	50	21	46	16	53	70	45
Master’s	20	50	19	45	24	54	12	40	75	47
PhD	8	20	2	5	0	0	2	7	12	8
Total	**40**	**100**	**42**	**100**	**45**	**100**	**30**	**100**	**157**	**100**

Table 6.1 presents the educational qualifications of respondents categorised by their roles in the organisation. For BoDs, 50% held a master’s degree, 30% had a bachelor’s degree, and 20% possessed a PhD. Among senior managers, 50% held a bachelor’s degree, 45% had a master’s degree, and 5% had a PhD. Internal auditors predominantly held master’s degrees (54%), followed by bachelor’s degrees (46%), with no respondents having a PhD. External auditors showed that 53% had bachelor's degrees, 40% possessed a master’s degree, and 7% held a PhD.

Overall, the table indicates that 45% of respondents held bachelor's degrees, 47% had master's degrees, and 8% possessed a PhD. These results suggest a highly educated respondent group, with a significant number holding postgraduate qualifications. Such diversity in educational backgrounds may enrich the survey findings, providing unique perspectives on the challenges and obstacles of implementing effective CG mechanisms in Saudi SOEs.

The subsequent subsection provides a detailed analysis of respondents' educational qualifications, shedding further light on this aspect.

6.2.2 Academic Discipline

The respondents' educational background is a critical aspect for analysing respondents' ability to express objective views on a given issue. For example, respondents who possess educational qualifications in accounting and auditing, finance, economics, management, or other business-related fields are commonly viewed as being more knowledgeable on topics related to CG. Table 6.2 presents a breakdown of the disciplines in which respondents obtained their final academic qualifications.

Table 6. 2 Analysis Showing the Academic Background of Respondents

Discipline	BoDs		Manager		Internal Auditor		External Auditor		Total	
	No	%	No	%	No	%	No	%	No	%
Accounting	5	13	7	17	20	44	21	70	53	34
Economics	1	3	5	12	3	7	0	0	9	6
Finance	5	13	4	9	8	18	3	10	20	13
Management	8	20	8	19	6	13	4	13	26	17
Marketing	2	5	3	7	0	0	0	0	5	3
Other	19	48	15	36	8	18	2	7	44	28
Total	**40**	**100**	**42**	**100**	**45**	**100**	**30**	**100**	**157**	**100**

The table indicates that among the BoDs, 20% specialised in management, while accounting and finance constituted 13% each. Notably, the majority (48%) of BoDs had backgrounds in other disciplines, potentially raising concerns about their qualifications to fulfil their duties effectively. For senior managers, 36% came from various disciplines, with 19% having a background in management, 17% in accounting, and 12% in economics. Internal auditors showed a focus on accounting as their highest specialised qualification (44%), while finance and management accounted for 18% and 13% respectively. Among external auditors, 70% held academic qualifications in accounting, followed by management at 13%, and finance at 10%.

Overall, the table demonstrates that 64% of respondents obtained their academic qualifications in accounting, management, or finance. Specifically, 34% had qualifications in accounting, 17% in management, and 13% in finance. This concentration of accounting degrees can be attributed to accounting being the primary subject for internal and external auditors. The results suggest that a significant percentage of respondents in all four groups possess educational qualifications related to business fields, indicating their expertise and competence in addressing CG-related issues.

6.2.3 Professional Qualification

Given that the present study is about CG, it is relevant to consider the range of respondents' professional qualifications. Therefore, the questionnaire included a query that inquired whether respondents held any professional qualifications in CG, without offering specific choices. This approach was adopted to determine if there were any differences in the responses provided by those with professional qualifications compared to those without such qualifications. It was deemed necessary to not provide predetermined options for the various professional qualifications in the CG domain as this approach could result in the omission of certain qualifications.

Table 6. 3 Analysis Showing the Professional Qualification of Respondents

Professional Qualification	BoDs		Manager		Internal Auditor		External Auditor		Total	
	No	%	No	%	No	%	No	%	No	%
Yes	18	45	10	24	15	33	12	40	55	35
No	22	55	32	76	30	67	18	60	102	65
Total	**40**	**100**	**42**	**100**	**45**	**100**	**30**	**100**	**157**	**100**

Table 6.3 reveals that professional qualifications related to CG were reported by 45% of BoDs and 40% of external auditors, whereas senior managers and internal auditors showed lower percentages at 24% and 33%, respectively. The variation in academic backgrounds for BoDs (as shown in Table 6.2) might explain their higher inclination towards obtaining CG-related qualifications. In addition, the requirement of a CPA qualification for public audit practice could contribute to a relatively higher percentage among external auditors.

Overall, out of 157 respondents, 102 (65%) stated that they do not have any professional qualification related to CG, while 55 (35%) reported holding such qualifications. These findings indicate that the possession of CG-related professional qualifications is not widespread among the respondents. Nonetheless, the higher percentage of BoDs and external auditors holding such qualifications may enhance their awareness and understanding, so that contributing to the objectivity and reliability of the study's findings.

6.2.4 Experience

Prior related work experience is an important factor that contributes to the respondents' ability to comprehend and respond appropriately to the questionnaire. The experience of the respondents who participated in the survey is displayed in two tables. Table 6.4 illustrates the proportion of respondents who possess related work experience, while Table 6.5 presents the duration of their current positions.

Table 6. 4 Analysis Showing the Experience of Respondents

Previous relevant work experience	BoDs		Manager		Internal Auditor		External Auditor		Total	
	No	%	No	%	No	%	No	%	No	%
Yes	40	100	27	64	21	47	16	53	104	66
No	0	0	15	36	24	53	14	47	53	34
Total	**40**	**100**	**42**	**100**	**45**	**100**	**30**	**100**	**157**	**100**

Among the BoDs respondents, all had previous work experience related to the subject matter, as expected. For senior managers, 64% reported prior experience in similar roles, while 36% did not. Among Internal auditors, 47% indicated having relevant work experience, while 53% did not possess such experience. Regarding external auditors, 53% reported having experience in similar areas to their current jobs, while 47% did not. Overall, 104 out of 157 (66%) of respondents reported having previous work experience. The researcher considers previous work experience to be crucial as it helps respondents better understand the questions and provide informed responses, which contributes to achieving the study's objectives.

Table 6. 5 Analysis Showing the Length of Experience of Respondents at Current Position

Years at Current Position	BoDs		Manager		Internal Auditor		External Auditor		Total	
	No	%	No	%	No	%	No	%	No	%
From 1 to >5	14	38	5	12	11	24	7	23	37	24
From 5 to >10	15	35	10	24	17	38	9	30	51	33
From 10 to >15	8	20	16	38	10	22	10	33	44	28
15 and more	3	8	11	26	7	16	4	13	25	16
Total	**30**	**100**	**42**	**100**	**45**	**100**	**30**	**100**	**157**	**100**

The table above presents data on respondents' tenure in their current positions, categorised by years. BoDs show relatively shorter tenure compared to the other three groups. Among BoD respondents, 38% have been in their positions for one to five years, while 35% have spent five to ten years. For senior managers, the highest percentage (38%) corresponds to those with ten to fifteen years of experience in their current roles, followed by 26% with fifteen years or more and 24% with five to ten years. Among internal auditors, the highest percentage (38%) reported five to ten years of experience, closely followed by 22% with one to five years and 24% with ten to fifteen years. Among external auditors, 33% had ten to fifteen years of experience in their current roles, while 30% had five to ten years.

Overall, the majority of respondents (33%) have spent between five and ten years in their current positions, with 28% falling into the ten to fifteen years category, and 24% with one to five years. Those with fifteen years or more in their positions represent the smallest group (16%). Notably, respondents' tenure can influence their understanding of the questions and the quality of their responses. Longer-tenured individuals may possess a deeper comprehension of broader CG issues, potentially contributing to more detailed and relevant responses. The data indicates a range of experience among the respondents, underscoring the significance of tenure in shaping the questionnaire responses' accuracy and relevance.

6.3 Descriptive Statistics

The initial phase of data analysis involves data description, which aims to provide an overview of the fundamental characteristics of the data. Descriptive statistics encompass various tools, such as graphical presentations, frequency tables, mean, median, mode, ranking, skewness, kurtosis, and standard deviation. In this study, the questionnaire survey data have been subjected to descriptive statistical analysis, utilising frequency tables, means, standard deviations, and rankings. The subsequent subsections detail the presentation and analysis of the descriptive statistics derived from the questionnaire survey data.

6.3.1 Firms' Characteristics

The main objectives of SOEs significantly influence their CG approach. Table 6.6 offers insights into the main objectives of the studied companies. Implementing CG aligned with these objectives can be challenging due to competing stakeholder interests, such as shareholders prioritising profitability and citizens emphasising social service goals. Ensuring accountability and transparency in decision-making processes can be especially demanding for SOEs with diverse stakeholder interests.

The table reveals that 43% of BoDs respondents believe their organisations' main objective is achieving both social and profit objectives, followed by 40% emphasising profit objectives, and only 18% considering social objectives as the primary focus. Among senior managers, 55% indicate SOEs exist for both objectives, while 26% believe it is solely profit-oriented, and 19% primarily aim for social objectives. Surprisingly, the highest percentage among internal auditors (44%) see their SOEs solely pursuing profit maximisation, with 40% believing in balancing both social and profit objectives.

Overall, Table 6.6 indicates that 46% of respondents believe their organisation's main objective is achieving both social and profit objectives, while 37% prioritise profit maximisation, and only 17% consider social objectives as the primary concern. This analysis based on companies main objectives assists in identifying the challenges of implementing effective CG practices.

Table 6. 6 Analysis Showing the Main Objectives/Purpose of Saudi SOEs

Main Objective of Organisation	BoDs		Manager		Internal Auditor		External Auditor		Total	
	No	%	No	%	No	%	No	%	No	%
Social and Profit	17	43	23	55	18	40	N/A	N/A	58	46
Profit only	16	40	11	26	20	44	N/A	N/A	47	37
Social Service only	7	18	8	19	7	16	N/A	N/A	22	17
Total	**40**	**100**	**42**	**100**	**45**	**100**	**N/A**	**N/A**	**127**	**100**

Table 6.7 presents the business environment of the Saudi SOEs. A majority of BoD members (38%), senior managers (43%), and internal auditors (49%) indicated that they operate in a semi-competitive environment. Interestingly, 35% of BoD members indicated a competitive environment, while lower percentages were observed among managers and internal auditors.

In addition, 28% of BoD members mentioned a non-competitive business environment, with similar percentages (31%) found among senior managers and internal auditors.

Overall, the table highlights that the majority of respondents (43%) identified their business environment as semi-competitive, followed by non-competitive (30%), and competitive (27%) environments. The business environment significantly impacts the implementation of CG practices within SOEs. In competitive environments, there may be pressure to prioritise short-term objectives, potentially leading to governance issues. In non-competitive settings, adherence to high governance standards and innovation may be less emphasised. Semi-competitive environments pose challenges in striking a balance between long-term and short-term objectives.

Table 6. 7 Analysis Showing the Nature of the Environment of SOEs

The Environment of the Companies	BoDs		Manager		Internal Auditor		External Auditor		Total	
	No	%	No	%	No	%	No	%	No	%
Competitive	14	35	11	26	9	20	N/A	N/A	34	27
Non-competitive	11	28	13	31	14	31	N/A	N/A	38	30
Semi competitive	15	38	18	43	22	49	N/A	N/A	55	43
Total	**40**	**100**	**42**	**100**	**45**	**100**	**N/A**	**N/A**	**127**	**100**

Table 6.8 provides insights into the main sources of finance for SOEs. The majority of BoDs members (63%), senior managers (62%), and internal auditors (64%) indicated income from selling goods and services as their companies' primary source of finance. The “Mixed” category was mentioned by 33% of BoDs, 36% of senior managers, and 29% of internal auditors. Only a small percentage relied exclusively on government budget allocation, with 5% of BoDs, 2% of senior managers, and 7% of internal auditors indicating such reliance. Overall, respondents highlighted that 63% of the companies primarily rely on income from selling goods and services, followed by 32% with mixed financing, and only 5% depend solely on government budget allocation. This aligns with the fact that the study focuses on incorporated SOEs, not those within the core government division.

The source of income can significantly impact CG implementation in SOEs. For instance, relying on government budget allocation may lead to interference, lack of transparency, and compromised board independence, negatively impacting CG. Contrarily, income from selling goods and services allows for more autonomous decision-making and financial autonomy.

However, these SOEs may face challenges in balancing commercial goals with social objectives, which is a common issue for SOEs worldwide. SOEs relying on mixed financing, including aid, grants, or subsidies, may encounter conflicting interests between public and private investors. It is crucial for SOEs to understand the potential risks associated with their main source of finance and implement appropriate measures to ensure effective CG.

Table 6. 8 Analysis Showing the Main Source of Income for The SOEs

Main Source of Finance	BoDs		Manager		Internal Auditor		External Auditor		Total	
	No	%	No	%	No	%	No	%	No	%
Government Budget Allocation	2	5	1	2	3	7	N/A	N/A	6	5
Income from Selling Goods and Services	25	63	26	62	29	64	N/A	N/A	80	63
Mixed	13	33	15	36	13	29	N/A	N/A	41	32
Total	**40**	**100**	**42**	**100**	**45**	**100**	**N/A**	**N/A**	**127**	**100**

6.3.2 Analysis of the Perception Towards the Statements on the Challenges of Implementing Effective CG in Saudi SOEs

Table 6.9 below displays the percentage of responses for each statement included in the questionnaire. To simplify reporting and analysis, the categories of “strongly disagree” and “disagree” have been combined under “disagree”, while “strongly agree” and “agree” have been combined under “agree.”

Table 6. 9 Frequency (in percentage) Distribution of Perception Toward the Statements on CG Challenges in Saudi SOEs

Statements	BoDs (N=40)			Manager (N=42)			Internal Auditor (N=45)			External auditor (N=30)			Total (N=157)		
	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree
A. Ownership challenges															
The ownership entity (parent ministry) has clear objectives for the SOE.	0	30	70	17	24	60	18	9	73	23	47	30	14	25	61
The ownership entity (parent ministry) gives the SOE autonomy to achieve its objectives.	15	33	53	21	29	50	13	31	56	40	13	47	21	27	52
The ownership entity (parent ministry) plays an active role through the general assembly.	5	33	63	10	38	52	13	27	60	3	33	63	8	32	59
The ownership entity (parent ministry) has clear and fair policies and procedures based on merit and transparency for SOE board of directors' nomination.	5	20	75	14	36	50	18	40	42	37	33	30	17	32	50
The ownership entity (parent ministry) has an attractive remuneration policy for SOE board of directors.	25	28	48	10	33	57	22	29	49	20	27	53	19	29	52
B. Institutional challenges															
SOEs are subjected to fair competition.	20	28	53	2	38	60	2	51	47	20	43	37	10	40	50
SOEs are subjected to strong regulator.	28	35	38	38	26	36	31	24	44	23	43	33	31	31	38
Listed SOEs are subjected to same market regulation as private corporations.	3	28	70	10	24	67	2	22	76	0	47	53	4	29	68

Statements	BoDs (N=40)			Manager (N=42)			Internal Auditor (N=45)			External auditor (N=30)			Total (N=157)		
	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree
legal and regulatory requirements relating to CG in SOEs are clear, consistent, and transparent.	5	38	58	17	48	36	31	27	42	20	40	40	18	38	44
legal and regulatory requirements relating to CG ensure equitable treatment of shareholders.	8	20	73	19	19	62	2	27	71	23	30	47	12	24	64
C. Board of directors' challenges															
Board of directors has the necessary autonomy to carry out its CG responsibilities.	5	40	55	10	27	66	9	31	60	7	23	70	8	31	62
Board of directors devotes the necessary time to CG affairs.	8	15	78	15	29	59	16	40	44	3	50	47	11	32	57
Board of directors has a charter which outlines its objectives, duties, and responsibilities.	8	33	60	7	37	59	13	20	67	13	30	57	10	29	61
Board of directors has the necessary authority to carry out its CG responsibilities.	0	23	78	0	15	88	9	11	80	0	20	80	3	17	81
Board of directors has the necessary authority over the nomination, appointment, and removal of CEOs.	10	38	53	0	17	85	4	27	69	3	33	63	4	28	68
Board of directors has the necessary authority to design a proper managerial incentive to ensure CG.	15	33	53	17	41	44	11	24	64	13	40	47	14	34	52

Statements	BoDs (N=40)			Manager (N=42)			Internal Auditor (N=45)			External auditor (N=30)			Total (N=157)		
	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree
Board of directors has the necessary knowledge to carry out its CG responsibilities.	5	15	80	2	24	76	2	27	71	10	43	47	4	26	69
Board of directors has the necessary number of independent directors to carry out its CG responsibilities.	30	35	35	10	39	54	13	38	49	27	37	37	19	37	44
Board of directors has the appropriate size to carry out its CG responsibilities.	0	25	75	0	15	88	2	16	82	0	17	83	1	18	82
Board of directors has too many governments representative members.	25	18	58	5	15	83	4	16	80	0	20	80	9	17	75
Board of directors' members is evaluated following formal and standards procedures to evaluate and appraise members.	5	40	55	10	24	68	9	33	58	10	47	43	8	35	57
D. External auditing and disclosures															
The SOE is subject to an adequate level of audit from the General Court of Audit.	13	40	48	12	36	52	36	20	44	37	27	37	24	31	46
The SOEs is subject to an adequate level of audit from an independent external audit.	13	23	65	14	24	62	11	24	64	23	17	60	15	22	63
The work between the General Court of Audit and the external auditor complements each other.	20	43	38	26	33	40	22	31	47	43	33	23	27	35	38
The SOE discloses aids, grants, and subsidies it receives.	25	35	40	12	45	43	36	24	40	47	20	33	29	32	39

Statements	BoDs (N=40)			Manager (N=42)			Internal Auditor (N=45)			External auditor (N=30)			Total (N=157)		
	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree
The SOE discloses information related to CG such as governance structure, board remuneration, board selection, and diversity.	28	23	50	5	33	62	31	22	47	33	37	30	24	28	48
The financial statements and disclosures are relevant, reliable, and comparable.	15	28	58	2	31	67	18	27	56	23	23	53	14	27	59
External auditors are appointed and/or removed upon the recommendation of the AC.	3	33	65	5	24	71	4	29	67	17	27	57	6	28	66
External auditors have relevant scientific and practical experience in the operations of the SOE.	18	40	43	7	38	55	13	31	56	13	23	63	13	34	54
E. Internal auditing															
The head of the internal audit department has direct communication with the AC.	8	25	68	17	14	69	22	22	56	23	37	40	17	24	59
The head of the internal audit department is appointed and terminated following the recommendation and approval of the AC.	5	35	60	19	24	57	2	13	84	17	37	47	10	26	64
The internal audit department has adequate resources to carry out its responsibility.	5	30	65	17	36	48	2	40	58	23	43	33	11	37	52
The internal audit department has a charter reviewed and updated regularly.	15	25	60	29	19	52	29	31	40	27	47	27	25	29	46
The SOE has strong internal controls.	8	43	50	12	29	60	4	29	67	17	40	43	10	34	56

Statements	BoDs (N=40)			Manager (N=42)			Internal Auditor (N=45)			External auditor (N=30)			Total (N=157)		
	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree
The internal auditors are independent.	13	43	45	19	21	60	7	40	53	33	30	37	17	34	50
The internal audit department is supported by the AC.	8	40	53	14	31	55	2	29	69	33	27	40	13	32	55
F. Management challenges															
The executive management has the appropriate and adequate freedom to take business discussions timely and effectively.	5	33	63	21	31	48	22	22	56	27	30	43	18	29	53
The CEO or top executive in the management team takes responsibility for CG implementation.	8	25	68	0	14	86	31	24	44	27	17	57	16	20	64
The governmental hierarchical system of promotion hampers the effectiveness of CG in SOEs.	8	33	60	5	31	64	4	27	69	0	13	87	4	27	69
The compensation for executive management ensures alignment of management interests with the long-term objectives of the organisation.	20	38	43	31	29	40	13	33	53	7	40	53	18	34	47
The executive management has a clear structure for reporting that ensures an effective CG in place.	0	35	65	5	24	71	11	29	60	7	50	43	6	33	61

6.3.2.1 Ownership Challenges

Table 6.9 shows that 70% of the board members agree that the ownership entity has clear objectives for the SOE, while 30% are neutral and none disagree. This indicates that the board members perceive the ownership entity to have clear goals for Saudi SOE. The table also shows that 75% of the board members agree with the fourth statement that the ownership entity has clear and fair policies and procedures based on merit and transparency for SOE board of directors' nomination. However, the responses to this statement should be perceived with caution since it is related to board member nomination and the answer from board members may have some bias. The statement regarding whether the ownership entity plays an active role through the general assembly was agreed also by the majority of board members. However, although around half of the board members agreed that the ownership entity gives SOE operational autonomy to achieve its objectives, 15% disagree with the statement and 33% remain neutral. Lastly, it is apparent that board members do not agree that the ownership entity has an attractive remuneration policy for SOE board directors with only 48% agreeing and 25% disagreeing.

According to the table, senior managers showed more conservative responses in general highlighting that challenges for implementing effective CG in Saudi Arabian SOEs are still present. The table shows that 60 % of senior managers agree that the parent ministry has clear objectives for the SOE, 17% disagree and 24% remain neutral. Managers' response to this statement is lower in compassion to board members which may highlight an issue that the objectives of the ownership did not communicate well with managers. This may have a negative effect on the implementation of effective CG in Saudi SOEs. Similarly, the responses to the statements regarding the operational autonomy given to SOEs to achieve their objectives, whether the parent ministry plays an active role through the general assembly, and whether the policies and procedures for the nomination of SOE board members are based on merit and transparency were less optimistic than the board of directors' responses, particularly regarding the view of merit and transparency of board nomination with only around 50% agreeing to these statements. Unsurprisingly, the statement on the attractiveness of the remuneration for SOE board directors received relatively higher agreement from senior managers than board members; however, the responses are mixed, with 57% of the senior managers agreeing, 33% remaining neutral and 10% disagreeing.

In relation to internal auditors, Table 6.9 also shows that 73% agreed that the ownership entity has clear objectives for the SOE; however, the percentages are lower when it comes to SOEs' autonomy to achieve their objectives at 56%, and 60% for the active role of the ownership through the general assembly. Statements on whether the ownership entity has clear and fair policies and procedures based on merit and transparency for SOE board of directors' nomination and an attractive remuneration policy for SOE board of directors received less agreement with 42% and 49% agreement respectively.

Interestingly, external auditors showed majority agreement only with the statement about whether the ownership entity plays an active role through the general assembly at 63%. External auditors were more likely to agree that the ownership entity plays an active role through the general assembly compared to internal auditors and senior managers. However, the responses of external auditors clearly show concerns with 40% disagreeing that the ownership entity gives SOE autonomy to achieve its objectives. Statements about whether the ownership entity has clear objectives and whether the ownership entity has clear and fair policies and procedures based on merit and transparency for SOE board of directors' nomination were agreed by only 30% to both, with a significant proportion remaining neutral or disagreeing. The responses by external auditors to these two statements contrast with the responses of the board of directors and managers, who agreed by 50% or more for these two statements. Finally, it is notable that external auditors have a similar response regarding the attractiveness of the remuneration policy for SOE board directors compared to other groups.

Overall, regarding the ownership entity's clear objectives for Saudi SOEs, 61% of respondents agreed. A clear definition of SOEs' objectives is important due to their involvement in various and sometimes conflicting goals (Young et al. 2008; Musacchio and Lazzarini 2014a). For example, the expectations of maintaining profitability while simultaneously pursuing objectives such as increasing market share or employment (Bruton et al. 2015). This imposes challenges and may conflict with profit maximisation (Cuervo-Cazurra et al. 2023). Consequently, researchers such as Young et al. (2008) and Musacchio and Lazzarini (2014a) have highlighted the argument that the clarification of SOEs' objectives significantly influences various aspects of their CG. 59% agreed that the ownership entity plays an active role through the general assembly. Active involvement of the ownership entity through the general assembly is crucial; however, distinguishing the roles of ownership and the board remains challenging in the literature on SOEs' governance, primarily because most board members represent the state shareholders (Okhmatovskiy et al. 2022). Therefore, ensuring that the ownership entity;s active involvement follows best practice guidelines is fundamental for SOEs' CG.

Regarding granting SOEs operational autonomy to achieve their objectives, the percentage of respondents who agreed dropped to 52%, while the percentage of those who disagreed increased to 21%. Determining the appropriate level of autonomy is a theoretical dilemma for SOEs, as an increase in autonomy can lead to agency conflicts while simultaneously reducing interference (Cuervo-Cazurra et al. 2023). Empirical findings by Lazzarini et al. (2021) indicate that, given their relatively higher level of operational autonomy, SOEs outperform private companies. However, based on a questionnaire developed by the OECD (2018) regarding the professionalisation of boards of directors, the majority of governments fail to distinguish between the roles of the board and the ownership function, consequently challenging the autonomy and independence of boards.

Regarding the ownership entity's policies and procedures for the nomination of board directors, 50% of respondents agreed that the policies and procedures were clear and fair. The low agreement expressed by participants shows challenges in CG implementation in Saudi SOEs, which aligns with Okhmatovskiy et al.'s (2022) argument that board nominations and appointments are often made without transparency and competitive selection. Finally, concerning the ownership entity's remuneration policy for board directors, only 52% of respondents agreed that the policy was attractive. Tricker (2015) found that board remuneration plays an essential role among other factors, as it is difficult to attract world-class members to accept positions on SOE boards.

6.3.2.2 Institutional Challenges

Regarding the statements on institutional challenges that affect the implementation of effective CG with saudi SOEs, table 6.9 shows that the most notable agreements among boards of directors were regarding the statements of whether listed SOEs are subjected to the same market regulation as private corporations, and legal and regulatory requirements related to CG ensure equitable treatment of shareholders with 70% and 73 % respectively. However, there was a lack of consensus regarding whether legal and regulatory requirements related to CG in SOEs are clear, consistent, and transparent and if SOEs are subjected to fair competition. Board members' responses regarding these statements although were slightly more than 50% agreement, neutral responses, and disagreement responses especially on the statement of fair competition show some concerns. Only 38% agree that SOEs are subject to a strong regulator which is negatively impact the implementation of effective CG in Saudi SOEs.

In contrast, senior managers showed similar agreement with statements on whether SOEs are subjected to fair competition, whether listed SOEs are subjected to the same market regulation as private corporations, and if legal and regulatory requirements related to CG ensure equitable treatment of shareholders with 60%, 67%, and 62% agreeing respectively. When it comes to the clarity, consistency, and transparency of CG requirements in Saudi SOEs, the responses of senior managers were more critical than the boards of directors, with 36% agreeing and 48% neutral. This clearly demonstrates that managers encounter issues which affect their ability to effectively implement effective CG. Similar to the responses from boards of directors, a significant percentage (38%) of senior managers disagree that SOEs are subjected to a strong regulator, which could indicate concerns over the effectiveness of regulatory oversight in Saudi Arabia.

Concerning internal auditors, they generally showed high agreement with the statements that listed Saudi SOEs are subject to the same market regulations as private corporations and that legal and regulatory requirements relating to CG ensure equitable treatment of shareholders with 76% and 71% respectively. However, they are less optimistic than board members and senior managers about the existence of fair competition, with only 47% agreeing and 51% remaining neutral. In addition, they have mixed views on the clarity, consistency, and transparency of legal and regulatory requirements related to CG in SOEs. Internal auditors, similar to board members and senior managers, shared concerns over the existence of a strong regulator, with 44% agreeing and 31% disagreeing.

The responses of external auditors suggest that they are generally neutral on most of the institutional challenges related to implementing effective CG in Saudi SOEs. Interestingly, the responses of external auditors are somewhat more critical compared to the responses of the other groups. The statement relating to whether listed SOEs are subjected to the same market regulations as private corporations was the only statement that received more than 50% agreement. Only 40% of external auditors agreed that the legal and regulatory requirements relating to CG in SOEs are clear, with a significant proportion remaining neutral. Furthermore, only 47% of external auditors agree that legal and regulatory requirements relating to CG ensure equitable treatment of shareholders, compared to 73%, 62%, and 71% from boards of directors, senior managers, and internal auditors respectively. In addition, they appear to have more concerns regarding fair competition and a strong regulator, with only 37% and 33% agreeing respectively.

Overall, the statement of whether listed SOEs are subject to the same market regulations as private corporations, as well as the statement of whether legal and regulatory requirements related to CG ensure equitable treatment of shareholders, received the highest agreement, with 68% and 64%, respectively. These findings are consistent with the recommendations of international organisations such as the OECD (2015) and the World Bank (2014), which emphasise that state ownership should not receive preferential treatment and should operate under the same market rules as private corporations. Subjecting SOEs to the same legal regulations as private companies is a central recommendation of the OECD guidelines on SOE governance (Milhaupt and Pargendler 2017). However, it is important to note that even when the regulatory environment at country level does not provide preferential treatment to SOEs, the CG regulations in SOEs may not be binding due to the flexibility they have in their corporate charters and by-laws to either opt out of specific provisions or adopt additional ones.

Regarding the perception of whether Saudi SOEs subject to fair competition, only 50% of respondents agree, while 40% remain neutral. Research has shown that corporations with political connections are often protected from competition due to favourable government policies (Bunkanwanicha and Wiwattanakantang 2009). Firth et al. (2006a) have emphasised that CG can be primarily divided into internal mechanisms such as the board of directors and stock ownership by managers, as well as external mechanisms such as the market for corporate control. Therefore, the absence or low level of competition can be detrimental to the CG of SOEs. In terms of legal and regulatory requirements related to CG in Saudi SOEs, 44% of respondents believe that they are clear, consistent, and transparent, while 38% remain neutral. The low level of clarity, consistency, and transparency in the legal requirements for CG is due, perhaps, to the challenge of applying the legal and institutional arrangements of private companies to SOEs (Grossi et al. 2015).

Only 38% of respondents believe that Saudi Arabian SOEs are subject to strong law enforcement, while 31% disagree and 31% remain neutral. Recent research suggests that the political and regulatory environments significantly influence CG systems (Firth et al. 2006b). Countries with inadequate investor protection laws and weak law enforcement tend to have poor CG (La Porta et al. 2000). The results underscore the need for strong law enforcement institutions. Empirical studies by Defond and Hung (2004) have supported the notion that strong law enforcement contributes to the enhancement of CG. Ke and Zhang (2021) highlight the lack of investor protection in many developing economies and argue that while it may be relatively easy to propose investor protection regulations, their enforcement is often lax and ineffective in such economies. Therefore, a main challenge in these economies is to identify effective mechanisms for improving the enforcement of CG regulations. Anderson and Gupta (2009) argue that investor rights are meaningless when commercial laws in a country are weak or poorly enforced. Therefore, the extent and quality of legal protection for investors depend on two elements: the statutory provisions of commercial law and the degree to which these statutes are enforced (Dahya et al. 2008).

6.3.2.3 Board of Directors' Challenges

The results in table 6.9 indicate that 78% of board members agree with the statements regarding whether board members devote the necessary time to CG affairs, and whether the board has the necessary authority to carry out its CG responsibilities. It is also worth noting that the vast majority (80%) agree that the board has the necessary knowledge to carry out its CG responsibilities and 75% agreed that the size of the board is appropriate to carry out its CG responsibilities. 60% of board members agree that the board has a charter that outlines its objectives, duties, and responsibilities, however, a significant proportion (33%) remains neutral. Similarly, the statements regarding the board's autonomy and the statement regarding the formal and standardised evaluation and appraisal of board members received 55% agreement with a significant proportion remaining neutral at 40% for both statements. There was lower agreement regarding the board having the necessary authority over nominations, appointing and removal of the CEO and the necessary authority to design proper managerial incentives to ensure effective CG implementation with Saudi SOEs, with 53% agreement for both statements and a significant proportion remaining neutral at 38% and 33% respectively. On the statement that there are too many government representatives, 58% agreed, however 25% disagreed. Finally, a substantial number of board members feel that the board does not have the necessary number of independent directors with only 35% agreeing, while 30% disagree and 35% are neutral.

The responses from senior managers regarding board authority, size, and the perception that the board has too many government representatives showed a higher level of agreement among managers compared to board members with 88%, 88%, and 83% respectively. Senior Managers expressed more agreement than board members in their view that the board has too many government representatives. Managers have 85% agreement on the statement that the board has authority over the nomination, appointing, and removal of the CEO, with no respondents disagreeing, which is not in line with board members' responses. In addition, managers have 76% agreement that the board members have the necessary knowledge to carry out their CG responsibilities. 66% of managers agree that the board members have the necessary autonomy to carry out their CG responsibilities, while 68% of managers agree that board members are evaluated following formal and standard procedures. 59% of managers agree that board members devote the necessary time to CG affairs, which was lower than the board members, suggesting that the board members do not always devote the necessary time to CG affairs. A similar agreement of 59% also was found regarding the board charter. Only 54% of managers agreed that the board of directors has the appropriate number of independent directors, and 39% showed a neutral response. Finally, senior managers expressed more disagreement with the statement that the board of directors has the necessary authority to design a proper managerial incentive to ensure CG with only 44% agreeing and 41% remaining neutral, whereas the board of directors had a more neutral response to this statement.

Regarding the perceptions of internal auditors, 80% agreed that the board has the authority to carry out its CG responsibilities. Similarly, internal auditors' views are critical concerning the presence of government representatives on the board, compared to board members with 80% agreement that SOE boards have too many government representatives. 82% of internal auditors believe that the board's size is appropriate. However, they are critical of the presence of government representatives on the board, in contrast with board members and showed 80% agreement that SOEs' boards have excessive government representation. 80% agree that the board has authority to carry out its CG responsibilities. In addition, 71% of internal auditors agreed that the board has the necessary knowledge to carry out its CG responsibilities. However, they are less convinced than the managers that the board has the necessary knowledge to carry out its CG responsibilities. They generally agree that the board has the necessary autonomy (60%), has a charter outlining its objectives (67%), and the necessary authority over the nomination, appointment, and removal of CEOs (69%). They also show higher agreement (64%) than boards of directors and senior managers regarding the authority of the board to design a proper managerial incentive. Interestingly, all three groups seem to have a similar level of agreement that the board should be evaluated following formal and standard procedures to appraise its members, with only slightly higher agreement among senior managers. Internal auditors express concerns whether the board devotes sufficient time to CG affairs with only 44% agreeing and 40% remaining neutral. Also, they were critical about the appropriate number of independent directors with only 49% agreeing and 38% remaining neutral.

The majority of external auditors agreed that the board has authority to carry out its governance responsibilities, has the appropriate size to carry out its governance responsibilities, and that there are not too many government representatives on the board of SOEs with 80%, 83% and 80% agreeing respectively. Also, they showed relatively higher agreement (70%) regarding the necessary autonomy for boards to carry out their CG responsibilities. 63% of external auditors believe that the SOE boards have authority over the nomination, appointing, and removal of CEOs. The external auditors expressed mixed opinions on whether the board had a charter outlining its objectives with 57% agreeing and 30% remaining neutral. Similarly, the external auditors were somewhat divided, with approximately half agreeing that board members devoted sufficient time, had the necessary authority to design proper managerial incentives to ensure good CG and that the board possesses the necessary knowledge to carry out their governance responsibilities. The other half remained neutral. When it comes to the board's evaluation procedures, the external auditors expressed mixed opinions, with approximately half being neutral and the other half agreeing. Finally, there is a notable percentage of external auditors who disagree with the structure of the boards of directors, especially in terms of the number of independent directors, with only 37% agreeing.

Overall, the vast majority of the respondents agree that the board of directors has the appropriate size (82%) and necessary authority (81%) to carry out its CG responsibilities. The literature on the influence of board size as a factor affecting board effectiveness has shown inconsistent results. For instance, empirical investigations conducted by Beasley and Salterio (2001), Anderson et al. (2004), and García-Meca and Sánchez-Ballesta (2009) support the effectiveness of larger board sizes. Conversely, studies such as Yermack (1996) have shown evidence that smaller board sizes are more effective. However, the responses obtained in this study indicate that the majority of respondents do not highlight any issues regarding the appropriateness of board size in Saudi SOEs.

Nevertheless, it is important to interpret the relatively high agreement on board authority with caution, given that SOE boards are predominantly comprised of government officials who may possess the authority to exert control over SOE affairs. However, this authority is not always exercised wisely or based on appropriate knowledge. Prior research reveals that government representatives on SOE boards often lack a comprehensive understanding of their roles and responsibilities due to insufficient knowledge, competence, and experience (Thompson et al. 2019; Okhmatovskiy et al. 2022).

Predictably, 75% of all respondents agree that Saudi SOE boards have too many government officials. SOEs tend to be dominated by insiders and government representatives (Puffer and McCarthy 2007). Regarding statements pertaining to board autonomy, charter, authority over the nomination of the CEO, and board knowledge, the responses from all respondent groups indicate agreement levels of 62%, 61%, 68%, and 69%, respectively. However, respondents are less agreed on whether boards devote the necessary time to CG affairs with 57% agreeing and 32% remaining neutral. It is widely recognised that board members of SOEs often do not allocate enough time to their board responsibilities. Research, such as that conducted by Carcello et al. (2002), highlights various board characteristics, including diligence and expertise, which are fundamental to the effectiveness of the board of directors.

Similarly, the response toward the board's authority over designing managerial incentives, and whether boards of directors' members were evaluated formally and following standards procedures were agreed by 52% and 57%, respectively. An increase in the board's authority to design managerial incentives is believed to enhance the implementation of CG, as the board of directors is the primary governance body within a firm capable of developing tailored incentive schemes aligned with SOEs' objectives. Compensation schemes have been extensively researched as one of the CG mechanisms and if effectively and appropriately utilised by the board, can positively impact a firm's CG. Regarding board evaluation, the responses suggest some positive signs, as it remains a contentious topic in CG, particularly concerning the most effective methods for conducting evaluations. It is expected that many SOEs either do not conduct board evaluations or do so as mere formalities. Grosman et al. (2016) empirically found that only 11% of SOEs' boards conduct board evaluations.

Notably, the aggregated responses revealed concerns over the lack of independent members in SOEs' boards, with 44% agreeing, 37% remaining neutral, and 19% disagreeing. Studies conducted by Neville et al. (2019), Carcello et al. (2002), Rutherford and Buchholtz (2007), and Beasley and Salterio (2001) have supported the inclusion of more independent directors. Although this finding is concerning, it is not surprising given that this study aligns with the findings of Ding et al. (2014), which show that state ownership in SOEs weakens board independence.

6.3.2.4 External Auditing and Disclosures

In general, the responses from board members presented in table 6.9 showed lower agreement regarding external auditing and disclosures. 65% of board members agreed with the statements concerning whether Saudi SOEs are subject to adequate audits from an independent external auditor and that external auditors are appointed and removed based on recommendations from audit committee. 58% of board members believe that the financial statements and disclosures are relevant, reliable, and comparable. For the disclosure of information related to CG, such as governance structure and board remuneration, only 50% agreed with this statement. There is no clear consensus on whether Saudi Arabian SOE is subject to an adequate level of audit from the GCA, with almost equal proportions of board members being neutral (40%) or agreeing (48%). Only 43% agreed that external auditors have relevant scientific and practical experience in the operations of the SOE. Similarly, only 40% of the responses agreed regarding statements related to SOE's disclosure of aid, grants, and subsidies it receives. Finally, there were mixed views on the statement that the work between the Saudi Arabian GCA and the external auditor complement each other, with 38% agreeing, 43% being neutral, and 20% disagreeing.

In general, senior managers' responses to the questions relating to external auditing and disclosures indicate a more positive attitude than board members. 71% agree that external auditors are appointed and/or removed upon the recommendation of audit committee and 62% agree that Saudi SOE is subject to an adequate level of audit from an independent external auditor. Senior managers provided similar responses to the statements about the relevance, reliability, and comparability of financial statements as well as the disclosure related to governance structure, board remuneration, board selection, and diversity with 67% and 62% respectively. Only 55% of senior managers agree that external auditors have the necessary scientific and practical experience in the operations of the SOE. Similarly, 52% of senior managers agree that the SOE is subject to an adequate level of audit from GCA with a significant proportion remaining neutral. On the disclosure of aid, grants, and subsidies, 43% of managers agreed and 45% remained neutral. However, senior managers are neutral in their responses when it comes to the work between the GCA and the external auditor complementing each other with 40% agreeing, 33% remaining natural, and 26% disagreeing.

In relation to the responses from internal auditors, the highest level of agreement was 67% and it pertained to whether external auditors are appointed and/or removed upon the recommendation of audit committee. In addition, 64% of internal auditors agreed that Saudi SOEs are subject to an appropriate level of audit from an independent external auditor. Regarding whether the financial statements are relevant, reliable, and comparable, internal auditors indicated 56% agreement. Similar agreement also was found regarding whether external auditors have the necessary scientific and practical experience in the operations of the

SOE. Interestingly, similar agreement was found between internal auditors and senior managers regarding the scientific and practical experience of external auditors in the operations of the SOE. The responses from internal auditors showed only 47% agreeing with the statement concerning whether the work between the Saudi Arabian GCA and the external auditor complement each other, and the statement concerning whether SOEs disclose information related to CG such as governance structure, board remuneration, board selection, and diversity. Internal auditors were more critical than managers, with 36% of internal auditors disagreeing that the SOE is subject to an adequate level of audit, compared to 13% and 12% for the board of directors and senior managers. Lastly, the lowest agreement was related to the SOEs' disclosure of aid, grants, and subsidies with only 40% agreeing.

The responses from the external auditors show that there is a relatively lower level of agreement regarding external auditing and disclosures. Not surprisingly, external auditors provided the highest level of agreement at 63% to the statements concerning relevant scientific and practical experience of external auditors in the operations of the SOE. However, interestingly, only 60% of external auditors agreed that the SOE is subject to an adequate level of audit from an independent external auditor, which is lower than the percentage of agreement from board members, senior managers, and internal auditors. Also, external auditors showed a lower percentage of agreement compared to the other three groups regarding their appointment and removal following audit committee recommendations at 57%, and 53% regarding the reliability, relevance, and compatibility of their financial statements. Only 37% of external auditors agreed regarding the adequacy of audits conducted by the GCA with a similar percentage disagreeing. External auditors were the most critical of the SOEs' disclosure practices with only 33% agreeing that SOEs disclose the aid, grants, and subsidies it receives and 47% disagreeing. A similar level of agreement and disagreement was also found concerning the discourse on governance structure, board remuneration, board selection, and diversity. Notably, the response to the statement of whether the Saudi Arabian GCA and the external auditor work complement each other had the highest percentage of disagreement from external auditors compared to the other groups. This may suggest that external auditors perceive some overlap or redundancy in the work conducted by the two types of auditors, or that they believe there could be more effective coordination between them.

Overall, 66% of respondents agreed that external auditors' appointment and removal is based on the recommendation of audit committee, and 63% agreed that Saudi Arabian SOEs are subject to an adequate level of audit from an independent external auditor. However, slightly fewer respondents (54%) agreed that external auditors possess relevant scientific and practical experience in the operations of the SOE. The involvement of audit committee in the appointment and removal of external auditors is recommended by best practice guidelines and CG codes like the UK CG code (FRC 2018). Studies have highlighted characteristics such as independence, accounting and financial expertise, industry specialisation, diligence, and AC support as prerequisites for external auditors to provide quality audits (DeZoort et al. 2002; Abbott et al. 2004; Ellwood and Garcia-Lacalle 2015; Langella et al. 2021; Manes Rossi et al. 2021). Gul et al. (2009) found that the association between shorter auditor tenure and lower earnings quality is weaker for firms audited by industry specialists, as they are more likely to detect irregularities and misrepresentations.

Furthermore, the combined responses showed that 59% of respondents agreed that the financial statements were relevant, reliable, and comparable. However, there is room for improvement in the level of disclosure by Saudi SOEs. Only 39% agreed that SOEs disclose the aid, grants, and subsidies they receive, and 48% agreed that information relating to CG, including board remuneration, selection, and diversity, is disclosed. Sufficient disclosure is critical for CG as accounting information provides independently verified data about the performance of managers (Sloan 2001). The findings indicate some concerns about the amount of disclosure and suggest that Saudi SOEs' disclosure levels need improvement. These findings align with Xiao et al. (2004) and support Grosman et al.'s (2016) inquiry on whether state ownership is associated with a low or high degree of transparency and disclosure, showing lower levels of disclosure in SOEs. A possible explanation for the lower level of disclosure is that the state has direct access to corporate information, which may undermine the perceived need for additional disclosure.

Lastly, the aggregated responses are divided regarding the level of audit from the GCA, with only 46% of respondents agreeing that the SOEs are subject to an adequate level of audit from the GCA. Moreover, there is a lack of agreement on the complementarity of work between the GCA and external auditors, with only 38% agreeing and 35% remaining neutral. These concerns align with interviews' findings that highlighted the lack of fundamental audit knowledge among auditors from the GCA, as they primarily focus on how public money is spent and whether it is utilised for its intended purposes, rather than contributing to the overall CG implementation in Saudi Arabian SOEs.

6.3.2.5 Internal Auditing

Table 6.9 shows that the majority of board members (68%) agree that the head of the internal audit department has direct communication with audit committee. In addition, 60-65% of board members agree that the head of the internal audit department is appointed and terminated following the recommendation and approval of audit committee, the internal audit department has adequate resources to carry out its responsibility, and that the internal audit department has a charter reviewed and updated regularly. However, responses are more divided on the other statements, with approximately half of the board members agreeing and approximately half remain neutral that Saudi Arabian SOE has strong internal controls, and that the internal audit department is supported by audit committee. In addition, board members appear to have some level of disagreement about the independence of the internal auditors with only 45% agreeing and 43% remaining neutral.

Senior managers, on the other hand, provided 50% or more agreement with most of the statements related to the internal audit department. 69% agree that the head of the internal audit department has direct communication with audit committee. Similarly, 60% agree that Saudi SOE has strong internal controls, and internal auditors are independent. However, 57% agree that the head of the internal audit department is appointed and terminated following the recommendation and the approval of audit committee. Only 55% of managers agree that the internal audit department is supported by audit committee. This suggests that there may be some room for improvement in terms of the level of support provided by audit committee to the internal audit function. 52% of managers agree that the internal audit department has a charter reviewed and updated regularly, and 48% agree that the internal audit department has adequate resources to carry out its responsibility. However, there is a significant proportion of managers who disagree or remaining neutral on these statements.

Interestingly internal auditors showed higher agreement on the statement related to the head of internal audit appointment and termination by audit committee with 84% agreeing. 69% and 67% respectively of internal auditors agree that the department is supported by audit committee and that Saudi Arabian SOEs has strong internal control, and 29% were neutral to both statements. Internal auditors are divided on the issue of whether the internal audit department has adequate resources to carry out its responsibility, with 58% of them agreeing, and 40% being neutral. Similarly, they are divided on the issue of whether they are independent, with 53% agreeing and 40% being neutral. Interestingly, internal auditors are less positive than board members and managers that the internal audit head has direct communication with audit committee with only 56% agreeing compared to 68% and 69% from board members and senior managers respectively. Finally, there is also more division with 40% of internal auditors agreeing, 31% being neutral, and 29% disagree regarding whether the internal audit department has a charter reviewed and updated regularly.

In general, external auditors were found to be more conservative compared to the other three groups, and they tended to remain neutral or show disagreement as no statements received more than 50% agreement. The highest level of agreement was related to the appointment and termination of the internal audit head following the recommendation of audit committee, with 47% of respondents agreeing and 37% remaining neutral. External auditors also showed lower levels of agreement towards statements related to the existence of strong internal control, the ability of the head of internal audit to directly communicate with audit committee, and the support of the department by the committee, with only 43%, 40%, and 40% agreeing respectively. External auditors also expressed concern regarding the adequacy of resources available to the internal audit department, with 33% agreeing and 43% remaining neutral. They provided similar responses regarding whether internal auditors are independent, with 37% agreeing, 30% remaining neutral, and 33% disagreeing. Finally, external auditors showed the least agreement with the statement that the internal audit department has a charter reviewed and updated regularly, with only 27% agreeing. This was not surprising given that internal auditors themselves recorded their lowest level of agreement towards this statement, and senior managers also provided low levels of agreement.

Overall, 64% of respondents agreed that the head of the internal audit department is appointed and terminated following the recommendation and approval of audit committee, and 59% agree that the head of internal audit can directly communicate with audit committee. Research by Christopher et al. (2009) found that in many companies, the CEO or CFO takes responsibility for appointing, dismissing, and evaluating the head of the internal audit function, which may impair its independence. Building greater communication based on openness and trustworthiness is expected to enhance the internal audit function's independence from management (Raghunandan et al. 2001).

Statements about whether Saudi SOEs have strong internal controls and the support provided by audit committee to the department received similar responses, with around 55% agreeing and 35% remaining neutral. Only 52% of respondents agreed that the internal audit department has adequate resources, and 50% agreed that internal auditors are independent. Professional recommendations, such as those by AICPA (1998), emphasise the importance of companies providing sufficient funding for the internal audit department and investing in education, experience, certification, and continuing education of internal audit staff, which are factors considered by external auditors in evaluating the competence of the internal audit function. Empirical findings by Abbott et al. (2016) also highlight the significance of internal auditors' competence and independence in the effectiveness of the internal audit department in ensuring financial reporting quality. Lastly, there are concerns regarding the internal audit department's charter, with only 46% agreeing that it is regularly reviewed and updated, while 29% remain neutral, and 25% disagree.

6.3.2.6 Management Challenges

Table 6.9 also showed that between 60% to 68% of board members agreed with all statements concerning management challenges. An exception was the statement that the executive management compensation ensures the alignment of management interests and the long-term objectives of the organisation. This was agreed by only 43% while a significant proportion (20%) showed disagreement. This suggests that there may be some issues with the current compensation structure in Saudi Arabian SOEs that need to be addressed to ensure that management interests align with the organisation's objectives. It is noticeable that although the majority of board members agreed with the majority of the statements in this section, significant neural responses were observed.

Regarding senior managers, the majority agreed with three statements in this section namely the responsibility of CG implementation by the CEO, the governmental hierarchical system of promotion hampers the effectiveness of CG in Saudi SOEs, and the existence of a clear structure for reporting that ensures effective CG, at 86%, 64%, and 71% respectively. Senior Managers' responses are much more positive about the responsibility of CG implementation, compared to 68% of board members who agreed. However, both managers and board members agree that the governmental hierarchical system of promotion hampers the effectiveness of CG in Saudi SOEs. Managers seem to have a more critical view of the executive management's freedom to make business decisions, with only 48% agreeing that the executive management has adequate freedom, compared to 63% of board members who agreed. Lastly, senior managers agreed by only 40% that executive management compensation ensures alignment of management interests and long-term objectives.

Internal auditors showed majority agreement between 53% to 69% toward all the statements except the statement that CG implementation is taken by the CEO or highest executive. This was agreed by only 44% with a significant proportion (31%) disagreeing. The responses from internal auditors were in sharp contrast with the responses from senior managers who agreed by 86%. Moreover, although the majority agreed with the statements, a significant degree of hesitation is evident as shown by a relatively high percentage of neutrality.

A significant majority of external auditors (87%) agreed that the hierarchical system of promotion in Saudi SOEs hampers the effectiveness of CG implementation. Statements regarding the responsibility of CG implementation are taken by the CEO or the highest-ranking individual in the executive management and statements regarding executive management compensation ensuring alignment of management's interests with the long-term objectives of the organisation were agreed by 57% and 53% respectively. However, the level of agreement concerning CG implementation was lower than that found among board members and senior managers. Furthermore, external auditors remain significantly neutral (40%) regarding management compensation. External auditors showed only 43% agreement that the executive management has appropriate and adequate freedom to make timely and effective business decisions indicating more disagreement compared to internal auditors and board members. Finally, on the statement that the structure of reporting allows for effective CG, external auditors remained neutral (50%), with only 43% agreeing that it allows for effective CG.

Overall, 69% of respondents from all four groups agreed that the governmental hierarchical system of promotion hampers the effectiveness of CG in Saudi SOEs. This suggests that the hierarchical-based governance system in Saudi SOEs is viewed as a challenge to implement effective CG. The existence of this system may be due to its utilisation as a process of rules by public authorities (Christensen 2015). Respondents from all groups showed agreement with statements related to CG implementation being taken by the highest-ranking individual in the organisation (64%) and executive management having a clear reporting structure in place for effective CG (61%). However, there was less agreement on whether executive management has the appropriate freedom to make timely and effective business decisions, with slightly more than half of respondents agreeing. The OECD (2015) emphasises that management should be allowed the appropriate freedom to conduct day-to-day business without interference, and Lazzarini et al (2021) highlighted the importance of managerial autonomy in SOEs.

Lastly, there was less agreement on whether executive management compensation ensures alignment of management interests with the long-term objectives of the organisation, with only 47% agreeing. This finding is not surprising, as compensation types similar to those in private companies may not appropriately link the interests of managers to the interests of SOEs, especially considering their non-commercial nature. Creative compensation approaches that attract new talent while ensuring alignment with long-term objectives, particularly non-commercial ones, may be needed.

6.3.3 Analysis of the Perception on the Suggestions for Improving the Implementation of Effective CG in SOEs

Table 6.10 shows that board members generally support the concept of partial listing of SOEs on the stock exchange, with 70% agreeing while 83% agree with the requirement for board appointees to have CG qualifications. However, a moderate majority of board members, between 53% and 63%, agree with the remaining statements except for two statements. Only 43% of board members agree to reduce government representation on the board of directors with a similar percentage remaining neutral. Moreover, they strongly disagreed with the proposal for centralised ownership of SOEs, with only 25% agreeing and 38% remaining neutral and 38% disagreeing.

The majority of senior managers agree with the concept of partial listing, reducing official government representation on the board of directors, introducing the requirement for CG qualifications for board appointments, and limiting multiple directorships with 74%, 69%, 90%, and 86% respectively. However, managers express similar concerns to board members regarding the centralisation of ownership of SOEs, with only 31% agreeing and approximately one-third remaining neutral and disagreeing. The remaining statements received agreement levels between 50% and 64% from managers.

It appears that internal auditors strongly support various measures aimed at improving CG in SOEs. Specifically, the vast majority, 70% or more agreed with most of the statements on the measure to improve the implementation of effective CG in SOEs. However, similar to board members and senior managers, internal auditors did not support the idea of centralising ownership of Saudi SOEs with only 36% agreeing and 40% disagreeing. Internal auditors showed a moderate level of agreement between 53% to 62% to the statements concerning the privatisation of SOEs, a complete listing of SOEs, and the idea of a tailored CG code for SOEs.

The vast majority of external auditors also agreed with most of the statements, with agreement levels of 70% or higher for most statements. However, concerning the suggestion for a complete listing of SOEs on the stock exchange, only 60% of external auditors agreed with this statement. Less than half of the external auditors agreed with the proposal of centralising ownership of SOEs, while the majority remained neutral or disagreed. External auditors were less supportive of the idea of establishing a tailored CG code for SOEs compared to other groups with 47% agreeing and 53% remaining neutral.

The collective responses from all groups strongly supported key suggestions for enhancing CG implementation in Saudi SOEs. More than 70% of respondents agreed with partially listing SOEs on the stock exchange and requiring CG qualifications for board appointments, which aligns with previous research emphasising the positive impact of listing on stock exchanges and the need for qualified board members (Stan et al. 2014; Okhmatovskiy et al. 2022). Respondents appear to favour the suggestion of partially listing SOEs on stock exchanges as a means to enhance CG, rather than complete listing. This preference may come from concerns that complete listing could compromise the social objectives of SOEs, leading them to focus solely on profit maximisation.

Limiting the number of multiple directorships also received high agreement (76%), indicating that respondents believe multiple appointments may not add value to firms, consistent with findings by Jackling and Johl (2009). Reducing government official representation in Saudi SOE boards and publicly disclosing financial reports of all SOEs received 68% agreement, further highlighting the importance of transparency and reduced government influence. However, the suggestion of centralising ownership of SOEs received the least favourable response, with only 33% agreement. This finding contrasts with the OECD (2015) guidelines on SOE CG. However, Milhaupt and Pargendler (2017) argue that centralisation of SOEs ownership may not guarantee isolation from interference and raises concerns about the state being both the owner and regulator.

Table 6. 10 Frequency (In Percentage) Distribution of Perception Toward the Suggestions for Improving the Implementation of Effective CG in SOEs

Statements	BoDs (N=40)			Manager (N=42)			Internal Auditor (N=45)			External Auditor (N=30)			Total (N=157)		
	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree	Disagree	Neutral	Agree
Ways of enhancement:															
SOEs should be privatised.	15	45	40	26	24	50	13	33	53	7	20	73	16	31	53
SOEs should be partially listed on the stock exchange.	15	15	70	5	21	74	9	20	71	0	20	80	8	19	73
SOEs should be completely listed on the stock exchange.	18	20	63	17	19	64	13	24	62	7	33	60	14	24	62
SOEs ownership rights should be centralised under one single professional entity.	38	38	25	36	33	31	24	40	36	20	37	43	30	37	33
Government officials' representation on the board of directors should be reduced	15	43	43	14	17	69	0	13	87	0	30	70	8	25	68
A tailored CG code for SOEs should be established.	3	45	53	7	40	52	2	38	60	0	53	47	3	43	54
Qualification in CG should be required before board appointment.	0	18	83	0	10	90	2	9	89	0	13	87	1	12	87
The number of multiple directorships should be limited.	13	35	53	0	14	86	0	16	84	0	20	80	3	21	76
A government entity should be established to monitor and enforce CG regulations.	10	35	55	17	31	52	0	22	78	0	23	77	7	28	65
The financial reports of all SOEs should be publicly disclosed.	8	33	60	12	31	57	4	24	71	0	13	87	6	26	68

6.3.4 Analysis of the Perception Towards the Statements on the Challenges of Implementing Effective CG in SOEs: Mean and Standard Deviation

Table 6.10 illustrates the percentage of disagreement, neutral and agreed responses from the four groups' sample. To analyse responses more accessible, presenting mean values and standard deviations for each statement would be more helpful. Table 6.11 below displays the mean scores and standard deviations of responses towards the 41 statements.

The table presents the mean scores for responses concerning ownership challenges: board members (3.72), senior managers (3.51), internal auditors (3.60), and external auditors (3.29), with an overall mean of 3.55. Notably, the overall mean score for external auditors is lower compared to the other groups. Moreover, the mean scores for external auditors are generally lower for most individual statements, except for two specific statements. Firstly, regarding the active role of the parent ministry in the general assembly, senior managers reported a lower mean score. Secondly, when assessing whether the ownership entity offers an attractive remuneration policy for board members of SOEs, it is unsurprising that board members' mean score is the lowest.

The statement concerning whether the ownership entity has clear and fair policies for board nominations received the lowest mean score of 3.43 across all groups. This highlights the need for Saudi SOEs to improve transparency in board nominations to enhance CG practices. The low mean score confirms Okhmatovskiy et al.'s findings (2022), which emphasised that SOEs' board appointments are influenced by political agendas, often lacking transparency and competitiveness. In addition, statements exploring whether ownership grants SOEs autonomy and whether the ownership entity employs an attractive remuneration policy for board members also received low mean scores. Determining the appropriate level of autonomy for SOEs remains a theoretical dilemma, as increased autonomy may lead to agency conflicts while simultaneously reducing interference (Cuervo-Cazurra et al. 2023). However, the low mean scores reflect the perspective that Saudi SOEs may suffer from a lack of autonomy. Furthermore, an attractive remuneration policy is crucial to attract qualified individuals as board members. Nevertheless, formulating such a policy becomes challenging, considering the low profitability of SOEs and their focus on objectives beyond profit maximisation, which necessitates aligning the remuneration policy with these broader objectives.

Regarding institutional challenges, the mean scores for the responses were: board members (3.63), senior managers (3.43), internal auditors (3.56), and external auditors (3.29), with an overall mean score of 3.49. The statement with the lowest mean score across all groups was whether SOEs are subject to strong regulators, receiving a mean score of only 3.06. This consensus indicates a shared agreement among all groups on the lack of robust regulatory oversight. Specifically, managers reported an even lower mean score of 2.95, emphasising the urgent need for stronger law enforcement institutions. Indeed, the interview findings also echoed this concern, identifying weak law enforcement as a critical factor hindering effective CG implementation. Previous research by La Porta et al. (2000) and Defond and Hung (2004) provided evidence that robust law enforcement institutions contribute to enhanced CG practices. Ke and Zhang (2021) argued that while regulations may exist in developing countries, their enforcement often proves ineffective.

Furthermore, the mean score of 3.31 across all groups concerning the clarity, consistency, and transparency of CG legal and regulatory requirements raised concerns. These findings may be attributed to the relatively new CG environment in Saudi Arabia, undergoing a lot of changes in a short period. In addition, as highlighted by Grossi et al. (2015), SOEs face challenges in applying legal and regulatory arrangements designed for private companies. However, relatively higher mean scores were obtained for whether listed SOEs are subject to the same market regulations and whether regulatory requirements ensure equitable treatment of all types of shareholders, scoring 3.86 and 3.70, respectively. The responses regarding these two statements indicate no major concerns about listed SOEs receiving preferential treatment due to their state ownership, consistent with the recommendations of international organisations such as the OECD (2015) and the World Bank (2014). Nevertheless, caution should be exercised when interpreting the relatively higher mean scores, as external auditors' mean scores were lower compared to the other three groups. External auditors often have a comparative view, auditing both SOEs and private firms, which might influence their responses.

Regarding challenges related to the BoDs, the mean scores for the responses were board members (3.67), senior managers (3.73), internal auditors (3.77), and external auditors (3.65), with an overall mean score of 3.71. Interestingly, the highest and lowest mean scores are related to board composition. The statement concerning an appropriate board size received the highest mean score from all respondents at 4.09, while the statement regarding the sufficient number of independent directors received the lowest mean score at 3.27. The literature on the influence of board size as a factor affecting board effectiveness has yielded inconsistent results. For example, Beasley and Salterio (2001), Anderson et al. (2004), and García-Meca and Sánchez-Ballesta (2009) support larger board sizes, whereas Yermack (1996) has shown evidence that smaller board sizes are more effective. Nevertheless, the majority of respondents in this study did not express significant concerns about board size. However, it is evident that Saudi SOEs lack independent members on their boards, which poses a challenge to the implementation of effective CG, as noted in other studies (Thompson et al. 2019). Studies such as Beasley and Salterio (2001), Carcello et al. (2002), Rutherford and Buchholtz (2007), Neville et al. (2019), and Conyon and He (2011) have supported the inclusion of more independent directors. Furthermore, the mean score from all respondents concerning the authority to design proper managerial incentives to ensure effective CG was the second lowest. This indicates that the boards of Saudi SOEs still lack full authority in financial affairs. A relatively low mean score was also found regarding whether the board devotes the necessary time to CG affairs, a fundamental characteristic for board effectiveness (Carcello et al. 2002).

Statements related to board authority, including the board's authority in the nomination, appointment, and removal of the CEO, received mean scores of 3.96 and 3.82, respectively. The responses suggest no major concerns regarding board authority, as these responsibilities should rightfully be exercised by the board according to best practices. However, caution should be exercised when interpreting these findings, as it is not uncommon for board members to appear to be in charge while the decision-making process in the boardroom is controlled by the government and politicians, as noted by Apriliyanti and Randøy (2019). In addition, statements related to whether board members possess the necessary knowledge to carry out CG responsibilities and whether the board includes many government representatives received higher mean scores of 3.82 and 3.87, respectively. It is common for SOEs to have high levels of state representation due to state ownership. However, this can potentially hinder the independence and autonomy of SOE boards (Okhmatovskiy et al. 2022), as it may lead to increased government intervention, a significant problem in SOE governance (Musacchio and Lazzarini 2015).

Among the six sections, the section concerning external auditing and disclosure challenges received the lowest overall mean score of 3.38. The mean scores reported by board members, senior managers, internal auditors, and external auditors are 3.39, 3.53, 3.38, and 3.17, respectively. Notably, the statements related to collaboration between external auditors and the auditors from the Saudi Arabian GCA, as well as the disclosure of aids, grants, and subsidies received the lowest mean scores of 3.11 and 3.10, respectively. Furthermore, the statements related to whether SOEs undergo an adequate level of audit from the GCA, and whether they disclose governance structure, board remuneration, board selection, and diversity also received relatively low mean scores of 3.25 and 3.29, respectively. These findings highlight concerns about the level of disclosure in Saudi SOEs and indicate the need for further research, specifically focusing on the disclosure practices of SOEs. Prior research by Sloan (2001) emphasised the crucial role of financial reporting in CG. Empirical evidence by Xiao et al. (2004) suggested a negative association between state ownership and the level of disclosure. The findings align with findings by Grosman et al. (2016), indicating that state ownership reduces the need for disclosure as the state has direct access to corporate information.

In contrast, the statements related to whether external auditors are appointed and/or removed upon the recommendation of audit committee received the highest mean score in this section (3.72). The mean score related to the role of the committee provides evidence that audit committees in Saudi SOEs have begun to take a more proactive role, following best practice guidelines such as the UK CG code (FRC, 2018). The statement related to whether SOEs undergo an adequate level of audit from an independent external auditor received a mean score of 3.56. Previous research by Sloan (2001), Cohen et al. (2002), Francis et al. (2003), Lee et al. (2004), and Griffin et al. (2008), collectively highlights the critical role of external auditors in CG. Statements related to the relevance, reliability, and comparability of financial statements and disclosures, as well as whether external auditors possess scientific and practical experience in the operations of the SOE, both received mean scores of 3.50. A possible explanation for the low mean score related to financial information is that SOEs face little pressure to provide high-quality accounting information, consistent with findings by Jin et al. (2021). Prior research by DeZoort et al. (2002), Abbott et al. (2004), Gul et al. (2009), Ellwood and Garcia-Lacalle (2015), Ittonen et al. (2015), Langella et al. (2021), and Manes Rossi et al. (2021) have emphasised the importance of experience within a particular field or industry, rather than general accounting experience.

Regarding the statements in the Internal Auditing Challenges section, the overall mean score is 3.49. Notably, Internal auditors reported the highest mean score of 3.70 for all statements, whereas external auditors reported the lowest mean score of 3.12. Board members and senior managers reported mean scores of 3.59 and 3.46, respectively. The statement related to the role of audit committee in appointing and terminating the head of the internal audit, following the recommendation and approval of the committee, had the highest mean score of 3.67 compared to other statements in this section. It appears that respondents are not significantly concerned with the audit committees' role in this regard, as it is in line with the findings related to the audit committee's role in external audit appointment and termination, discussed in the previous section. This finding suggests a proactive role for audit committee in Saudi SOEs. Prior research, such as Christopher et al. (2009), highlighted that among the threats to the independence of the internal audit department is the delegation of appointing and terminating the head to senior executive management.

Statements related to the ability of the internal audit department head to communicate directly with audit committee, whether the department has adequate resources, and whether the department is supported by audit committee received mean scores of approximately 3.50. The low mean scores related to these statements raise concerns regarding the effectiveness of internal audit departments in Saudi SOEs. Effective, direct, and unbiased communication channels with the committee, free from management influence, are essential for the efficient functioning and independence of internal audits (Raghunandan et al. 2001). A close relationship between the Internal Audit Function and the audit committee is generally regarded as good CG (Quick and Henrizi 2019). Prior research by Abbott et al. (2012) and Abbott et al. (2016), as well as professional recommendations such as the American Institute of Certified Public Accountants (AICPA 1998), have emphasised the need for companies to provide adequate funding for the internal audit department. Furthermore, Abbott et al. (2012) support stronger alignment between audit committee and the internal audit department.

Conversely, the statement investigating whether Saudi Arabian SOEs' internal audit departments have a charter reviewed and updated regularly received the lowest mean score from all respondents, only 3.22. The statement regarding the independence of internal auditors also raised some concerns, receiving a mean score of 3.41. International Standards for the Professional Practice of Internal Auditing (ISPPIA) highlight that the internal auditing department should maintain independence (IIA 2012), as well as the internal audit charter. Prior studies, such as Langella et al. (2021), emphasised the importance of independence, which was also supported by Abbott et al. (2016).

With regard to management challenges, the mean scores from board members, senior managers, internal auditors, and external auditors are 3.62, 3.56, 3.44, and 3.53, respectively, with an overall mean score of 3.54. The highest mean score from all respondents is related to whether the hierarchical system of government promotion hampers the effectiveness of CG in Saudi Arabian SOEs, with a mean score of 3.73. This suggests that SOEs in Saudi Arabia may not operate at arm's length, potentially negatively affecting their CG. Respondents' perceptions also indicate that despite being legally autonomous entities, hierarchical and bureaucratic practices may still exist within SOEs, possibly hampering their professionalisation.

Statements related to whether the implementation of CG is overseen by the CEO or the highest member of the executive management, and whether the executive management has a clear reporting structure that ensures effective CG, received relatively similar mean scores of 3.60. Statements related to management compensation and the freedom granted to executive management received the lowest mean scores from all respondents, with 3.32 and 3.39, respectively. Prior studies have found a negative relationship between state ownership and compensation, as shown by Conyon and He (2011) and Firth et al. (2006a). Researchers such as Lazzarini et al. (2021) support giving relatively higher levels of managerial autonomy to SOEs. However, it has also been discussed, for example by Cuervo-Cazurra et al. (2023), that managerial autonomy is a theoretical dilemma in SOEs. While it may reduce interference, an exaggerated degree of managerial autonomy can increase the risk of higher agency costs.

Table 6. 11 Analysis of Mean and Standard Deviation (SD) of Perception Toward the Statements on CG Challenges in Saudi SOEs

Statements	BoDs (n=40)		Manager (n=42)		Internal Auditor (n=45)		External Auditor (n=30)		Total (n=157)	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
A. Ownership challenges	**3.72**	**0.67**	**3.51**	**0.70**	**3.60**	**0.75**	**3.29**	**0.68**	**3.55**	**0.71**
The ownership entity (parent ministry) has clear objectives for the SOE.	4.00	0.78	3.50	0.86	3.78	1.00	3.13	0.86	3.64	0.93
The ownership entity (parent ministry) gives the SOE autonomy to achieve its objectives.	3.50	0.99	3.38	0.94	3.69	1.02	3.20	1.13	3.46	1.02
The ownership entity (parent ministry) plays an active role through the general assembly.	3.88	0.91	3.60	0.89	3.71	0.99	3.70	0.70	3.72	0.89
The ownership entity (parent ministry) has clear and fair policies and procedures based on merit and transparency for SOE board of directors' nomination.	3.93	0.80	3.45	1.02	3.33	0.88	2.90	0.88	3.43	0.96
The ownership entity (parent ministry) has an attractive remuneration policy for SOE board of directors.	3.30	0.94	3.62	0.85	3.47	1.06	3.50	1.01	3.47	0.96
B. Institutional challenges	**3.63**	**0.62**	**3.43**	**0.67**	**3.56**	**0.68**	**3.29**	**0.61**	**3.49**	**0.65**
SOEs are subjected to fair competition.	3.43	0.93	3.71	0.74	3.62	0.81	3.23	0.86	3.52	0.84
SOEs are subjected to strong regulator.	3.13	1.02	2.95	1.13	3.09	1.14	3.10	0.76	3.06	1.04
Listed SOEs are subjected to same market regulation as private corporations.	3.95	0.81	3.79	0.90	4.04	0.80	3.57	0.57	3.86	0.80
legal and regulatory requirements relating to CG in SOEs are clear, consistent, and transparent.	3.70	0.82	3.19	0.80	3.13	1.10	3.20	0.89	3.31	0.94
legal and regulatory requirements relating to CG ensure equitable treatment of shareholders.	3.93	0.89	3.50	0.97	3.93	0.78	3.33	0.96	3.70	0.92
C. Board of directors' challenges	**3.67**	**0.53**	**3.73**	**0.40**	**3.77**	**0.57**	**3.65**	**0.55**	**3.71**	**0.51**

Statements	BoDs (n=40)		Manager (n=42)		Internal Auditor (n=45)		External Auditor (n=30)		Total (n=157)	
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**	**Mean**	**SD**	**Mean**	**SD**
Board of directors has the necessary autonomy to carry out its CG responsibilities.	3.65	0.80	3.64	0.88	3.80	0.97	3.83	0.83	3.73	0.87
Board of directors devotes the necessary time to CG affairs.	3.90	0.81	3.45	0.86	3.36	0.91	3.53	0.73	3.55	0.86
Board of directors has a charter which outlines its objectives, duties, and responsibilities.	3.65	0.80	3.55	0.71	3.67	0.88	3.57	1.01	3.61	0.84
Board of directors has the necessary authority to carry out its CG responsibilities.	3.95	0.64	4.05	0.58	3.93	0.84	3.90	0.55	3.96	0.67
Board of directors has the necessary authority over the nomination, appointment, and removal of CEOs.	3.50	0.78	4.05	0.62	3.84	0.95	3.87	0.86	3.82	0.83
Board of directors the necessary authority to design a proper managerial incentive to ensure CG.	3.48	0.88	3.26	0.73	3.76	1.07	3.40	0.93	3.48	0.92
Board of directors has the necessary knowledge to carry out its CG responsibilities.	4.00	0.78	3.81	0.63	3.93	0.78	3.43	0.77	3.82	0.76
Board of directors has the necessary number of independent directors to carry out its CG responsibilities.	3.13	1.02	3.43	0.67	3.36	0.88	3.13	0.86	3.27	0.87
Board of directors has the appropriate size to carry out its CG responsibilities.	4.00	0.72	4.14	0.65	4.16	0.77	4.03	0.61	4.09	0.69
Board of directors has too many governments representative members.	3.40	1.10	3.98	0.75	4.00	0.77	4.13	0.73	3.87	0.89
Board of directors' members is evaluated following formal and standards procedures to evaluate and appraise members.	3.70	0.85	3.67	0.79	3.62	0.83	3.30	0.88	3.59	0.84
D. External auditing and disclosures	**3.39**	**0.60**	**3.53**	**0.47**	**3.38**	**0.55**	**3.17**	**0.69**	**3.38**	**0.58**
The SOE is subject to an adequate level of audit from the General Court of Audit.	3.38	0.74	3.43	0.74	3.13	1.10	3.00	0.98	3.25	0.91
The SOE is subject to an adequate level of audit from an independent external audit.	3.65	0.86	3.52	0.80	3.56	0.81	3.50	1.01	3.56	0.86

Statements	BoDs (n=40)		Manager (n=42)		Internal Auditor (n=45)		External Auditor (n=30)		Total (n=157)	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
The work between the General Court of Audit and the external auditor complements each other.	3.18	0.75	3.17	0.93	3.27	0.91	2.73	0.91	3.11	0.89
The SOE discloses aids, grants, and subsidies it receives.	3.13	0.85	3.38	0.79	3.04	0.88	2.77	1.14	3.10	0.92
The SOE discloses information related to CG such as governance structure, board remuneration, board selection, and diversity.	3.28	0.93	3.67	0.72	3.16	1.02	2.97	1.03	3.29	0.95
The financial statements and disclosures are relevant, reliable, and comparable.	3.43	0.84	3.74	0.66	3.47	0.89	3.33	0.88	3.50	0.83
External auditors are appointed and/or removed upon the recommendation of the AC.	3.80	0.76	3.79	0.72	3.78	0.77	3.43	0.82	3.72	0.77
External auditors have relevant scientific and practical experience in the operations of the SOE.	3.30	0.82	3.52	0.71	3.60	0.94	3.60	0.86	3.50	0.84
E. Internal auditing	**3.59**	**0.56**	**3.46**	**0.70**	**3.70**	**0.50**	**3.12**	**0.54**	**3.49**	**0.61**
The head of the internal audit department has direct communication with the AC.	3.68	0.73	3.62	0.88	3.49	1.01	3.17	0.79	3.51	0.88
The head of the internal audit department is appointed and terminated following the recommendation and approval of the AC.	3.60	0.67	3.48	0.92	4.16	0.74	3.30	0.75	3.67	0.84
The internal audit department has adequate resources to carry out its responsibility.	3.73	0.75	3.36	0.91	3.80	0.84	3.07	0.83	3.52	0.87
The internal audit department has a charter reviewed and updated regularly.	3.48	0.78	3.24	0.96	3.13	0.87	3.00	0.74	3.22	0.86
The SOE has strong internal controls.	3.55	0.81	3.55	0.80	3.84	0.82	3.23	0.82	3.57	0.83
The internal auditors are independent.	3.48	0.91	3.48	0.89	3.56	0.76	3.00	0.91	3.41	0.88
The internal audit department is supported by the AC.	3.60	0.84	3.48	0.83	3.89	0.78	3.07	0.87	3.55	0.87
F. Management challenges	**3.62**	**0.56**	**3.56**	**0.56**	**3.44**	**0.68**	**3.53**	**0.64**	**3.54**	**0.61**

Statements	BoDs (n=40)		Manager (n=42)		Internal Auditor (n=45)		External Auditor (n=30)		Total (n=157)	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
The executive management has the appropriate and adequate freedom to take business discussions timely and effectively.	3.75	0.81	3.26	0.96	3.33	1.04	3.20	1.00	3.39	0.97
The CEO or top executive in the management team takes responsibility for CG implementation.	3.75	0.81	4.02	0.56	3.18	1.07	3.43	1.04	3.60	0.94
The governmental hierarchical system of promotion hampers the effectiveness of CG in SOEs.	3.63	0.77	3.67	0.69	3.69	0.63	4.00	0.53	3.73	0.68
The compensation for executive management ensures alignment of management interests with the long-term objectives of the organisation.	3.23	0.95	3.07	1.05	3.47	0.81	3.60	0.81	3.32	0.93
The executive management has a clear structure for reporting that ensures an effective CG is in place.	3.73	0.60	3.79	0.72	3.56	0.78	3.43	0.97	3.64	0.77

6.3.5 Perception on the Suggestions for Improving the Implementation of Effective Corporate Governance in SOEs: Mean, SD and Ranking

Table 6.12 shows that board members emphasised some possible improvements for CG in Saudi Arabian SOEs. The three most recommended improvements are:

I. Qualification in CG should be required before board appointment (mean score of 4.00),
II. SOEs should be partially listed on the stock exchange (mean score of 3.80) and,
III. The financial reports of all SOEs should be publicly disclosed (mean score of 3.68).

However, the least recommended way of improvement is related to the centralisation of SOE ownership under a single entity, which received a mean score of 2.90. This suggests that board members do not consider this proposal to be an effective CG reform measure, even though it has been recommended by the OECD. Full privatisation and reducing official government representation in SOE boards are also not greatly welcomed.

Similar to the responses from board members, the most recommended way to improve the implementation of effective CG from senior managers is the recommendation for a qualification in CG before board appointment with a mean score of 4.57. The recommendation of limiting the number of board multiple directorships and partial listing of SOEs on the stock exchange are also welcomed by managers. Interestingly, managers agree with board members on the least recommended ways of improvement: centralisation of ownership with a mean score of 3.02 and full privatisation with a mean score of 3.31. This suggests that managers do not consider these proposals effective in improving the CG practices in Saudi SOEs.

Internal auditors indicate that they highly recommend the requirement for qualification in CG before board appointment and limiting the number of multiple directorships, both with a tied mean score of 4.13. In addition, the recommendation to reduce official government representation on the board of directors is highly regarded by internal auditors. On the other hand, internal auditors rank the centralisation of SOEs ownership under a single entity and full privatisation of SOEs as the least favourable ways of enhancing the implementation of CG. This is similar to the views expressed by managers and board members.

Concerning external auditors, the recommendation for the public disclosure of financial reports for all SOEs and the recommendation to require qualifications in CG before board appointments received the highest and similar mean score of 4.10. The second most suggested way to improve CG implementation in SOEs is the partial listing of SOEs on the stock exchange and the establishment of a government entity to monitor and enforce CG regulations with mean scores of 4.07 for both suggestions. External auditors were also welcomed and ranked third the suggestion to limit board members' multiple directorships. External auditors showed the lowest responses were for the proposal to centralise SOEs' ownership rights under a single professional entity, which received a mean of 3.33, and the proposal to establish a tailored CG code for SOEs with a mean score of 3.70.

The overall responses show that the proposal to require qualifications in CG before board appointment has the highest mean score of 4.21, thus ranking first. This suggestion received the highest mean score in each group of respondents. The high agreement from respondents toward CG qualification aligns with the findings of Thompson et al. (2019), who observed that SOEs often have board members lacking CG training, education, and orientation. Professional recommendations from organisations such as the OECD (2018) also advocate for setting clear minimum qualifications.

The second-highest ranking proposal is the recommendation to limit the number of multiple directorships, with a mean of 3.92. This measure received support, particularly from managers, internal auditors, and external auditors. Prior studies on the topic of multiple directorships have yielded inconsistent findings. For example, Ferris et al. (2003) did not support limits on directorships, while Jackling and Johl (2009) found evidence supporting limiting directorships, especially in emerging economies. In contrast, studies like Kiel and Nicholson (2006) did not find conclusive evidence either way. A mean score of 3.85 was given to the recommendation of a partial listing for SOEs, ranking it as the third-highest suggestion. This is in line with some researchers who highlight the benefits of partial privatisation of SOEs (Gupta 2005). However, Dharwadkar et al. (2000) caution that SOEs' privatisation for the sake of privatisation can have disastrous effects.

Moreover, the suggestion to centralise SOEs' ownership rights under a single professional entity received the lowest mean score of 3.08 and ranked last. This recommendation received the least amount of support from all groups, suggesting little agreement on the potential benefits of centralising ownership rights under a single professional entity. Full privatisation of SOEs received a mean score of 3.45 and ranked as the second least favourable suggestion based on the aggregated response from all groups. Empirical evidence related to this issue is equivocal. However, respondents' views align with investigations in contexts like Saudi Arabia, where the state plays a significant role in the economy. Studies such as Saleh et al. (2021) and Wang and

Judge (2012) found that prioritising the implementation of CG rather than privatisation yields more realised benefits, such as increasing financial reporting quality and performance.

Table 6. 12 Analysis of Mean and Standard Deviation (SD) of Perception Toward the Statements for Improving the Implementation of Effective CG in SOEs

Statements	BoD (N=40)			Manager (N=42)			Internal Auditor (N=45)			External Auditor (N=30)			Total (N=157)		
	Mean	SD	Rank	Mean	SD	Rank	Mean	SD	Rank	Mean	SD	Rank	Mean	SD	Rank
SOEs should be privatised.	3.33	0.83	9	3.31	0.95	9	3.49	0.84	9	3.73	0.69	8	3.45	0.85	9
SOEs should be partially listed on the stock exchange.	3.80	0.99	2	3.81	0.71	3	3.80	0.84	6	4.07	0.69	3	3.85	0.82	3
SOEs should be completely listed on the stock exchange.	3.65	1.00	4	3.69	1.00	5	3.69	0.95	8	3.83	0.95	7	3.71	0.97	7
SOEs' ownership rights should be centralised under one single professional entity.	2.90	1.01	10	3.02	1.09	10	3.11	0.86	10	3.33	0.92	10	3.08	0.98	10
Government officials' representation on the board of directors should be reduced.	3.43	0.93	8	3.71	0.92	4	4.04	0.56	3	3.97	0.76	6	3.78	0.83	5
A tailored CG code for SOEs should be established.	3.63	0.74	5	3.69	0.92	5	3.73	0.75	7	3.70	0.84	9	3.69	0.81	8
Qualification in CG should be required before board appointment.	4.00	0.60	1	4.57	0.67	1	4.13	0.66	1	4.10	0.61	1	4.21	0.67	1
The number of multiple directorships should be limited.	3.48	0.82	7	4.05	0.58	2	4.13	0.66	1	4.00	0.64	5	3.92	0.72	2
A government entity should be established to monitor and enforce CG regulations.	3.58	0.84	6	3.45	0.89	8	3.96	0.64	4	4.07	0.74	3	3.75	0.82	6
The financial reports of all SOEs should be publicly disclosed.	3.68	0.83	3	3.60	0.89	7	3.87	0.79	5	4.10	0.61	1	3.79	0.81	4

6.4 Statistical Testing and Discussion

The preceding section presented a descriptive analysis of the questionnaire survey responses. In this section, the results obtained from the survey are analysed and discussed, focusing on the testing of the hypotheses as outlined in Chapter Five. Specifically, the significance of the responses is assessed through the application of the Wilcoxon Signed Rank Test. Subsequently, the hypotheses are tested using the Kruskal-Wallis Test and the Mann Whitney U Test, as deemed appropriate.

6.4.1 Testing the Significance of Perception Towards the Statements

Table 6.13 presents the mean values and SDs of responses to the 51 statements regarding the challenges and obstacles of implementing effective CG in Saudi Arabian SOEs, including ten statements pertaining to the ways of enhancing the implementation of effective CG in SOEs in the country. The descriptive analysis reveals that some mean values are above 4.00, while others fall within the range of 3.00 to 4.00, with a few values below 3.00. To assess the significance of agreement or disagreement among the responses, the mean response is compared with 3, which represents the midpoint of the 5-point scale, using the Wilcoxon Signed Rank Test. This non-parametric statistical test is chosen over the one-sample "t" test used in parametric statistics (as discussed in Chapter Five). Table 6.13 displays the mean scores of the responses to the statements compared with 3, to determine whether the agreement or disagreement of the responses to the statements is statistically significant.

Table 6. 13 Analysis Showing the Significance of Perception Towards the Statements on CG Challenges in Saudi SOEs

Statements	BoDs (N=40)			Manager (N=42)			Internal auditor (N=45)			External Auditor (N=30)		
	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value
A. Ownership challenges												
The ownership entity (parent ministry) has clear objectives for the SOE.	4.00	4.77	0.00*	3.50	3.28	0.00*	3.78	4.15	0.00*	3.13	0.87	0.38
The ownership entity (parent ministry) gives the SOE autonomy to achieve its objectives.	3.50	2.85	0.00*	3.38	2.48	0.01*	3.69	3.82	0.00*	3.20	1.03	0.30
The ownership entity (parent ministry) plays an active role through the general assembly.	3.88	4.29	0.00*	3.60	3.62	0.00*	3.71	3.94	0.00*	3.70	3.87	0.00*
The ownership entity (parent ministry) has clear and fair policies and procedures based on merit and transparency for SOE board of directors' nomination.	3.93	4.71	0.00*	3.45	2.57	0.01*	3.33	2.42	0.02**	2.90	0.63	0.53
The ownership entity (parent ministry) has an attractive remuneration policy for SOE board of directors.	3.30	1.96	0.05**	3.62	3.81	0.00*	3.47	2.83	0.00*	3.50	2.50	0.01*
B. Institutional challenges												
SOEs are subjected to fair competition.	3.43	2.67	0.01*	3.71	4.44	0.00*	3.62	4.01	0.00*	3.23	1.47	0.14
SOEs are subjected to strong regulator.	3.13	0.77	0.44	2.95	0.29	0.77	3.09	0.43	0.67	3.10	0.73	0.47
Listed SOEs are subjected to same market regulation as private corporations.	3.95	4.66	0.00*	3.79	4.24	0.00*	4.04	5.16	0.00*	3.57	3.90	0.00*

Statements	BoDs (N=40)			Manager (N=42)			Internal auditor (N=45)			External Auditor (N=30)		
	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value
legal and regulatory requirements relating to CG in SOEs are clear, consistent, and transparent.	3.70	4.05	0.00*	3.19	1.50	0.13	3.13	0.80	0.42	3.20	1.21	0.23
legal and regulatory requirements relating to CG ensure equitable treatment of shareholders.	3.93	4.50	0.00*	3.50	2.98	0.00*	3.93	5.01	0.00*	3.33	1.84	0.07***
C. Board of directors' challenges												
Board of directors has the necessary autonomy to carry out its CG responsibilities.	3.65	3.95	0.00*	3.64	3.79	0.00*	3.80	4.25	0.00*	3.83	3.84	0.00*
Board of directors devotes the necessary time to CG affairs.	3.90	4.66	0.00*	3.45	3.02	0.00*	3.36	2.45	0.01*	3.53	3.23	0.00*
Board of directors has a charter which outlines its objectives, duties, and responsibilities.	3.65	3.98	0.00*	3.55	4.00	0.00*	3.67	4.07	0.00*	3.57	2.66	0.01*
Board of directors has the necessary authority to carry out its CG responsibilities.	3.95	5.16	0.00*	4.05	5.56	0.00*	3.93	4.95	0.00*	3.90	4.67	0.00*
Board of directors has the necessary authority over the nomination, appointment, and removal of CEOs.	3.50	3.42	0.00*	4.05	5.45	0.00*	3.84	4.19	0.00*	3.87	3.80	0.00*

Statements	BoDs (N=40)			Manager (N=42)			Internal auditor (N=45)			External Auditor (N=30)		
	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value
Board of directors the necessary authority to design a proper managerial incentive to ensure CG.	3.48	3.04	0.00*	3.26	2.20	0.03**	3.76	3.73	0.00*	3.40	2.15	0.03**
Board of directors has the necessary knowledge to carry out its CG responsibilities.	4.00	4.88	0.00*	3.81	5.09	0.00*	3.93	5.01	0.00*	3.43	2.71	0.01*
Board of directors has the necessary number of independent directors to carry out its CG responsibilities.	3.13	0.83	0.41	3.43	3.53	0.00*	3.36	2.47	0.01*	3.13	0.85	0.39
Board of directors has the appropriate size to carry out its CG responsibilities.	4.00	4.98	0.00*	4.14	5.45	0.00*	4.16	5.38	0.00*	4.03	4.63	0.00*
Board of directors has too many governments representative members.	3.40	2.14	0.03**	3.98	5.06	0.00*	4.00	5.21	0.00*	4.13	4.43	0.00*
Board of directors' members is evaluated following formal and standards procedures to evaluate and appraise members.	3.70	3.96	0.00*	3.67	4.20	0.00*	3.62	4.01	0.00*	3.30	1.71	0.09***
D. External auditing and disclosures												
The SOE is subject to an adequate level of audit from the General Court of Audit.	3.38	2.89	0.00*	3.43	3.29	0.00*	3.13	0.83	0.41	3.00	0.00	1.00
The SOEs is subject to an adequate level of audit from an independent external audit.	3.65	3.82	0.00*	3.52	3.57	0.00*	3.56	3.79	0.00*	3.50	2.48	0.01*

Statements	BoDs (N=40)			Manager (N=42)			Internal auditor (N=45)			External Auditor (N=30)		
	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value
The work between the General Court of Audit and the external auditor complements each other.	3.18	1.46	0.14	3.17	1.15	0.25	3.27	1.89	0.06***	2.73	1.58	0.11
The SOE discloses aids, grants, and subsidies it receives.	3.13	0.93	0.35	3.38	2.83	0.00*	3.04	0.34	0.73	2.77	1.16	0.25
The SOE discloses information related to CG such as governance structure, board remuneration, board selection, and diversity.	3.28	1.81	0.07***	3.67	4.40	0.00*	3.16	1.01	0.32	2.97	0.17	0.86
The financial statements and disclosures are relevant, reliable, and comparable.	3.43	2.86	0.00*	3.74	4.80	0.00*	3.47	3.13	0.00*	3.33	1.96	0.05**
External auditors are appointed and/or removed upon the recommendation of the AC.	3.80	4.52	0.00*	3.79	4.77	0.00*	3.78	4.73	0.00*	3.43	2.60	0.01*
External auditors have relevant scientific and practical experience in the operations of the SOE	3.30	2.19	0.03**	3.52	3.88	0.00*	3.60	3.64	0.00*	3.60	3.18	0.00*
E. Internal auditing												
The head of the internal audit department has direct communication with the AC.	3.68	4.31	0.00*	3.62	3.75	0.00*	3.49	2.98	0.00*	3.17	1.15	0.25
The head of the internal audit department is appointed and terminated following the recommendation and the approval of AC.	3.60	4.24	0.00*	3.48	3.02	0.00*	4.16	5.46	0.00*	3.30	2.07	0.04**

Statements	BoDs (N=40)			Manager (N=42)			Internal auditor (N=45)			External Auditor (N=30)		
	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value
The internal audit department has adequate resources to carry out its responsibility.	3.73	4.38	0.00*	3.36	2.38	0.02**	3.80	4.49	0.00*	3.07	0.45	0.65
The internal audit department has a charter reviewed and updated regularly.	3.48	3.31	0.00*	3.24	1.58	0.11	3.13	1.03	0.30	3.00	0.00	1.00
The SOE has strong internal controls.	3.55	3.54	0.00*	3.55	3.68	0.00*	3.84	4.71	0.00*	3.23	1.53	0.13
The internal auditors are independent.	3.48	2.98	0.00*	3.48	3.09	0.00*	3.56	3.98	0.00*	3.00	0.00	1.00
The internal audit department is supported by the AC.	3.60	3.66	0.00*	3.48	3.24	0.00*	3.89	4.94	0.00*	3.07	0.43	0.67
F. Management challenges												
The executive management has the appropriate and adequate freedom to take business discussions timely and effectively.	3.75	4.26	0.00*	3.26	1.68	0.09***	3.33	1.98	0.05**	3.20	1.09	0.28
The CEO or top executive in the management team takes responsibility for CG implementation.	3.75	4.28	0.00*	4.02	5.60	0.00*	3.18	1.11	0.27	3.43	2.16	0.03**
The governmental hierarchical system of promotion hampers the effectiveness of CG in SOEs.	3.63	3.98	0.00*	3.67	4.53	0.00*	3.69	4.96	0.00*	4.00	4.82	0.00*
The compensation for executive management ensures alignment of	3.23	1.44	0.15	3.07	0.41	0.68	3.47	3.36	0.00*	3.60	3.26	0.00*

Statements	BoDs (N=40)			Manager (N=42)			Internal auditor (N=45)			External Auditor (N=30)		
	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value
management interests with the long-term objectives of the organisation.												
The executive management has a clear structure for reporting that ensures an effective CG in place.	3.73	4.87	0.00*	3.79	4.77	0.00*	3.56	3.90	0.00*	3.43	2.05	0.04**
G. Ways of Enhancement												
SOEs should be privatised.	3.33	2.34	0.02**	3.31	2.04	0.04**	3.49	3.39	0.00*	3.73	4.01	0.00*
SOEs should be partially listed on the stock exchange.	3.80	3.99	0.00*	3.81	4.87	0.00*	3.80	4.59	0.00*	4.07	4.46	0.00*
SOEs should be completely listed on the stock exchange.	3.65	3.49	0.00*	3.69	3.72	0.00*	3.69	3.95	0.00*	3.83	3.58	0.00*
SOEs' ownership rights should be centralised under one single professional entity.	2.90	0.57	0.57	3.02	0.24	0.81	3.11	0.87	0.39	3.33	1.91	0.06***
Government officials' representation on the board of directors should be reduced.	3.43	2.69	0.01*	3.71	3.99	0.00*	4.04	5.81	0.00*	3.97	4.16	0.00*
A tailored CG code for SOEs should be established.	3.63	4.04	0.00*	3.69	3.86	0.00*	3.73	4.62	0.00*	3.70	3.39	0.00*
Qualification in CG should be required before board appointment.	4.00	5.34	0.00*	4.57	5.67	0.00*	4.13	5.65	0.00*	4.10	4.69	0.00*
The number of multiple directorships should be limited.	3.48	3.21	0.00*	4.05	5.56	0.00*	4.13	5.60	0.00*	4.00	4.52	0.00*

Statements	BoDs (N=40)			Manager (N=42)			Internal auditor (N=45)			External Auditor (N=30)		
	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value	Mean	z-value	p-value
A government entity should be established to monitor and enforce CG regulations.	3.58	3.57	0.00*	3.45	2.97	0.00*	3.96	5.48	0.00*	4.07	4.34	0.00*
The financial reports of all SOEs should be publicly disclosed.	3.68	3.98	0.00*	3.60	3.63	0.00*	3.87	4.89	0.00*	4.10	4.69	0.00*

* Significant at 1% level

** Significant at 5% level

*** Significant at 10% level

Regarding ownership challenges, the first three groups significantly agreed with all statements, while external auditors only significantly agreed with two statements, namely, ownership's active role through the general assembly and the ownership entity's attractive remuneration policy for the SOE board of directors. For the remaining statements, external auditors neither significantly agreed nor disagreed at the 5% level of significance. Notably, all statements received an average score of more than 3.00, except for the statement on whether the ownership entity has clear, fair, and transparent policies for the SOE board of directors' nomination, to which external auditors leaned towards disagreement, with an average score of 2.90. The view of external auditors is in line with the arguments of Okhmatovskiy et al. (2022), Kuzman et al. (2018), and Cuervo-Cazurra et al. (2023) that SOEs' board nomination and appointment processes often lack transparency, competitive selection, and can be influenced by political factors. These studies emphasise the need for improvement in the transparency and competitiveness of SOEs' board nominations to enhance their CG.

Board members showed significant agreement with all statements related to institutional challenges except for the statement regarding whether Saudi SOEs are subject to strong law enforcement, which did not receive significant agreement nor disagreement at the 5% level of significance. None of the groups significantly agreed with the statement, indicating an issue. Prior research, such as that by Firth et al. (2006b), has argued that political and regulatory environments have a significant influence on CG systems. Moreover, La Porta et al. (2000) have posited that countries with weak law enforcement tend to have ineffective CG. Empirical evidence by Defond and Hung (2004) also supports the association between strong law enforcement and good CG. However, Ke and Zhang (2021) highlighted that in developing countries, although it may be relatively easy to have robust regulations on paper, the enforcement of such regulations is often lax and ineffective.

In addition, senior managers and internal auditors did not significantly agree with the statement related to clear, consistent, and transparent legal and regulatory requirements related to CG in Saudi Arabian SOEs. This indicates that while at the board level, members may not have perceived any issues regarding the clarity, consistency, and transparency of legal and regulatory requirements. At lower levels (i.e., managers and internal auditors), the implementation presents challenges. However, senior managers and internal auditors significantly agreed with the remaining three statements. External auditors, on the other hand, showed significant agreement with only one statement, namely, that listed SOEs are subject to the same market regulations as private corporations. This statement is the only one that received significant agreement from all four groups. This finding provides evidence that listed SOEs are not receiving preferential regulatory treatment, aligning with the recommendations of the OECD (2015) Guidelines on SOE Governance.

Regarding the board of directors' challenges, board members significantly agreed with all statements except for the statement on whether SOEs' boards have the necessary number of independent directors to carry out CG responsibilities. Similarly, external auditors did not significantly agree with the statements related to whether boards have the necessary number of independent directors and whether board members are evaluated following formal and standard procedures. On the other hand, senior managers and internal auditors significantly agreed with all statements in this section. Nevertheless, although the mean scores obtained from them regarding board independence show significant agreement, they are still lower compared to other mean scores. The lack of independent members aligns with the arguments by Puffer and McCarthy (2007) that SOEs often lack independent members. This finding is also in line with the research of Ding et al. (2014), which revealed that SOEs tend to have fewer independent board members. Several studies such as Klein (2002), Anderson et al. (2004), Peasnell et al. (2005), Rutherford et al. (2007), Liu et al. (2015), Neville et al. (2019) support the inclusion of independent directors on boards in general. However, Menozzi et al. (2012) highlight that independent members in SOEs may have indirect affiliations, although they may appear independent on the surface.

Concerning the statements on external auditing and disclosures, board members did not significantly agree with the statement related to whether the work between the Saudi Arabian GCA and the external auditor complement each other, which was not significantly agreed upon by any group. In addition, board members did not significantly agree with the statements related to disclosures of aid, grants, and subsidies, as well as information related to governance structure, board remuneration, board selection, and diversity. However, board members did significantly agree with the remaining statements. Similarly, both internal and external auditors did not significantly agree with the aforementioned statements and the statement related to the adequacy level of audits from the GCA. The results are consistent with the findings of Xiao et al. (2004) that SOEs have a low level of disclosure. It also aligns with the argument by Sloan (2001) that accounting information and disclosure are primary sources of information inexorably linked to CG. Furthermore, Jin et al. (2021) discussed that SOEs have less incentive to provide higher quality accounting information. The guidelines on SOE governance by the OECD (2015) recommend disclosure.

On the other hand, senior managers had the highest number of significantly agreed statements; they agreed with all statements except for the statement on whether the work between the GCA and the external auditor complements each other. Beekes et al. (2015) conducted a study that found firms with good CG have improved their disclosure and level of transparency. Beekes and Brown (2006) also found that better-governed firms tend to make more informative disclosures.

Regarding internal audit challenges, the findings reveal that board members have significantly agreed with all the statements. Likewise, senior managers and internal auditors share similar perceptions and have significantly agreed with all the statements, except for the statement related to the regular review and update of the internal audit department's charter. This statement has not been significantly agreed upon by external auditors either. External auditors have only shown significant agreement with the statement regarding the appointment and termination of the head of the internal audit department, based on the recommendation and approval of audit committee. They neither significantly agreed nor disagreed at the 5% level of significance with respect to the other statements in this section. The sole responsibility of audit committee for appointing, dismissing, and evaluating the head of the internal audit is fundamental to maintaining the independence of the internal audit function (Christopher et al. 2009). The International Standards for the Professional Practice of Internal Auditing (ISPPIA) highlight the importance of the internal auditing department's independence (IIA 2012). This includes having an internal audit charter. Prior studies, such as that by Langella et al. (2021) and Abbott et al. (2016) emphasised the significance of independence.

Regarding the challenges related to management in SOEs, board members have shown significant agreement with all statements, except for the statement related to compensation that ensures the alignment of management interests with the long-term objectives of SOEs. This indicates that board authority is minimal regarding building a tailored package of compensation that links and suits the SOEs' short and long-term objectives. This finding is consistent with the argument by Apriliyanti and Randøy (2019) that in SOEs, the board is sometimes powerless regarding certain decisions because the state holds power over certain matters.

Similarly, senior managers have not significantly agreed with the statement related to compensation, nor with the freedom granted to them to make timely and effective business decisions. External auditors have significantly agreed with all statements except the one related to management's freedom to make business decisions in a timely and effective manner.

Researchers such as Lazzarini et al. (2021) support the idea of giving managers operational autonomy. On the other hand, internal auditors have significantly agreed with all statements, except for the statement related to whether the CEO or the highest-ranking executive takes responsibility for CG implementation.

Concerning the recommendations to improve the implementation of CG in Saudi SOEs, all groups have significantly agreed to all statements except for the suggestion that ownership rights should be centralised under a single professional entity. This indicates a similarity in perspectives among the four groups and shows a shared understanding of the subject of the current study under investigation. The lack of agreement on centralising ownership rights may be due to varying opinions on the most efficient ownership structure for SOEs.

6.4.2 Analysis of Hypothesis Testing Results

Chapter Five highlighted the primary objective of hypothesis testing in this study is to determine whether there are statistically significant differences in the responses of the sample groups. The chapter also explained that seven hypotheses (hypotheses 1 to 7) were developed to investigate seven broad aspects of CG challenges to compare the mean scores of responses obtained from the four sample groups. Furthermore, two more hypotheses were developed to compare the mean scores of responses obtained from the first three respondent groups according to:

- The goal of the SOE
- Nature of competition

Table 6. 14 Analysis Showing the Test Results of Hypotheses 1 to 7

Hypothesis	CG Challenges	1. BoDs		2. Manager		3. Internal Auditor		4. External Auditor		Kruskal-Wallis (H)Test		Kruskal Wallis Pair-Wise Comparison		
		Mean	SD	Mean	SD	Mean	SD	Mean	SD	value	sig	Group	Value	Sig
Hypothesis 1	Ownership challenges	3.720	0.668	3.510	0.704	3.596	0.749	3.287	0.680	6.557	0.087			
Hypothesis 2	Institutional challenges	3.625	0.623	3.429	0.668	3.564	0.679	3.287	0.607	4.829	0.185			
Hypothesis 3	Board of directors' challenges	3.668	0.531	3.729	0.402	3.766	0.572	3.648	0.551	1.121	0.772			
Hypothesis 4	External auditing and disclosures	3.391	0.599	3.527	0.466	3.375	0.551	3.167	0.688	4.400	0.221			
Hypothesis 5	Internal auditing	3.586	0.556	3.456	0.699	3.695	0.499	3.119	0.542	16.365	0.001*	1&2	0.516	0.606
												1&3	-0.876	0.381
												1&4	3.055	0.002*
												2&3	1.419	0.156
												2&4	-2.610	0.009*
												3&4	-3.938	0.000*
Hypothesis 6	Management challenges	3.615	0.565	3.562	0.563	3.444	0.679	3.533	0.642	0.955	0.812			
Hypothesis 7	Ways of Enhancement	3.545	0.498	3.690	0.535	3.796	0.479	3.890	0.451	10.050	0.018*	1&2	-1.358	0.174
												1&3	-2.435	0.015**
												1&4	-2.891	0.004*
												2&3	1.068	0.285
												2&4	1.666	0.096***
												3&4	0.717	0.473

***Hypothesis 1[Ho (1)]: Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to CG ownership challenges are statistically insignificant**.*

The results presented in Table 6.14 indicate that, at a 5% significance level, no statistically significant difference was observed in the opinions of the four sample groups regarding the challenges relating to the ownership of Saudi Arabian SOEs ($p > .05$). The associated p-value of the Kruskal-Wallis test (0.087) suggests that this value is likely to be obtained if the null hypothesis is true. Therefore, the null hypothesis is accepted at a 5% significance level. The test results imply that no significant difference exists in the responses of the four different groups of respondents. Hence, it can be inferred that the samples used in this study have been drawn from an identical population. These findings also indicate that similar views on the challenges related to the ownership of implementing effective CG have been obtained from all sample groups, which is an indication of the robustness of the findings.

***Hypothesis 2[Ho (2)]: Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to CG institutional challenges are statistically insignificant**.*

The results demonstrate that, at a 5% level of significance, no significant difference exists in the views of the four respondent groups regarding the institutional challenges of implementing effective CG in Saudi Arabian SOEs ($p>.05$). The p-value associated with the Kruskal-Wallis test (0.185) indicates that the null hypothesis is likely to be true, and it is accepted at a 5% significance level. Hence, it can be inferred from the test results that the observed differences in the responses of the four respondent groups are not statistically significant.

Hypothesis 3[Ho (3)]: Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to CG board of directors' challenges are statistically insignificant.

The results presented in the table demonstrate that, at a 5% level of significance, there is no significant difference in the responses of the four sample groups regarding the challenges related to boards of directors in implementing effective CG in Saudi Arabian SOEs ($p> .05$). The p-value associated with the Kruskal-Wallis test (0.772) indicates that the null hypothesis should be accepted at a 5% significance level. Therefore, it can be concluded that there is no statistically significant difference in the responses of the four respondent groups.

Hypothesis 4[Ho (4)]: Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to external auditing and disclosure challenges are statistically insignificant.

The table illustrates that, at a 5% level of significance, there is no significant difference in the responses of the four sample groups concerning the challenges associated with external auditing and disclosure in implementing effective CG in Saudi Arabian SOEs ($p > .05$). The associated p-value of the Kruskal-Wallis test (0.221) indicates that the null hypothesis should be accepted at a 5% significance level, which suggests that there is no statistically significant difference in the responses of the four respondent groups.

Hypothesis 5[Ho (5)]: Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to internal auditing challenges are statistically insignificant.

It is notable that, at a 5% level of significance, there exists a statistically significant difference in the opinions of the four sample groups concerning the challenges associated with internal auditing in Saudi Arabian SOEs ($p < .05$). The associated p-value of the Kruskal-Wallis test (0.001) suggests that it is highly improbable to obtain such a value if the null hypothesis is true, thereby leading to the rejection of the null hypothesis at a 5% significance level. The Kruskal-Wallis test identified a significant difference in the level of agreement measured by the mean score among the sample groups. To determine which sample group(s) differed, further investigation was conducted using the Kruskal-Wallis pair-wise comparison. The results indicate that the group of external auditors differs from the other three sample groups ($p = .002$, $p = .009$, and $p = .000$, respectively) with respect to their views on the challenges related to internal auditing. However, there is no significant difference in the opinions of the other three sample groups ($p > .05$).

Hypothesis 6[Ho (6)]: Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors and External Auditors) with respect to management challenges are statistically insignificant.

The table presented suggests that, at a significance level of 5%, there is no statistically significant difference in the responses provided by the four sample groups regarding management challenges in implementing effective CG in Saudi SOEs ($p > .05$). The associated p-value obtained from the Kruskal-Wallis test (0.812) provides evidence to support the null hypothesis, leading to its acceptance at a 5% significance level. These findings indicate that no significant differences exist in the responses of the four sample groups with respect to management challenges in implementing effective CG in Saudi SOEs.

Hypothesis 7[Ho (7)]: Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors and External Auditors) with respect to the ways of enhancement are statistically insignificant.

Table 6.14 indicates that, at a significance level of 5%, there is a significant difference in the opinions of the four respondent groups regarding the methods of enhancing the implementation of effective CG in Saudi SOEs ($p<.05$). The associated p-value of the Kruskal-Wallis test (0.018) suggests that it is highly unlikely to observe such a value if the null hypothesis were true. Therefore, the null hypothesis is rejected at a significance level of 5%. Further investigation using the Kruskal-Wallis pair-wise comparison reveals that the group of board members differs from the internal and external groups ($p=.015$ and $p=.004$, respectively) in terms of the methods of enhancing effective CG implementation. The test results suggest that there is no significant difference in opinions between board members and managers, managers and internal and external auditors, or between internal and external auditors.

6.5 Further Analysis

Further analysis using the Kruskal-Wallis test was conducted to determine if there were any statistically significant differences in the mean scores reported by participants belonging to different categories of Saudi Arabian SOEs, based on the main objective of their respective SOEs. Table 6.15 shows that the views of participants do not significantly differ concerning *ownership challenges*, *external auditing and disclosure challenges*, and *ways of enhancement*. However, statistically significant differences were observed, at a 5% level, in relation to *institutional challenges, board of directors' challenges, internal auditing challenges, and management challenges.* To identify exactly which category(s) differ with which, the Kruskal-Wallis pair-wise comparison was performed.

Table 6. 15 Analysis Showing the Analysis Based on the Objective of SOEs.

CG Challenges	1. Profit and Social		2. Profit only		3. Social Service only		Kruskal-Wallis (H)Test		Kruskal-Wallis Pair-Wise Comparison		
	Mean	SD	Mean	SD	Mean	SD	value	sig	Group	Value	Sig
Ownership challenges	3.5241	0.76944	3.7872	0.61912	3.4364	0.66943	4.100	0.129			
Institutional challenges	3.448	0.6726	3.838	0.586	3.136	0.472	19.823	0.000*	1&2	-2.948	0.003*
									1&3	2.090	0.037*
									2&3	4.266	0.000*
Board of directors' challenges	3.751	0.4788	3.888	0.499	3.298	0.339	23.698	0.000*	1&2	-1.355	0.175
									1&3	3.903	0.000*
									2&3	4.813	0.000*
External auditing and disclosures	3.4138	0.57650	3.5239	0.53583	3.2727	0.42017	4.459	0.108			
Internal auditing	3.5172	0.6309	3.7751	0.4865	3.3377	0.5940	7.485	0.024*	1&2	-1.789	0.074***
									1&3	1.310	0.190
									2&3	2.629	0.009*
Management challenges	3.4483	0.5927	3.7362	0.6367	3.3455	0.4667	9.502	0.009*	1&2	-2.438	0.015**
									1&3	0.911	0.362
									2&3	2.735	0.006*
Ways of enhancement	3.636	0.5333	3.770	0.5052	3.614	0.4518	1.357	0.507			

Table 6. 16 Analysis Showing the Analysis Based on the Nature of Competition

CG Challenges	1. Competitive		2. Semi - Competitive		3. Non-Competitive		Kruskal-Wallis (H)Test		Kruskal-Wallis Pair-Wise Comparison		
	Mean	SD	Mean	SD	Mean	SD	value	sig	Group	Value	Sig
Ownership challenges	3.74	0.67	3.53	0.75	3.59	0.69	1.62	0.44			
Institutional challenges	3.82	0.59	3.48	0.72	3.38	0.56	8.22	0.02*	1&2	2.080	0.037**
									1&3	2.807	0.005*
									2&3	-0.990	0.322
Board of directors' challenges	3.88	0.46	3.74	0.51	3.56	0.50	8.39	0.02*	1&2	1.386	0.166
									1&3	2.879	0.004*
									2&3	-1.788	0.074***
External auditing and disclosures	3.64	0.46	3.38	0.60	3.31	0.48	7.78	0.02*	1&2	2.036	0.042**
									1&3	2.727	0.006*
									2&3	-0.946	0.344
Internal auditing	3.91	0.45	3.51	0.60	3.40	0.59	14.06	0.00*	1&2	3.041	0.002*
									1&3	3.538	0.000*
									2&3	-0.814	0.416
Management challenges	3.73	0.59	3.58	0.60	3.31	0.57	9.21	0.01*	1&2	1.117	0.264
									1&3	2.954	0.003*
									2&3	-2.151	0.031**

CG Challenges	1. Competitive		2. Semi - Competitive		3. Non-Competitive		Kruskal-Wallis (H)Test		Kruskal-Wallis Pair-Wise Comparison		
	Mean	SD	Mean	SD	Mean	SD	value	sig	Group	Value	Sig
Ways of enhancement	3.79	0.47	3.65	0.51	3.63	0.55	1.72	0.42			

Table 6.15 indicates that there are significant differences in participants' views regarding *institutional challenges*. The p-values from the Kruskal-Wallis pair-wise comparison of 0.003, 0.037, and 0.000 indicate that the differences are statistically significant. For the *board of directors' challenges*, significant differences were found between participants who indicated that their SOEs are for both objectives and those with only social objectives, and between participants in for-profit SOEs only versus those for social objectives only, with p-values of 0.000 and 0.000, respectively. Regarding *internal auditing challenges*, a significant difference was found only between respondents who indicated that their SOEs are for-profit versus those who indicated that their SOEs are for social service objectives, with a p-value of 0.009. Finally, concerning *management challenges*, the Kruskal-Wallis pair-wise comparison revealed that significant differences exist between participants who indicated that their SOEs are for both objectives and for-profit objectives, with a p-value of 0.015, and between participants who indicated that their SOEs are primarily for-profit versus those who indicated that their SOEs are mainly for social objectives, with a p-value of 0.006. The analysis reveals that differences between categories mainly relate to the varying views between participants who indicate that their SOEs are for-profit and those who indicate that their SOEs are primarily for achieving social objectives.

The analysis based on the nature of the competition in which Saudi SOEs operate suggests that participants' views have significant differences in certain areas of challenge, as illustrated in Table 6.16. At a 5% level of significance, it was observed that the views of the participants did not significantly differ regarding *the ownership challenges* and *ways of enhancement*. However, a significant difference was found in respondents' views regarding *institutional challenges, board of directors' challenges, external auditing and disclosure challenges, internal auditing*, and *management challenges*. Further analysis shows that with regards to institutional challenges, significant differences in the views were due to the differences between the participants' views in competitive environment SOEs vs semi-competitive SOEs and competitive environment SOEs vs non-competitive SOEs, with p-values of 0.037 and 0.005, respectively. No significant differences were found between semi-competitive SOEs vs non-competitive SOEs.

In terms of *board of directors' challenges*, the significant difference was attributed to the difference between only competitive SOEs vs non-competitive SOEs, with a p-value of 0.004. Similarly, the significant differences observed regarding *external auditing and disclosure challenges* and *internal auditing challenges* were due to the significant difference found between the respondents' views which indicate that their SOEs operate in a competitive environment vs a semi-competitive one, and between those which indicate that their SOEs operate in a competitive vs non-competitive environment. Interestingly, the significant differences observed regarding *management challenges* were due to the significant difference found between the respondents' views which indicate that their SOEs operate in a competitive environment vs a non-competitive environment, and between those which indicate that their SOEs operate in a semi-competitive vs non-competitive environment. No significant differences were found between competitive SOEs vs semi-competitive SOEs.

6.6 Conclusion

Several observations can be made from the results presented in this chapter. Firstly, in relation to the concerns of ownership entities, it is evident that implementing effective CG in Saudi Arabian SOEs faces challenges related to granting SOEs operational autonomy, the clarity of policies and procedures for the nomination of board directors by the ownership entity, and inadequate remuneration for the SOEs' board of directors. These challenges received low agreement scores in terms of frequency and means. Secondly, the findings indicate the need for a robust independent regulatory body. Legal and regulatory frameworks should be clearer, more consistent, and transparent to ensure the effective implementation of CG in SOEs. Thirdly, in relation to boards of directors, challenges include the limited authority of the board in formulating tailored and appropriate managerial incentives to ensure effective CG. In addition, there is an inadequate number of independent directors on these boards. Fourthly, the agreement levels are low regarding the cooperation between the Saudi Arabian GCA and external auditors, as well as the disclosure of information concerning aid, grants, subsidies, and CG-related aspects like board structure and remuneration. Fifthly, concerning internal audit matters, both the independent and the department having an updated chapter received the lowest levels of agreement in this section. Lastly, formulating management compensation to enhance CG and align it with long-term objectives also received low levels of agreement.

The results of hypothesis testing indicate that there is no significant difference in opinions among the four sample groups regarding five types of challenges: ownership challenges, institutional challenges, board of directors' challenges, external auditing and disclosures, and management challenges. However, in relation to internal audit challenges, external auditors significantly differ from the other three sample groups, as they express less agreement with most statements in this section.

In addition, hypothesis testing shows that analyses based on the objectives of Saudi SOEs reveal differences mainly related to varying views on challenges between participants indicating their SOEs are for-profit versus those indicating that their SOEs primarily exist for achieving social objectives. The testing also demonstrates that, based on the nature of competition, significant differences exist in all types of challenges except ownership challenges. These differences are from varying perspectives of participants who highlight that their SOEs operate in competitive versus non-competitive environments.

This chapter has covered the results obtained from the questionnaire survey in the study. The next chapter presents the findings of the interview survey.

CHAPTER SEVEN: ANALYSIS AND DISCUSSION OF THE INTERVIEW SURVEY FINDINGS

7.1 Introduction

This chapter presents an examination of the findings obtained from the interview surveys that were taken concurrently with the questionnaire surveys. The issues addressed in this chapter mirror those covered in the survey questionnaire, specifically, the various types of challenges and obstacles in implementing effective CG. Thus, the structure of this chapter is closely mirrored to that of the previous chapter. Section 7.2 discusses the interview results related to ownership challenges, while Section 7.3 addresses the interview findings related to institutional challenges. Section 7.4 provides a discussion concerning the challenges affecting the board of directors. In Section 7.5 issues associated with external auditing and disclosure are examined. Section 7.6 presents a discussion linked to the challenges of internal auditing, followed by Section 7.7, which discusses challenges linked to management. Section 7.8 explores the respondents' perspectives on suggested measures for enhancing CG in Saudi Arabian SOEs. Finally, Section 7.9 offers a summary.

7.2 Ownership Challenges

Previous studies have emphasised the importance of clear objectives for SOEs, as owners, in implementing effective CG (Young et al. 2008; Musacchio and Lazzarini 2014a; Bruton et al. 2015). The findings from the questionnaire indicate that approximately 60% of the respondents agree that their SOEs have clear objectives, and the percentage is slightly higher among the interview respondents. However, the interviews reveal that these objectives often present challenges to the implementation of CG due to the need to reconcile governance arrangements from both the private and public sectors. This finding aligns with the argument by Shleifer (1998), who highlights that SOEs face the task of simultaneously pursuing social and commercial goals, leading to governance challenges. It is not uncommon for SOEs to be assigned non-profitable objectives aligned with national objectives, employment, or social stability (Lazzarini et al. 2021; Sun et al. 2021; Cuervo-Cazurra et al. 2023) alongside their profit objectives. Managing multiple and potentially conflicting objectives is a central challenge in the governance of SOEs, as recognised by both the World Bank and the OECD (Menozzi et al. 2012). SOEs are typically subject to a broad set of state objectives (Lazzarini and Musacchio 2018), which creates both benefits and costs for SOEs (Nash 2017).

A board member commented on this challenge:

> *It is widely known that SOEs are often overstaffed due to the objective of providing employment opportunities. However, the government now seeks efficiency and aims to minimise wasteful expenditure, encouraging people to seek opportunities in the private sector while expecting SOEs to operate more like private companies. This change has implications for CG, including the board structure, the decision-making process, and the identification of stakeholders.*

Furthermore, a senior manager at a postal company added:

> *As a state-owned enterprise, we strive to adhere to best practice guidelines, but these guidelines may not align perfectly with our unique goals as an SOE. Thus, there is a challenge because any deviation from the best practice guidelines, even if done with good intentions, is often perceived negatively.*

Based on the interview findings, a significant concern raised by the participants was the lack of autonomy granted to Saudi SOEs by the ownership entity. This observation aligns with the commonly acknowledged issue in the literature, where owners fail to provide the necessary autonomy to SOEs and lack a clear differentiation between the roles of the board and the owner, thereby jeopardising the autonomy of SOE boards (Okhmatovskiy et al. 2022). This situation often leads to direct involvement by the owners in strategic management, a responsibility that is generally considered best suited to the board (OECD 2018). The autonomy of SOEs has been a central point of debate. When SOEs are established as legally independent entities, their autonomy is explicitly and implicitly acknowledged. The expectation is that this autonomy would alleviate the government's decision-making burden, particularly in dealing with technical and specialised issues. Also, the reason behind recognising SOEs’ autonomy is to separate decision-making processes from political influences and ministerial bureaucracy which ultimately aim to enhance the efficiency of both enterprises and government (Lioukas et al. 1993).

In Saudi Arabis, SOEs are established primarily due to the underdevelopment of the private sector, which often lacks the necessary capabilities to drive economic growth and provide essential goods and services. As argued by Coase (1937) and Peng et al. (2016), SOEs may offer greater efficiency in economising transactions compared to markets in developing countries, particularly in cases of severe market failures or underdeveloped markets. While Saudi Arabian SOEs may have succeeded in lowering transaction costs on one side of the equation, it is crucial to acknowledge the potential risk of increased transaction costs coming from political interference. Therefore, it is important to implement effective corporate mechanisms and conduct thorough investigations into the challenges that impede their effectiveness. This is because state substantial ownership is expected to continue to exist in Saudi Arabia because of its political and economic system.

Expressing potential challenges, for instance on autonomy, an independent board member of an unlisted investment company remarked:

> *If you look at any SOE, you will see, in one way or another, that the ministry is able to oversee us. Whether through board representation or the minister being the chairperson. Everything can be taken, but I do not see it as appropriate for the people in the ministry to use us as a vehicle to achieve their aims.*

A response from a senior manager:

> *The ministry does not view us as an enabler for the sector but for the ministry itself. Being seen as an enabler for the ministry opens the door for them to use us as HR for them or make us do anything they want, even if it is not in the best interest of the company.*

Similarly, a head of internal audit noted the challenges regarding autonomy:

> *It is difficult to ask for autonomy, but I think the way of intervention should be organised. For example, the ministry or any other entity can ask us to do something that does not go through the board because it is considered normal to bypass lines in SOEs, and no one thinks it is wrong if it comes from certain people.*

The results also highlight issues related to the role of ownership and how it should be exercised. Interviewees revealed that the legal structure governing the relationship between ownership and the board is inadequate. Most interviewees emphasised that ownership rights are typically shared between two or three ministries, but in practice, one ministry has the predominant influence over a SOE and holds the authority to appoint or recommend the chairperson. Another challenge in implementing effective CG is the role of general assemblies in Saudi Arabian SOEs, which is often limited to an individual or a single ministry, making them ineffective. Some interviewees noted instances where the chairperson assumes the responsibilities of the general assembly, resulting in a dual role and granting them unchecked power. In addition, a significant number of interviewees expressed concerns about the weak monitoring by the ownership entity, aligning with the arguments highlighted by Musacchio and Lazzarini (2015). Policy recommendations from the OECD and World Bank emphasise the importance of the state acting as an informed and active owner.

An external auditor from a Big-4 highlighting the difficulty of governing the relationship between ownership and the board stated:

> *One ministry appoints the chairperson, mostly the ministry related to the sector of the SOE. Other ministries' role in the general assembly is absent or minimal because everything will be controlled by the chairperson and the ministry, so there is no general assembly in a practical sense.*

A response from a senior manager in a SOE operating in the housing industry also shared similar concerns:

> *I see an issue there because it's not really a general assembly. This is because the ownership right is given to an individual within a government ministry or department: in most SOEs, it's a minister. That minister is also the chairperson, giving them uncontrolled power to run things without any immediate accountability. It's only when the Oversight and Anti-Corruption Authority gets involved.*

An external auditor who has experience in auditing SOEs remarked on the issue of relationship:

> *I feel that my opinion on the financial statements is useless because the board and the general assembly are just one thing. I think external auditors' concerns should be shared with people outside the company to have any meaning.*

The interview findings align with existing literature, particularly the study by Okhmatovskiy et al. (2022), which suggests that board appointments in SOEs are driven by the political agenda of the ownership entity, lacking transparency and competitive selection processes. Moreover, interviewees pointed out that compensation schemes in Saudi Arabian SOEs primarily consist of fixed cash salaries, with share options being uncommon. This contrasts with the private sector, where share options are often used as a significant component of managerial incentives. In addition, the issue of board selection is further exacerbated by frequent board replacements, which are often politically motivated and tied to election cycles, rather than being based on performance-related criteria (Kuzman et al. 2018).

A board member of a SOE commented on the role of the parent ministry (ownership entity) in board nomination, highlighting:

> *It is something fundamental and I would like to see all SOEs have an internal written document for board nomination supported and approved by the general assembly. I cannot tell you how individual SOEs are doing with that, but it is an area that needs to be highlighted and improved.*

In response to a probing question about the current situation, the board member explained:

It is guided by the by-laws of the company, which state that there should be seven board members, with five representing the government and two independents from the private sector. The Nominating and Remuneration Committee (NRC) is responsible for screening and interviewing candidates, and a handful are sent to the board for approval. However, we do not have any power to choose the government representatives, but perhaps our chairperson indirectly gets involved.

A senior manager in mining SOE stated:

Here it is about who you know and how strong your connections are. It is not like you can bring someone with an elementary degree; I mean your qualifications are important but not enough to make it to the board.

The interview results support the notion that, despite certain standard CG practices not being directly applicable to SOEs, there is increasing pressure for them to adopt best practices similar to the private sector. Diverging from these standards is often perceived as a sign of poor governance. Okhmatovskiy et al. (2022) share similar concerns and argue that the hybridity perspective characterises SOE governance, as these organisations need to reconcile commercial goals with state objectives. Similarly, Cuervo-Cazurra et al. (2023) discuss how SOEs operate as hybrid organisations in terms of CG, utilising tools from private CG to enhance monitoring while incorporating elements of public administrative governance to improve accountability.

The interview findings also demonstrate alignment with the principles of neo-institutional theory. Some interview participants emphasised the coercive pressure exercised by ownership entities to adopt specific CG practices, even when these practices may not be beneficial or suitable for a particular Saudi SOE. Participants who acknowledged this issue attribute it to the Saudi government's pursuit of legitimacy in all aspects. Previous studies (e.g., Reed 2002a; Reed 2002b; Siddiqui 2010) have suggested that the promotion of Western-style models of governance in emerging economies arises from governmental and policymaker efforts to gain legitimacy with external stakeholders, such as international aid agencies and foreign governments (Khan et al. 2013). Solomon and Solomon (2004, p.153) state "corporate governance standardization is one way of building confidence in a country's financial markets and of enticing investors to risk funds." Saudi Arabia aims to strengthen its position in the global market and gain legitimacy among international investors. Furthermore, adherence to these standards facilitates access to international capital markets and promotes sustainable economic growth. Recently, for instance, the Council of Ministers approved The National Framework for Regulating Governance, Risk, Compliance, and Internal Audit Departments. However, the country's adoption of international and Western CG practices must be critically implemented and evaluated. This is because, for example, the independence of directors in Saudi Arabian SOEs could be compromised by considerations that extend beyond conventional criteria for assessing independence. Factors such as societal expectations, familial ties, or loyalty to the state, which may not be fully appreciated within conventional Western frameworks but have a profound effect in the context of Saudi Arabia. By acknowledging and addressing these distinct contextual influences, it could be argued that Saudi Arabia has begun to effectively implement CG practices not only in terms of structure but also substance.

In addition, the study's findings echo those of Aguilera and Cuervo-Cazurra (2004) and support the argument that the adoption of CG best practices is driven not only by efficiency concerns but also by the need for legitimacy. In addition, interviewee observations echo the conclusions of Zattoni and Cuomo (2008), who investigated whether the proliferation of CG codes in civil law countries, such as Saudi Arabia, aims to enhance the efficiency of the national CG system or merely to legitimise local companies. They found that the proliferation of CG codes in civil law countries is primarily linked to the pursuit of legitimacy.

The interview findings also highlight that certain recommended structures such as the recommendation to establish a Nominations and Remuneration Committee (NRC), have been mandated by many ownership entities (ministries). However, in practice, ministries retain the power to appoint board members without consulting the committee. This aligns with Klausen and Winsvold's (2021) assertion that in the context of SOEs, various CG challenges arise from the tendency to adopt practices blindly, even when they may not be practical for them.

A senior officer of a utility SOE stated:

> *I was appointed to oversee significant challenges within this company, including addressing operational inefficiencies. The previous management attempted to improve efficiency and effectiveness by adhering to a structure mandated by the ministry. However, I believe that some elements of this structure are not justified.*

In response to the issue of blind adoption of CG practices, an independent board member shared their perspective:

> *While I am optimistic about the positive changes introduced by most SOEs, I do see an issue. SOEs tend to adopt practices and governance structures based on the prevailing institutional context to appear acceptable. This raises concerns about the alignment of these practices with the unique needs of each SOE.*

In summary, CG structures in emerging economies often mimic those of developed economies superficially but not substantively (Backman 1999; Peng 2004). The role of state ownership and other informal mechanisms may arise to address the CG vacuum and resolve some issues, yet they can also introduce new challenges (Young et al. 2008). For instance, SOEs may be manipulated by politicians and individuals with close ties to the state for their political gains (Boycko et al. 1996; Shleifer and Vishny 1994). Research that focuses solely on agency theory perspective neglects the presence of political governance in SOEs and the significant influence of political governance on managerial decisions and behaviours (Shi et al. 2020). Thus, each emerging economy should tailor its CG system to reflect its institutional conditions (Young et al. 2008). Questions regarding the suitability of Anglo-Saxon Anglo models of governance and institutions for CG in less developed countries have been raised previously (Singh 1997, 1999; Singh and Zammit 2006). Recent research indicates that these models should be scrutinised even in developed countries such as the USA and UK (Arnold and De Lange 2004; Cullinan 2004; Unerman and O'Dwyer 2004; Marnet 2007).

The omission of institutional conditions is problematic as the effectiveness of CG practices depends on the environment in which they are implemented (Yoshikawa and Rasheed, 2009; Puffer and McCarthy 2011; Aguilera and Crespí-Cladera, 2016; Oehmichen et al. 2017). For example, the ability of politicians and bureaucrats to pursue private goals using SOEs may be limited in environments with higher home government quality (Grøgaard et al. 2019). Issues related to moral hazards concerning a SOE's soft budget constraint (Kornai 1979) are also likely to be mitigated as the government's credibility in SOE governance increases (Grøgaard et al. 2019). Challenges concerning the organisation and administration of state ownership, which must balance political and economic goals, alongside the state's dual functions as owner and regulator (Aguilera et al. 2012a), should be explored with a focus on institutional conditions. In conclusion, a thorough examination of governance issues necessitates careful consideration of institutional conditions.

7.3 Institutional Challenges

Implementing effective CG requires a supportive institutional context that facilitates its implementation at the firm level. The implementation of CG in SOEs faces a major obstacle due to the lack of a level playing field and the monopolistic nature of SOEs (Okhmatovskiy et al. 2022). Recent research argues that the political and regulatory environments have a significant impact on CG systems (Firth et al. 2006b). Countries with inadequate investor protection laws and weak law enforcement tend to have poor CG (La Porta et al. 2000). Therefore, the development of strong and enforceable laws and regulations is a fundamental aspect of effective CG. Strong investor protection, as defined by laws and regulations, is considered a cornerstone of good CG (Defond and Hung 2004). International organisations such as the OECD and the World Bank emphasise the need for a legal and regulatory framework that ensures a level playing field for SOEs and private enterprises (World Bank 2014; OECD 2015). The application of a unitary corporate law regime to both state-owned and private firms is a common practice and a central recommendation in the OECD Guidelines on SOEs Governance (OECD, 2015).

Consistent with the questionnaire results, a majority (75%) of respondents expressed concerns about the weak regulatory oversight that hinders the implementation of CG in Saudi Arabian SOEs. They pointed out that the Ministry of Commerce, as the sole regulator for unlisted SOEs, lacks the necessary capabilities to effectively monitor compliance with its rules. Furthermore, due to the ministry's broad coverage of various corporations, the laws and regulations governing CG practices are not specifically tailored to SOEs. Respondents also highlighted that many of the existing laws and regulations guiding CG practices are ambiguous and lack clarity. In addition, some of these laws and regulations may not be binding for SOEs, as they have flexibility in their corporate charters and by-laws to opt out of specific provisions or adopt additional ones. These findings align with previous research by Klapper and Love (2004).

A board member of a listed utilities SOE expressed their concerns about weak enforcement of regulations, stating:

> *The challenge facing CG in SOEs is the weak enforcement. Unlike listed companies, which are regulated by the CMA and have regulatory enforcement, the majority of SOEs are not listed, and it becomes impossible for the Ministry of Commerce to effectively enforce regulations.*

Another board member, who had previous experience working in the CMA, shared their perspective on the challenges of implementation, saying:

> *Based on my experience with regulatory aspects, I can tell you that decision-makers, legislators, and regulators often lack awareness of the challenges faced by implementers in enforcing CG rules. Furthermore, regulators sometimes struggle with effectively enforcing legislative requirements.*

An internal auditor highlighted the reliance of unlisted SOEs on the loose governance regulations set by the Ministry of Commerce, stating:

Unlisted SOEs adhere to the governance regulations set by the Ministry of Commerce, but these rules are not sufficiently robust to ensure an acceptable level of CG in SOEs. SOEs should take internal initiatives to strengthen their own CG practices.

A senior manager pointed out the challenges arising from inconsistent and changing legislation, stating:

There is a lack of cohesion among CG legislators, as they often fail to collectively develop clear and consistent legislation before implementation. This creates difficulties and hesitancy for SOEs to implement CG measures, as regulations may change shortly after implementation. Moreover, the lack of solid legislative grounds allows SOEs to seek exemptions more easily.

Another senior manager highlighted the issue of conflicts of interest between regulatory and monitoring bodies and SOEs, stating:

The separation between regulatory bodies, monitoring bodies, and SOEs poses a challenge to CG in SOEs. In many instances, individuals running SOEs also hold positions within the ministry or organisation responsible for regulating the industry. This creates conflicts of interest. For instance, it is not uncommon to find the chairperson of an SOE being a minister or deputy minister, which I believe goes against the law.

The majority of interview respondents expressed the belief SOEs in Saudi Arabia are not subject to fair competition. This finding aligns with the research of Bunkanwanicha and Wiwattanakantang (2009) which indicates that politically connected firms receive substantial advantages such as favourable government policies that act as barriers to market entry for competitors. However, around 30% of the interviewees rejected the association between strong CG and fair competition, suggesting that competition might not have a negative impact on CG in Saudi SOEs. An internal auditor from an SOE in the health industry stated:

I do not think SOEs encounter a lot of competition because they operate in less competitive sectors. In fact, they are established to fulfil what the private sector cannot or finds unattractive. I do not see a connection between good CG and competition, but I might be wrong.

When further questioned, the auditor elaborated,

Well, CG was meant to confront greedy management and self-interest, so I do not see any excuse to have less CG just because SOEs do not face strong competition. I believe that SOEs should have even stronger CG because the ultimate shareholders are the public, who cannot influence the way SOEs are managed.

A senior manager mentioned that competition negatively affects SOEs, saying, *A significant factor contributing to the lack of good governance in SOEs is the competition from the private sector. As a member of the Nomination and Remuneration Committee, I find it challenging to attract qualified board members. If you compare what we pay with what is expected of them to perform, the private sector is ahead of us.*

Nevertheless, many interviewees recognised that the absence of fair competition somewhat contributes to the dysfunction of CG in Saudi SOEs. A board member of SOE stated,

Some SOEs do have proper CG because there is always a bailout option. It is too dangerous to let them collapse, and for this reason, they are not under pressure to have a strong system in place. I think this negatively affects the willingness to implement effective CG.

Interview respondents did not express concerns about the differential treatment of listed SOEs compared to private firms or the issue of equitable treatment of shareholders. They attributed this strong regulation and oversight to the Capital Markets Authority (CMA). These findings are also supported by the questionnaire results, with a majority (68%) of respondents agreeing that listed SOEs are subject to the same market regulations as private firms, and 64% considering equitable treatment. The interview findings in this regard are contrary to the argument by Grosman et al. (2016) that SOEs often lag in adopting best CG practices intended to protect the interests of minority shareholders. Recommended guidelines for SOEs' CG emphasise the equitable treatment of non-state shareholders and granting them full rights as investors. Regarding the situation in listed SOEs, an external auditor commented:

The governance in listed SOEs is better in comparison to unlisted SOEs because the CMA applies its regulations to all listed corporations regardless of ownership type.

A board member made a similar observation:

Although CG is still in a developing stage, particularly with internal governance policies and procedures, external regulation from the CMA treats any listed corporation exactly the same, regardless of ownership type.

However, interview respondents highlighted challenges in implementing CG due to the lack of clarity, consistency, and transparency in legal requirements, which sometimes contradict other laws. A senior manager in an SOE operating in the oil industry pointed out the issue:

I would like to see a clear hierarchy among legislation so that if there is a contradiction, we know which one takes precedence and can follow accordingly.

Another senior manager at a housing SOE stated:

I have to deal with the ministry of environment, water, and agriculture, as well as the water and electricity authority. All these entities are involved in CG, but their rules are not consistent with each other.

A remark from a board member of an SOE planning to go public soon:

An example of the disagreement between legislations is that we have to apply CMA CG rules for at least three years before going public. Here, we have conflicting rules for CG, including the board structure and other aspects. We are not saying we are wrong, but it is not what the CMA wants us to do. During the three-year period, we might receive exemptions or face challenges; we don't know, so we leave it in the hands of the ministry, and whichever authority wins the dispute will determine what we should do.

CG in emerging economies often lacks an effective and predictable rule of law, which results in a weak governance environment (Dharwadkar et al. 2000; Mitton 2002). While emerging economies may have laws related to CG (Young et al. 2008), the enforcement of these regulations is frequently lax and ineffective in less developed economies. Policymakers in such economies face the challenge of identifying effective mechanisms to enhance regulatory enforcement (Ke and Zhang 2021). Developing credible private enforcement institutions in many developing economies such as Saudi Arabia is extremely challenging, making public enforcement the most viable option (Layton 2008). Therefore, understanding how public enforcement operates in weak developing countries is crucial (Ke and Zhang 2021), as the extent and quality of legal protection for investors depend on two elements: the statutory provisions of commercial law and the degree to which statutes are enforced (Dahya et al. 2008). Scholars in the field of comparative capitalism have long recognised that institutions play a crucial role in explaining firms' adoption of certain structures and practices. Substantial variation exists across countries regarding the institutions that have the most significant impact on such adoption (Hall and Soskice 2004; Aguilera and Jackson 2010; Bell et al. 2014).

Regarding SOEs, the features of the home country's institutional environment carry implications for the achievement of non-economic objectives, risk preferences, and CG of SOEs (Grøgaard et al., 2019). The presence of professional and independent government institutions can diminish undue political interference in SOE operations (Evans and Rauch 1999) and promote robust SOE CG leading to treating the state as an owner similar to any other owner (Knutsen et al. 2011). An essential step towards enhancing Saudi Arabia's institutional foundation, particularly in facilitating the implementation of effective CG in SOEs, is the development and strengthening of the Institute of Directors in the country. Currently, the Institute remains in its infancy and fails to keep with the rapid expansion of the country's economy. This is concerning because CG is needed for corporatized state assets, whether they are intended for privatisation or retention under state ownership. The corporatisation of numerous state assets illustrates the urgent need for an institute capable of providing board members with the necessary academic knowledge, practical skills, and ethical principles necessary to fulfil their roles effectively. The findings of the study revealed that instances of suboptimal CG practices in Saudi Arabia, such as board members assuming managerial roles or vice versa, were not necessarily driven by bad intent. Rather, the lack of understanding among both board members and senior managers about their roles make them unaware of the potential unintended consequences of their actions.

7.4 Board of Directors' Challenges

The significance of boards of directors (BoDs) has been extensively discussed in Chapter Four, highlighting their central role in CG and their status as the most important CG mechanism. According to Federo et al. (2020), state ownership influences the structure, composition, and processes of BoDs. The functioning of BoDs in SOEs is more complex compared to private firms due to various factors. One such factor is the predominance of government officials and public servants serving on the BoDs of SOEs, which Zhu and Yoshikawa (2016) cautioned against, as they found that government directors negatively impact monitoring in SOEs. To ensure effective governance, it is crucial to appoint professionals and competent individuals in SOEs, as emphasised by Trebat (1983) and Wilson (2019), who argue that these individuals can maintain a proper distance between the enterprise and the state, preventing SOEs from becoming political vehicles. Empirically, Ding et al. (2014) found that BoDs in SOEs are less independent compared to those in private firms. The lack of internal and external CG mechanisms in developing countries underscores the critical role of BoDs and their independence in monitoring managers, as highlighted by Okhmatovskiy et al. (2022). In the context of SOEs, the term "independent" refers to independence from ownership, management, and business relationships with the SOE, as defined by the OECD (2013). The selection of independent directors in SOEs goes beyond symbolism, as emphasised by Grosman et al. (2019). These directors provide professional expertise, industry knowledge, and contribute to management monitoring and fund allocation, as noted by Okhmatovskiy et al. (2022).

The interview findings strongly emphasised the critical role of BoDs in CG of Saudi SOEs. However, respondents expressed dissatisfaction with the level of autonomy granted to the board in managing the SOE, attributing this to the requirement of seeking approval from the owners for various matters. These findings are consistent with Harrison's (1998) study, which revealed that BoDs have limited autonomy in decision-making processes in UK SOEs. Similarly, Apriliyanti and Randøy (2019) found that the Indonesian government heavily influences the decision-making process in SOEs. The lack of autonomy can be detrimental, as demonstrated by Grosman and Wright (2015), who found a positive effect of cash flows on capital expenditures when SOEs appoint independent board directors to fulfil the monitoring role. However, these positive effects are significantly reduced when insufficient autonomy is granted to SOEs.

A board member of a real state SOE explained:

> *Due to the majority of government representatives on SOE boards, achieving autonomy is challenging. Board members are required to represent their respective ministries or departments, which can result in delays in decision-making processes.*

A senior manager highlighted:

> *Our board does not have the required autonomy to establish a proper governance structure. For example, determining the number of independent members and establishing subcommittees. While we engage in discussions with the board on various matters related to CG, we are not solely reliant on the board when it comes to establishing a department or hiring experts.*

Furthermore, the interview findings support the results obtained from the questionnaire regarding the authority of the BoDs in SOEs. The majority of interview respondents agreed that the board of directors has the necessary authority to fulfil its CG responsibilities within the Saudi SOE. This is because the BoDs in SOEs often consist of influential individuals holding high-ranking positions in the government. However, many respondents highlighted that the BoDs are reluctant to take CG as one of their core roles in the SOEs. Principal-agent problems are prevalent in SOEs due to the existence of a "multiple principal" structure. In SOEs, multiple agencies, ministries, and board members are monitoring principals, and none of them has the incentive to bear the full cost of monitoring since they do not directly benefit from it (Dixit 1997). This situation leads to issues such as free-riding and weak monitoring which ultimately provides managers with significant room to pursue policies that can harm shareholder value (Boardman and Vining, 1989; Shirley and Nellis, 1991; Shleifer 1998; La Porta and Lopez-de-Silanes 1999).

A senior manager of an SOE in the food and agriculture sector mentioned:

> *I believe our board has the authority, but members are hesitant to exercise it. They prefer to extensively discuss matters with the ministry, even when it's not necessary. It seems like everyone is avoiding taking action out of fear of responsibility. Many governance-related issues and other matters are postponed simply because the board feels safer by not doing anything rather than risk making a mistake.*

The role of the BoDs in the governance of SOEs can be explained through the lens of managerial hegemony perspectives (Galbraith 1967; Wolfson 1984; Kosnick 1987), which perceives CG as an unavoidable inconvenience. CG mechanisms are seen as ineffective in monitoring and are largely symbolic when it comes to overseeing and controlling management. Senior management tends to select passive board members and prefer those who are less independent-minded (Patton and Baker 1987). Board members play a passive role in the governance process and heavily rely on the company's management for information about the firm's performance (Wolfson 1984). According to the hegemonic perspective, the functions of the board are only to confirm management's decisions, meet regulatory requirements, and increase senior management's compensation (Core et al. 1999).

However, respondents expressed relatively higher concerns regarding the board's authority in the nomination, appointment, and removal of the CEO. The following views highlight that the BoDs are not the sole body involved in selecting the CEO, and the chairperson plays a predominant role in appointing the CEO. Discussions related to CEO nomination, in particular, were often divided between two groups, government representatives and independent directors, where authority predominantly rests with the government representatives. Respondents highlighted that personal opinions may not always surface in the discussion, and, in some instances, members feel obliged to align with their subgroup within the board. An internal auditor of a real estate SOE explained:

> *The board has gained authority over CEO appointments after recent changes in most SOEs. Now, since most ministers have become chairs of their affiliated SOEs' boards, it appears that the board has authority over CEO appointments. But what does that tell you? It tells you that the chairperson actually holds the power over CEO appointments.*

Another remark from a board member on the issue of CEO selection:

> *Typically, the CEO is not someone new to the company. The CFO, COO, or someone from the executive management usually becomes the CEO. The board is not keen on taking risks in this regard. It has always been this way in our company. If the board wants to bring in someone completely different, the board, through the Nomination and Remuneration Committee, does the work and submits the names to the ministry. This process takes time, and most of the time, the ministry approves our nomination.*

A senior manager also noted:

> *Ideally, the board of directors should have the authority to appoint the CEO, but I believe there is significant involvement and communication required between the chairperson and other government entities before the appointment is finalised.*

Another comment from a head of internal audit:

> *To be frank, our CEO is a friend of the chairperson, and everyone knows that. He is highly qualified, but you understand what I mean. Personal connections play a role, and they can be used in a negative way.*

This phenomenon can be explained by Social Identity Theory (Tajfel 1974; Hogg 1992; Hogg and Abrams 2006), which regards social categories (e.g., nationality, ethnicity, gender, political affiliation) as defining memberships that contribute to one's self-identity. The theory emphasises that social identification shapes behaviour (Hillman et al. 2008). Furthermore, in line with the assumptions of the theory, it was revealed that board members perceive themselves as belonging to two incompatible groups. In the context of CEO selection in Saudi Arabian SOEs, it was observed that some government representatives or independents may align with the preferences of their respective groups rather than expressing their individual opinions. This is because Social Identity Theory encompasses socio-cognitive aspects that investigate how individuals' interactions and behaviour are influenced by the categories to which they belong (Hogg 2006; Hogg and Terry 2000). As a result, a collective phenomenon, such as CEO nomination, cannot be adequately explained solely by individual differences or personality traits, as categories depersonalise influence and actors who identify with a social category often behave in accordance with the group's shared norms and values (Tajfel 1982).

The issue of CEOs selection in SOEs offers a potential explanation for the recent accelerated rate of CEO turnover within Saudi Arabian SOEs. It raises questions about whether these decisions are driven purely by concerns regarding qualifications and competence, or if other factors also play a significant role in the selection process of CEOs. Furthermore, this observation could shed light on the pattern observed in Saudi Arabia, where many CEO replacements occur shortly after the appointment of a new chairperson. Although this trend may only suggest a possible correlation between the introduction of new leadership at the board level and subsequent changes in executive management in the country, it raises questions about the merit of CEO replacements. The inherent dynamics of Saudi Arabian SOEs and the structure of their boards, which is a mix of government representatives and independent directors, present a complex dilemma that could significantly impact decision-making processes such as CEOs selection. In the context of Saudi Arabia, social categories, such as political affiliation, often play a more significant role than do experience and expertise. Consequently, identifying individuals within the board as politically affiliated can lead to decisions that favour the interests of those individuals. This imbalance has the potential to stimulate an environment in which decisions are more aligned with political agendas than with principles of sound business judgment.

The interview findings have highlighted concerns regarding the authority of the board of directors in designing effective managerial incentives to ensure good CG practices. The majority of respondents emphasised the challenge of linking compensation to financial performance, given that Saudi SOEs have broader social objectives beyond profit-making. Respondents also pointed out that performance-based compensation has shown limited effectiveness in achieving long-term objectives, which are prevalent among SOEs. The divergence of salaries and careers from performance can lead SOE managers to lose motivation to perform well (Inoue et at. 2013). Moreover, the pursuit of multiple objectives further complicates the development of efficient incentive contracts in SOEs (Bai and Xu 2005; Firth et al 2006a). However, interviewees believed that increasing the board's authority to design tailored compensation structures would have a positive impact on CG implementation, enhancing efficiency and fostering innovation. A board member expressed their views on the issue of compensation, stating,

> *Every SOE is different. There are typical SOEs operating in energy, transportation, postal services, and natural resources, while others work in telecommunications and investment. Traditional SOEs do not operate under a private management style compensation structure, nor should they.*

A senior manager suggested an alternative approach to compensate management and drive efficiency, saying,

> *I believe we should brainstorm and explore other methods of compensation that incentivise meeting objectives within specified timeframes or achieving targeted economic growth.*

Board diligence is crucial for the effective functioning of the BoDs. According to Carcello et al. (2002), board diligence includes factors such as the number of board meetings and the behaviour of individual board members in and around these meetings (e.g., preparation for meetings, attentiveness and participation during meetings, and post-meeting follow-up). In light of the interview findings, respondents expressed concerns about the time commitment of board members to their SOEs. This is partly because many board members hold full-time positions in the government, or the private sector, in the case of independent directors.

Masli et al. (2018) emphasised that four attributes, independence, competency, diligence, and behaviour attributes, such as questioning one another and providing constructive criticism must exist in board members for the board to be effective. However, the interview results did not support the argument by Ferris et al. (2003) that directors neglect their responsibilities by serving on multiple board committees. A significant number of respondents believed that board members with multiple directorships bring benefits to their companies. Nevertheless, the responses revealed a lack of willingness among some board members to fully understand and fulfil their board duties.

Furthermore, the interview results highlighted that board and committee meetings are not held on a regular basis. Some respondents expressed a feeling that the frequency and duration of meetings per year are insufficient. This finding is consistent with the observations of Grosman et al. (2016), who noted that around half of the SOEs surveyed only hold board committee meetings occasionally. The establishment of boards and committees may appear formal rather than substantive, driven by mimetic pressures where companies adopt practices before legislative mandates, such as instituting a governance committee (Jones et al. 2015). This tendency arises from the pressure to conform to globally accepted practices and gain legitimacy (Zattoni and Cuomo 2008). The imitation of others is not solely a response to coercive pressure or moral obligation but also an efficient strategy to navigate uncertainty. Firms often rely on routines and emulate peers considered similar, successful, and prestigious (Krenn 2016). In the context of SOEs, which encounter diverse corporate governance challenges, there is a tendency to adopt practices blindly, even if they may not be practically suited for them (Klausen and Winsvold 2021).

One board member commented on the challenges faced by board members, stating,

> *The roles and responsibilities of the board of directors are significant, and most members are already busy and consider their board position as an additional part-time job, to be honest with you. This is because members are not personally chosen, but rather appointed based on their positions in the ministry. This affects their willingness and motivation to fulfil their responsibilities.*

Another board member's remark supports the notion of a lack of willingness to undertake board duties, as they stated, *I believe there are still many people who view board membership as an honorary position. A former colleague and I served as board members, and we worked diligently to the point that we surpassed the board's expectations. However, instead of asking us to leave, they created a subcommittee that was unrelated to the core business of the company and placed us in it.*

An external auditor from a Big 4 audit firm shared their experience, saying

I have audited both private companies and SOEs. The Audit Committee members, especially the independent directors in SOEs, possess experience in their respective fields and fully understand their roles and responsibilities. However, others lack the minimum knowledge required and do not attend meetings regularly.

The interview findings indicated that BoDs have recently started to pay attention to the board charter, particularly regarding the delegation of power and responsibilities. However, the responses obtained revealed charters are at a development stage and do not clearly define the roles, responsibilities, and authority of both the board and the executive management. Furthermore, it was found that, although boards do have charters in place, these are not regularly updated. Some interview participants noted that certain board members lack a clear understanding of their roles.

A senior manager highlighted the need for a well-designed charter and a matrix of authorities to clarify roles, duties, and responsibilities for all board members, stating,

Our charter does not explicitly differentiate between the roles and duties of government representatives and independent directors. I believe that if we have a well-designed charter and a clear matrix of authorities, every member will know their specific roles, duties, and responsibilities, thereby making the board more effective.

A similar observation was made by another board member, who stated,

I think one of the issues is that the board charter is basic and does not adequately explain the roles and responsibilities in sufficient detail. I think all boards do have charters, but the issue is how good it is and how frequently updated. It is not enough for us to assume that board members inherently know their roles and responsibilities because every company is different.

Another board member shared their experience, saying,

I remember when I became a board member of a well-known SOE, one of the first things I requested was an authority matrix to clarify my responsibilities, as well as to understand why certain delegation tasks had not been assigned. After bagging the board secretary and the CEO, I was surprised, there was no written document addressing these issues, and everything was communicated verbally.

When it comes to board composition, it is evident from the interview findings that respondents expressed concerns about the lack of independent members on SOE boards. The majority of respondents (80%) expressed dissatisfaction with the role of independent directors, highlighting that they often provide only consulting services and do not actively engage in other board responsibilities. The majority of interviewees pointed out that independent directors are inadequately represented in most SOEs, comprising only one-third of the board. Consequently, they merely meet regulatory requirements without making substantial contributions to the overall enhancement of the board of directors. This circumstance contributes to CG theory, especially from agency perspectives highlighting that the widely practiced governance approach of increasing board independence needs to consider how independence is implemented and acknowledge the powerful influence of the broader societal context of firms.

The findings suggest that independent directors on Saudi Arabian SOE boards are not fully carrying out their roles, primarily due to the lack of guidance in the CG code, as highlighted by Braendle (2015), and resistance to the adoption of governance practices originally designed for private firms. Independent directors in controlled corporations have a different and relatively narrower role to perform. Consequently, in controlled corporations, independent directors often have a weaker role than economic theories predict. In addition, the contextual institutions and legal regimes play a significant role in explaining the variation in the role of independent directors. In the context of Saudi SOEs, independent directors only superficially adhere to the concept of independent directors as a central governance mechanism.

Many participants also noted the challenges associated with finding independent members who are willing to work in SOEs due to increasing responsibilities and potential litigation risks. Furthermore, interviewees expressed frustration with the cumbersome process involved in changing the size and structure of the board.

A senior manager in the utility industry emphasised the importance of power in board dynamics, stating,

> *If a person representing a ministry or investment fund with an excellency title gets more respect than so-called independent members. Independent directors may possess knowledge about the company's business and have proper qualifications, but they lack power. In order for others to listen to what you say, you need to have power, regardless of the importance of your argument.*

A board member highlighted their understanding of independence in the context of SOEs, stating,

> *The independence is not like the independence in private sector that is not having an ownership in the company because of we consider independence like this the whole board is independent because SOEs are owned by government and no member has ownership in the company. In SOEs, independence is about how strong a board member can say no to the chair and demands from the ministry that are not aligned with the company's strategies.*

Another senior manager emphasised the lack of clarity surrounding the role of independent board members in unlisted SOEs, stating,

> *The Capital Market Authority (CMA) has defined the role of independent directors for listed companies, but in unlisted SOEs, independent directors often do not know their role. Sometimes they are referred to as consultants or experts. I have heard that in some SOEs, they do not even have voting rights.*

An internal auditor highlighted the challenges faced by independent directors, stating,

> *One of the biggest obstacles for SOEs is the limited space and voice available to independent directors. The small number of independent directors available makes their position even more difficult, and they are often reluctant to join SOEs as board members.*

In response to the possibility of increasing the board size to accommodate more independent board members, a board member mentioned the lack of autonomy in determining board size or structure in Saudi SOEs. They explained that,

> *SOEs do not have autonomy over their board size or structure. If we want to change the size or the structure, we must follow a lengthy and complex process that can take years. If the company is created by a ministry or a fund you ask permission from them and that is easier than if the SOE was established by order of council of ministers, you have to go back to them. let alone number of independent members.*

Another concern raised regarding the role of independent directors is the strong relationships they have with the chair, which compromises their independence. The chair holds significant influence over the appointment or recommendation of independent directors, resulting in them being less inclined to challenge the chair’s decisions, even when it may be necessary. Menozzi et al. (2012) found that independent directors in SOEs can negatively impact a firm’s value, as they may appear independent but still maintain indirect affiliations with the ownership entity. In addition, Grosman et al. (2019) suggested that independent directors may have internal incentives, such as pursuing high government positions, which could incentivise them to prioritise efficient financial results. The findings of this study moderately support this notion, as some respondents indirectly admitted to it.

An internal auditor highlighted the relationship between independent members and the chair, stating,

> *We all know that the independent members in our company are related to the chair, who is a minister or affiliated with the ministry. The only difference is that the independent members do not work in the core government department, but even if they work in another SOE or government organisation, they are still called independent.*

A board member provided insight into the current situation, saying,

> *Previously, a high-ranking official from the parent ministry would assume the role of the board chair. Since 2015, the ministers of the parent ministries have been given the right to be the chairpersons. This has brought more respect to the board, but it has created an issue with independent members because the chairperson appoints or recommends their appointment to the council of ministers. In the past, the chairperson was not the minister, so independent members had the power to counter the chairperson if the situation demanded it. However, now, independents are completely under the power of the chairperson.*

A senior manager echoed similar concern, stating,

> *In the past, the situation was worse, with six of the board members being government representatives, including the chair, and five being independent. All of them were appointed by royal decree. Then, the company's statute was amended, and the chair is now appointed by royal decree, while the appointment of other representatives was delegated to five ministers who have the right to appoint them according to the company's statute. The power over the appointment of independent members was delegated to the chair.*

Furthermore, although the responses obtained from the questionnaire indicated a 69% agreement that the board has the necessary knowledge to implement effective CG, the results from the interview respondents showed a lesser agreement of only 45% (18 out of 40) who did not raise concerns regarding the lack of knowledge that could negatively affect the implementation of CG in SOEs. Notable highlights included the observation that board members lack knowledge in implementing CG policies and procedures that align with the business model of the SOE. While the majority of interview respondents did not have issues with the general business knowledge of board members, some pointed out a lack of expertise in CG. An internal auditor noted:

> *The lack of knowledge about basic CG principles is evident in SOEs. It renders discussions useless because no one understands what you are talking about. For example, many believe it is solely about compliance or think it only pertains to risk management, resulting in CG being overlooked across departments. Unfortunately, to avoid embarrassment, it is noticeable that the board completely delegates CG responsibilities to the executive management.*

A senior manager emphasised the issue of a lack of knowledge about CG, saying,

> *There is a clear need for reform in SOEs. CG experts are rare, and someone with strong CG knowledge is an invaluable asset. CG is not a focal point for the board, and it is largely left to the executive management to establish good CG practices. The executive management may present their CG efforts to the board, and more often than not, it gets approved without any discussion or critical feedback.*

Conversely, the majority of interview respondents expressed no concern over the size of the board in Saudi SOEs. Only a small percentage reported that they believed their board was larger than it should be. This finding aligns with the research conducted by Menozzi et al. (2012), which suggests that board size can have an impact on employment. The study supports the argument that Saudi SOEs prioritise employment maximisation and also highlights the potential coordination problems that may arise in larger boards. The results of this study found similar patterns.

One board member shared their experience:

> *I have worked on a board with 17 members. It was quite challenging to find a time that suited everyone, and that's why some members attended remotely. However, I don't believe remote participation is as effective as in-person attendance. When the board is large, the work is often divided into specialised subcommittees, and the board as a whole meets only once a year. I think this approach works because it ensures that members' time is not wasted on discussions that are not directly relevant to them. Personally, I serve on a subcommittee consisting of five members, and our work is progressing smoothly.*

Interview respondents expressed concerns about the government representatives on the boards of Saudi Arabian SOEs, highlighting various issues such as frequent replacements, lack of qualifications, and their relation to the chair. This aligns with the findings of Thompson et al. (2019), who noticed that persons who are politically appointed to the boards of SOEs may not have a full understanding of the roles and responsibilities of the directors. The lack of expertise among state representatives often results in inefficient monitoring of SOE managers (Dharwadkar et at. 2000). This challenge is amplified by monitoring duties being dispersed among bureaucrats across various state agencies (Zou and Adams 2008).

In general, the findings of this study are in line with the argument of Cuervo-Cazurra et al. (2023) that boards are commonly composed of civil servants tasked with pursuing the public interest and increasingly include independent directors. This study is consistent with Okhmatovskiy et al. (2022), who found that government officials often lack the business expertise needed for strategic decision-making. The authors suggested that such representatives may not have the appropriate knowledge, competence, and experience for completing board duties. In addition, interview respondents highlighted that government representatives often fail to differentiate and consistently prioritise the parent ministry, even when it may not be suitable for their SOEs. Furthermore, interview respondents emphasised the challenges posed by changes in government representatives during their term.

A board member emphasised:

> *The challenges arise from the fact that our board comprises members solely representing divisions within the Ministry of Finance. This can sometimes lead discussions to focus heavily on the specific objectives of those divisions. For instance, the deputy finance minister responsible for developing non-oil revenue is primarily concerned with how much funding can be directed to the treasury. Personally, I would prefer to have the minister himself involved, as this would help alleviate concerns cantered around the specific divisional goals of the ministry.*

The head of the internal audit department at SOE operating in the health service stated:

> *I think it is impossible for a person to wear two hats without mixing them sometimes. Government representatives, no matter how good they are, face issues of prioritisation that interfere in their discussions and voting. Also, designating a place for ministry leads to a person being on the board not based on qualification.*

Another note from a senior manager highlighted the issue of frequent changes in government representatives:

> *The government representative can be changed in the middle of the board term, and about their institutions to change them anytime. In addition, the NRC recommends the independent member to the chair, and then the chair takes the names to the council of the ministries for approval. The NRC does not have much influence on the representative selection.*

The same senior manager noted:

> *General qualification is not the fundamental issue for the board of directors in SOEs. Look around you, and you will see that board members have doctorates or master's degrees. The problem is that members lack knowledge about the entity's business and the proper CG strategy to implement. I believe SOEs have limited space to move*

> *because their boards of directors are fixed and designed to include specific representatives from the government. In my company, six of the nine board members are government representatives, and we are lucky if any of them know about CG.*

Furthermore, the issue of direct remuneration for government representatives on the boards of Saudi SOEs was also highlighted. It was noted that these representatives do not receive direct compensation for their work as board members, which makes qualified civil servants less likely to accept invitations to be board members.

A senior manager expressed concern about the lack of material incentives for government representatives, stating:

> *Government representatives, I feel sorry for them. Do you know that there is no material incentive for them, and if there is, they do not receive it directly. In one company, a friend of mine is a board member and told me that they do not receive their remuneration directly. Instead, the remunerations for representatives are given to the institutions they are representing, and then the institution has complete control over how much can be paid to the member.*

A remark from a board member indicated that the issue of remuneration has been discussed:

> *Let me give an example of a discussion with the bureau of experts at the council of ministers. They argue that government representatives receive a salary from the government, so why are we asking SOEs to pay government representatives remuneration for their work, which is part of their government responsibilities. I argued that we are humans, and independence cannot be adequately ensured unless board members feel they are receiving something that is not directly related to their government position. Otherwise, we cannot ask a board member to be independent. I suggested that once a government representative becomes a board member, their salary should be paid by the company and not from the government, even if it is the same amount. It is just for the feeling of independence.*

Lastly, the majority of interview participants noted that board evaluation is conducted in their companies, but it is often seen as a formality and has little impact on board member selection. They also highlighted that the chairperson's individual beliefs play a crucial role in determining the way evaluations are conducted and the seriousness of the outcomes. In addition, respondents emphasised the cultural challenge in Saudi Arabia, where courtesy is highly valued, particularly among high-ranking individuals like board members. Similarly, Wickramasinghe and Hopper (2005) found cultural and political influences in Sri Lankan SOEs, often outweighed commercial considerations and bypassed formal accountability systems.

A board member commented on the effectiveness of board evaluation:

> *I think board evaluation is something that every board of directors does, but if you ask me about its effectiveness, I don't think it has a significant impact. However, we try to do our best, and I believe that evaluation alone cannot enhance board members' performance. I think if a member knows the consequences of their negligence, the problem is solved. Nevertheless, I believe that conducting board evaluations as a whole is beneficial for members to understand to what extent they are performing well and provides them with an opportunity for self-reflection.*

An internal auditor provided their viewpoint:

> *There are members who may feel insulted when it comes to board performance evaluation. I think we should completely change the concept of evaluation. I believe it is a good thing for the board, and it is not a waste of time to pause and evaluate their performance.*

A senior manager remarked on the issue of board evaluation:

> *I believe it is the chairperson's responsibility to introduce board evaluation in a friendly environment where members do not associate evaluation with punishment but rather see it as a way to provide them with periodic feedback to help them improve.*

An external auditor stated:

> *For board evaluation to be effective and contribute to corporate governance, it must be done externally. It is a joke that companies, including SOEs, evaluate their boards internally. In addition, the outcomes of the evaluation should have an impact on the selection of board members so that it has significance meaningful.*

Interview respondents highlighted the complexity of conducting board evaluations in Saudi Arabian SOEs, pointing out that the criteria for evaluation significantly differ from those of private firms whose primary goal is profit-making. They also questioned the feasibility of effective evaluations, particularly in the case of government representatives who may be changed during the board's term. Grosman et al. (2016) analysed over 100 articles and found that only 11 percent of SOEs conducted evaluations of board practices in 2013.

One senior manager expressed the complication of evaluating board members:

> *The complexity of evaluating members hampers the attitudes toward it. It is not like a private company where profitability indicates the performance of the board. SOEs have different objectives and deliver services that may not generate substantial profits, so it is unclear how evaluations should be based.*

A board member raised the issue of government representatives and their uncertain tenure:

If we want to evaluate board members, we have to address the issue that government representatives are not guaranteed to stay for the full term. Government representatives are on the board because of their positions in the ministry, and if those positions change, the member is replaced.

7.5 External Auditing and Disclosures

Griffin et al. (2008) argue that auditing is a crucial CG mechanism for the board of directors to implement in order to achieve optimal CG. They assert that companies can achieve an optimal CG portfolio by selecting an appropriate combination of internal and external CG mechanisms. The role of external auditors in CG is evident in the findings of Lee et al. (2004), who observed that external auditors are more likely to resign when internal CG is weak, rather than being dismissed. Therefore, external auditors can serve as a reference point for evaluating CG in corporations and contribute to the literature on the obstacles and limitations of implementing effective CG.

Previous studies primarily focused on private firms such as DeZoort et al. (2002) and Abbott et al. (2004), have supported the notion that certain characteristics are essential for audit bodies and auditors, including independence, accounting and financial expertise, industry specialisation, and diligence. They argue that these characteristics are prerequisites for effective auditing. Similarly, Ellwood and Garcia-Lacalle (2015) and Manes Rossi et al. (2021) have asserted that these characteristics apply to the public domain as well. However, the challenges in attaining these characteristics are more significant and unique in the context of SOEs due to the special environment in which they operate.

The majority of interview respondents expressed a need for reform in the way the Saudi Arabian GCA conducts audits. They highlighted that the current practices of the GCA play a minimal role in CG. One of the reasons identified is that many GCA employees have experience primarily in core government departments and lack familiarity with the operations of SOEs. This finding aligns with the research of Al-Dehailan (2004), who identified the lack of qualifications of auditors sent by the GCA as a major obstacle to its effectiveness. Furthermore, the regulations pertaining to how GCA conducts its audits are unclear and lack support. Maroun and Atkins (2014b) emphasised that regulations supported by governmental authorities are vital mechanism for enhancing audit quality and restoring trust in the audit process.

Around 50% of the interviewees stated that the GCA primarily focuses on examining how public money is spent and whether it is utilised for its intended purposes. However, some respondents noted a recent shift in GCA's involvement, as they now examine whether the Saudi SOEs derive value from government grants and aid. These interview findings are consistent with the results of the questionnaire survey, which may explain the low agreement with the effectiveness of the GCA in CG of SOEs.

A board member of an airline SOE commented on the issue, stating,

> *I believe the General Court of Audit should play a more significant role than it currently does. It is crucial for them to identify weaknesses in their systems and go beyond their traditional role. Lately, they have been focusing more on problems like corruption in hiring and unusual practices. However, their contribution to CG has been limited thus far. Nevertheless, I am hopeful that we are moving in the right direction to enhance the effectiveness of the General Court of Audit.*

Similarly, a senior manager shared similar concerns about CG, stating,

> *The auditors regularly visit us to ensure that we are utilising the government's money correctly. Their main focus is to verify that the funds we requested are used for their intended purpose. However, I don't believe their current practices has much to do with good CG.*

A head of internal audit expressed that,

> *The General Court of Audit seems to lack an understanding that we can collaborate to ensure effective management of the company. Their visits are usually limited to the finance department, where they conduct the necessary checks before leaving. Their current audit practices primarily focus on financial misconduct, such as embezzlement and bribery.*

An external auditor from a non-Big 4 audit firm mentioned,

> *Typically, the General Court of Audit conducts audits of ministries and government organisations. However, I believe they may not have the necessary capabilities to actively participate in the CG of SOEs or report any issues related to it. As long as the company is functioning within the rules and regulations, the GCA does not raise any concerns.*

The majority of interview respondents expressed disagreement with the notion that the work of the GCA and external auditors complement each other. This finding aligns with the low agreement responses from the questionnaire survey. Interviewees revealed that the GCA and external auditors work independently and do not effectively utilise or benefit from each other's work, resulting in redundant efforts and a wastage of time and resources. An internal auditor suggested that:

There is room for improvement in utilising the GCA's work in state-owned enterprises (SOEs). The GCA provides an independent review of financial management and compliance with laws and regulations, which can offer valuable information for external auditors to enhance their audit process and provide a more comprehensive assessment of financial reporting and internal control. Similarly, the GCA can benefit from financial statements and consult with external auditors. However, the current collaboration between the two entities is not as close as it should be.

An external auditor from a Big 4 audit firm highlighted that:

The scope of the GCA is broader and encompasses all aspects of the company, while the work of external auditors focuses solely on financial reporting, disclosure, and internal control. However, due to the lack of capabilities in the GCA, external auditors do not rely on their work.

The role of external auditors in CG within Saudi Arabian SOEs was found to be minimal according to the interview respondents. Several challenges were identified that hinder the effectiveness of external auditing in enhancing CG. One key concern raised by the respondents was the lack of industry expertise among external auditors. While they possess general accounting and auditing expertise, the specific knowledge of the industry in which the SOE operates was found to be lacking. Ericsson and Lehmann (1996) underscored the importance of experience within a particular field or industry, as opposed to general accounting experience. This perspective was supported by Balsam et al. (2003) and Ittonen et al. (2015) for external auditors, and by Bedard et al. (2004) for audit committees. The interviewees emphasised the importance of industry expertise in external auditors to compensate for the difficulty and bureaucracy involved in changing the audit committee's composition to include a member with industry expertise making external auditors' industry expertise very important. The call for industry expertise aligns with the findings of Gul et al. (2009) and Ittonen et al. (2015), which demonstrate the association between industry specialists and lower earnings management.

Interestingly, the interview findings diverged from the results of the questionnaire survey, where 54% of respondents agreed that external auditors possess industry expertise. This suggests a discrepancy in perceptions regarding the auditors' industry knowledge between the two data collection methods. An external auditor from a Big 4 stated,

Auditing SOEs is challenging because they are operating in a complicated industry. Auditors must have proper understanding of the operations of the company to record and present their financial statement fairly. This involves a proper method to use related depreciation, amortisation, and depletion. Also, SOEs operate in dispersed locations which make verify inventory and other assets quite difficult.

An internal auditor highlighted the current situation regarding the role of external auditors in CG:

> *The culture of external audit still does not contribute to corporate governance significantly. I think our executive management still believe that external audit is just to meet regulatory requirements. Not only that but external auditors themselves do not want to contribute other than the minimal which make their contributes to CG not that much.*

A board member emphasised the importance of industry expertise for external auditors working with Saudi SOEs:

> *I think because the issue and the difficulty to form audit committee with members who have industry knowledge of the SOE, I believe that SOEs should focus on the experience external auditors in their SOE industry so that external audit can help with having effective CG.*

An external auditor mentioned that:

> *I do not think the audit committee pays much attention to quality of external auditors and if they have the proper experience. They are only concerned with their fees.*

Interestingly, the interview findings show less agreement compared to the results of the questionnaire survey regarding the role of the audit committee in appointing and removing external auditors based on its recommendations. This may be attributed to the interview format allowing respondents to provide more detailed and freely expressed insights on the issue. In addition, the interview findings revealed significant variations in actual practices across different Saudi SOEs.

It was observed that SOEs with effective audit committee, primarily seen in listed companies, heavily rely on the audit committee's involvement in matters related to external auditors. However, when the audit committee is ineffective or predominantly composed of board members or individuals with multiple directorships, management takes over and the independence of external auditors may not be guaranteed. Effective audit committees have the potential to significantly enhance the planning and testing process of audits, as well as broaden the scope of the attestation function, which can result in increased efficiency and improved quality outcomes (Maroun and Atkins 2014a). One internal respondent stated:

> *The involvement of the audit committee in the appointment varies from company to company, but in most cases, it participates in the selection of external auditors through recommendations to the board.*

A senior manager from an SOE operating in the utility sector explained by stating:

We strive to hire highly qualified external auditors who work with us to ensure the accuracy of our financial statements and minimise significant errors. Regarding corporate governance, the role of external auditors is effective only when the audit committee fulfils its responsibilities. Unfortunately, many audit committees are mainly involved in selecting auditors and negotiating fees.

However, an internal auditor emphasised that the effectiveness of external auditors is influenced by the attitudes prevailing within the Saudi SOEs, which can be detrimental to the auditors' role in CG:

The audit committee ensures the independence of external auditors and sometimes invites them to their meetings. However, when it comes to corporate governance, it mostly falls upon us within the company to collaborate with the auditors and provide them with the necessary information and support. In some cases, we may limit their role to meeting regulatory requirements.

Furthermore, diligence is characterised as 'the willingness of audit committee members to work together as needed to prepare, ask questions, and pursue answers when dealing with management, external auditors, internal auditors, and other relevant constituents' (DeZoort et al 2002, p. 45). The fundamental concept is that higher levels of diligence correlate with increased dedication to auditing activities. Studies such as Xie et al. (2003), Vafeas (2005), and Kent et al. (2010), support a strong positive impact of diligence on audit quality. A senior manager expressed concern about the limited availability of time for audit committee members to actively participate and enhance the role of external auditors in CG:

Most audit committee members have limited time to engage in external audits beyond the selection process. Despite that they are independent members, they also serve on audit committees of other companies.

The findings of the current study revealed that most interview respondents indicated a preference for hiring auditors from the Big 4 accounting firms in Saudi Arabian SOEs. This finding is inconsistent with the research by Wang et al. (2008b), who found that Chinese SOEs favour small and local audit firms. However, some interview respondents cautioned about the consequences of intense competition among audit firms, which often leads to reduced fees and potentially compromises the quality and effectiveness of the auditors' role in CG.

One senior manager highlighted this concern by stating:

The external audit industry here is highly competitive, especially among the Big 4 firms. As a large corporation, we typically engage auditors from the Big 4, but I believe this competitive environment may lead auditors to compromise and reduce their work in order to compensate for the lower fees they charge.

An external auditor also pointed out the challenges faced by SOEs in hiring qualified external auditors:

> *At times, audit firms may choose not to accept new engagements from SOEs if they perceive that it could potentially damage their own reputation. It is generally easier for auditors to review the financial statements of companies with robust corporate governance practices compared to those with weaker governance practices.*

It is notable that Saudi Arabian SOEs maintain strong political affiliations with the government and benefit from preferential access to capital. Consequently, their demand for high-quality accounting information when seeking funds is comparatively lower. Moreover, SOEs in Saudi Arabia, like their peers elsewhere, have less incentive to provide higher-quality accounting information to avoid disclosing underlying deficiencies. Therefore, caution is warranted when assessing the inclination towards engaging Big 4 audit firms. Given the comprehensive findings of this study, it is compelling that this inclination may not solely come from considerations of audit quality. The study observed that CG practices in Saudi Arabian SOEs are occasionally adopted superficially and primarily for the sake of legitimacy. Consequently, while the preference for hiring Big 4 firms may be indicative of robust audit quality, it should not be universally assumed in all contexts. The quality of audits is contingent on both the external institutional environment and internal CG structures. Thus, it is necessary to contextualise indicators of high-quality audits within the specific environment in which they are applied.

Regarding disclosure, the extent of transparency and disclosure in SOEs is subject to debate (Grosman et al. 2016). The role of state ownership, which prioritises objectives other than efficiency and profitability, along with direct access to information, may potentially undermine the need for comprehensive disclosure as seen in private firms. Empirical studies present mixed findings regarding the level of disclosure in SOEs. For example, Wang et al. (2008a) demonstrated a positive relationship between the proportion of state ownership and voluntary disclosure, while Xiao et al. (2004) reported a negative correlation between state ownership and the level of disclosure. However, given that citizens are the primary investors in SOEs, there is a vested interest in promoting greater transparency and disclosure to evaluate the performance of these enterprises (Allini et al. 2016). Theoretically, SOEs are owned by all citizens in a country, however, SOEs, in practice, are controlled by state bureaucrats and politicians (Stan et al. 2014). The citizen-owners of these SOEs lack CG mechanisms to oversee SOEs, which may lead to operations aligned with political objectives (Cuervo-Cazurra and Dau 2009). Consequently, the need for enhanced disclosure is essential.

The current study reveals that disclosure practices in Saudi Arabian SOEs are primarily driven by regulatory requirements, resulting in limited voluntary disclosure. Moreover, the findings of this study diverge from Bozec's (2004) research on the commercialisation of Canadian SOEs, which found improved disclosure in terms of historical results and projections. However, a majority of the interview respondents identified the listing of SOEs on stock exchanges as a major factor influencing the level of disclosure. This finding is consistent with the other part of Bozec's (2004) research, which showed that the privatisation of SOEs through public stock issuance increases the level of disclosure.

A board member emphasised the importance of disclosure in Saudi SOEs by stating:

> *The significance of transparency as a fundamental component of corporate governance and I think that specific disclosure requirements for Saudi SOEs are lacking, thus disclosure will be much like private unlisted companies.*

The interview findings reveal that recommended practices, such as those outlined by the OECD in 2015, relating to the disclosure of grants and subsidies are not consistently followed the Saudi Arabian SOEs. Similarly, in terms of governance structure and board remuneration, adherence to recommended practices was found to be lacking. However, respondents from listed SOEs indicated that due to legal disclosure requirements, information regarding governance structure and board remuneration is disclosed. This may explain the relatively higher level of agreement regarding this aspect in the questionnaire survey compared to the disclosure of grants and subsidies, although both statements received less than 50% agreement (see Table 6.9, Chapter Six).

However, approximately 15% of the interview respondents expressed the view that it is unfair to expect unlisted SOEs to have a higher level of disclosure and that they should be treated similarly to unlisted private firms. Other respondents attributed the low level of disclosure to the critical nature of the industry in which their SOEs operate, while few rejected the idea that the general public should be considered stakeholders with a strong interest in the disclosure of SOEs.

A senior manager explained the approach to disclosure, stating:

> *We do not disclose such items separately because there is no requirement to do so. However, we include information on aids, subsidies, and deposits in the appropriate sections of our financial statements.*

An internal auditor in an SOE operating in the military sector expressed their perspective on disclosing information in line with OECD recommendations:

> *Public disclosure of that nature is not appropriate because, in critical industries, it can do more harm than good.*

A similar sentiment was echoed by a board member:

> *I do not believe it is necessary because such information is already provided to the ministry, the owner.*

The impact of CG on transparency and corporate disclosures has been explored both at the country level (Bushman and Smith 2001, 2003; Francis et al. 2003; Bushman et al. 2004b) and at the firm level (Forker 1992; Bushman et al. 2004a; Beekes and Brown 2006; Cheng and Courtenay 2006). Brennan and Solomon (2008) have emphasised the scarcity of studies in financial and external reporting research from a CG perspective, and the substantial future opportunities for accounting researchers, as noted by Parker (2005b, 2007). Although it has been recognised that SOEs may have less incentive to provide high-quality accounting information to avoid revealing underlying deficiencies (Jin et al. 2021), accounting information plays a pivotal role in CG. Financial accounting serves as the primary source of independently verified information about the performance of managers and establishes a clear and essential link between CG and financial accounting (Sloan 2001).

7.6 Internal Auditing Challenges

Prior literature has emphasised the significant role of internal audit as an internal CG mechanism. In the United Kingdom, for instance, although internal audit is not mandatory for listed companies, its benefits have been highlighted since the Cadbury Committee report in 1992, and these principles are still included in the UK Corporate Governance Code (FRC 2018). In the United States, the New York Stock Exchange (NYSE) Rule 303A.07(d) mandates all listed firms to maintain an internal audit function since October 2004. Internationally recognised organisations like the Institute of Internal Auditors (IIA) have also positioned internal audit function as one of the fundamental mechanisms for CG, alongside audit committee, executive management, and external auditors (IIA 2005). Prawitt et al. (2009) further emphasise that internal audit function is distinct because it is the only mechanism that engages in day-to-day work and operates independently from management. Other studies, such as those by Hermanson and Rittenberg (2003) and the Treadway Commission (1987), also support the view that internal audit function is a critical component of high-quality CG.

Independence is a key feature of an effective internal audit department. The impartiality and unbiased judgement of auditors are contingent on their independence. It is important for internal auditors to have the freedom to provide objective assessments. Professional bodies and standard setters strongly underscore the significance of the independence of internal auditors (Al-Akra et al. 2016; Oriakhi 2020). The International Standards for the Professional Practice of Internal Auditing (ISPPIA) necessitate that an internal auditing unit within an institution should maintain independence, and internal auditors must uphold objectivity in their activities. To ensure an appropriate level of independence and objectivity, Standard 1100 recommends that the head of the internal auditing unit should report administratively to senior management and functionally to the audit committee of the board of directors. Internal auditors should have unrestricted access to records, personnel, and departments, stay clear of conflicts of interest, and refrain from non-audit activities (Coetzee and Erasmus 2017; IAA 2012). Moreover, Standard 1111 underscores the need for unlimited access for the chief audit executive to the board of directors and senior management to uphold the department's full independence. The chief internal auditor must not be subject to dismissal due to reports reflecting unfavourably on management. In addition, direct communication between the chief internal auditor and the audit committee is emphasised, fostering a close working relationship that enhances effective governance oversight.

The interview respondents identified various challenges and deficiencies that hinder the effective role of internal audit in CG of Saudi Arabian SOEs, thereby challenging the implementation of sound governance practices in Saudi SOEs. These findings align with the research conducted by Abbott et al. (2016), which emphasises the critical role of competence in enabling an effective internal audit function. In addition, the current study highlights similar concerns raised by Christopher et al. (2009), which suggest that when CEOs and other executive management are involved in approving the internal audit function's budget and providing input on the internal audit plan, internal auditors may become aligned with executive management rather than maintaining their independence.

A head of the internal audit department acknowledges the resource challenges faced by many SOEs:

> *In many SOEs, the internal audit department lacks sufficient human resources to operate effectively, especially in newly established SOEs where the internal audit department is still in the developmental stage. Weak internal auditors are often inherited when SOEs transition from non-corporate entities to corporate entities.*

Another internal auditor emphasises the need for a diverse skill set within the internal audit department:

> *The internal audit department requires individuals with a diverse range of skills, including expertise in the company's business operations, financial and auditing knowledge, and CG expertise.*

A senior manager highlights the importance of CEO and audit committee support for the internal audit department:

> *It is crucial for the CEO and the audit committee to support the internal audit department and recognise that investing in the department indirectly improves the performance of other departments. While support from the audit committee is vital, it does not cover all aspects. Administrative support, such as implementing new software, providing training opportunities, and ensuring fair salaries, is necessary to ensure the department can operate effectively.*

These remarks are consistent with the findings from the questionnaire survey, as indicated in Table 6.9 of Chapter Six. The interview respondents emphasise the lack of resources and investment in the internal audit function of Saudi SOEs. Some respondents attribute this to a lack of belief in the benefits of internal audit, considering it as an obstacle to executive management. Lenz and Hahn (2015) affirm that investment in internal auditing services is linked to the value it contributes to the strategic, operational, compliance, and financial reporting objectives of an institution. Internal auditors function as evaluators of institutional processes and provide independent scrutiny of various activities of the institution, including governance issues, risk management processes, and internal controls (George et al. 2015; Oussii and Taktak 2018). Since being acknowledged as a profession in the late 1970s, internal audit has become an integral part of top management, serving the board of directors through the audit committee (Moeller 2016). Consequently, internal auditors have undertaken diverse audits, including financial, operational, management, and compliance audits (Kotb et al. 2020).

Concerning the independence of internal audit and its direct communication with the Audit Committee, several challenges were highlighted, such as the internal audit not functionally reporting to the audit committee and the committee not being the sole entity involved in appointing, dismissing, and evaluating the internal audit department. A stronger relationship between internal audit and audit committee is likely to enhance internal audit's independence from management (Abbott et al. 2012), reducing the likelihood of reprisal and enhancing objectivity, particularly in the eyes of external auditors (Raghunandan et al. 2001). Many CG observers highlight a symbiotic relationship between internal audit and audit committee.

Effective audit committees elevate the status of internal audit, and internal audit aids audit committees in preventing financial misstatements (Raghunandan and McHugh 1994). Professional bodies, such as AICD (2008), suggest that internal audit acts as an agent for audit committee by providing independent and objective assurance to the committee on internal CG, risk management, internal control, and compliance.

Although the questionnaire survey indicated that 59% of respondents agreed that internal auditors have direct communication with audit committees in Saudi SOEs, and 64% agreed that audit committee appoints and dismisses the head of internal audit, the interview respondents expressed concerns. They highlighted that management is largely involved in the communication between internal auditors and audit committee, as well as in the appointment and dismissal of the head of internal audit.

A board member stressed the importance of an open relationship between the internal audit and audit committee:

> *We ensure that our internal auditors can communicate openly with the audit committee, even in the presence of the CEO or other senior members. However, we also ensure that if the head of internal audit needs to share something with them in confidence, they have the ability to do so.*

However, a response from an external auditor from a Big 4 firm questioned the usefulness of such communication:

> *Internal auditors communicate with the audit committee from time to time. However, the effectiveness of this of this communication is questionable due to the consistent presence of one of the senior managers.*

Furthermore, a head of internal audit highlighted a practice that may negatively affect the objectivity of the internal audit department. The responses indicated that, in the minds of many executives and managers of Saudi SOEs, internal auditors are seen as working for them and are expected to add value to the management, with reporting to audit committee being merely a formality to satisfy CG requirements. This finding aligns with the issue highlighted by Christopher et al. (2009), that the internal audit function faces a dilemma of adding value to management while maintaining independence. An internal auditor expressed their perspective on the issue of maintaining objectivity:

> *There is a concern that internal auditors might face challenges in maintaining objectivity in their work, as they spend a significant portion of their time providing*

advice to various company departments rather than concentrating solely on their auditing responsibilities.

Another challenge highlighted by internal auditors, in Saudi SOEs, is their administrative reporting to line managers, which compromises their independence and allows line managers to opportunistically negotiate their concerns regarding their departments with internal auditors.

An internal auditor stated:

> *One issue within this company is that the internal audit department reports administratively to line managers who oversee operational units, rather than reporting directly to the CEO. When the internal audit department reports administratively to the CEO, their independence remains unquestioned. However, many CEOs delegate this administrative reporting, and some line managers may attempt to exert influence over the audit outcomes. This is often attributed to the fact that many CEOs in SOEs have busy schedules and prefer not to be burdened with administrative reporting.*

A similar concern was expressed by another internal auditor:

> *In my view, after the board establishes policies and procedures for the company, they do not guarantee that these rules are implemented by the highest-ranking individual in the company. Instead, the responsibility falls on department managers. The same things happen in the GRC reporting structure, where it reports to a general manager rather than directly to the CEO.*

Moreover, some remarks obtained from respondents' interviews highlight that the work performed by internal audit departments is routine, lacks consideration of risk levels in conducting audits, and does not adhere to their established standards. Instead of adhering to internal standards, audits are based on departmental policies and procedures. As highlighted by Gramling et al. (2004), the current nature of internal audit activities commonly involves risk assessment, control assurance, and compliance work, all of which directly align with the principles of CG. The interview remarks align with the low agreement responses obtained from the questionnaire survey, indicating that internal audit departments do not have or update their charters regularly.

An observation from an external auditor from a Big 4 firm was:

> *The internal audit needs to align with the risk level of each department to determine the appropriate effort and sample size. Here, weaknesses can be identified because the audit engagement follows routine work and lacks regular updates.*

A similar sentiment was expressed by an internal auditor:

The internal audit department should collaborate with each department to understand the risk level and determine the suitable effort and sample size for each audit. However, internal auditors tend to follow routine work and neglect updating their methods, which may result in unnoticed weaknesses.

While a board member had made a remark on a common issue in internal audit:

The internal audit department only verifies if a department complies with its own policies, but it doesn't assess the effectiveness of those policies.

The head of the internal audit department also expressed concerns about a common management practice where changes based on internal audit suggestions are implemented without subsequent improvement or additional controls to address similar issues.

I often provide feedback to management, and they make changes based on my suggestions, as long as I don't report it to the AC, they are satisfied. However, this shouldn't always be the case because if management made a mistake, even if they make changes later, it should still be reported so that additional controls can be implemented. At times, I feel like management is testing me to see if they can avoid detection.

Given the significance of the internal audit function, as highlighted by global regulations mentioned earlier, a lot of studies have investigated the effectiveness of internal audit function at the organisational level. These investigations reveal that a high-quality internal audit function can curb earnings management (Prawitt et al. 2009), enhance the quality of financial reporting (Christ et al. 2015; Abbott et al. 2016), strengthen the internal control of financial reporting (Lin et al. 2011), discourage managerial misconduct (Ege 2015), and mitigate fraud risk (Norman et al. 2010). Furthermore, it can aid external auditors in evaluating the quality of financial reports, leading to reduced external audit fees (Felix et al. 2001) and heightened audit efficiency (DeZoort et al. 2001; Messier Jr et al. 2011; Lee and Park 2016). However, the current role of internal audit falls short of effectively implementing CG practices in Saudi SOEs. This sentiment is reflected in the response from a board member:

I believe there is significant room for improvement in the effectiveness and independence of the internal audit department. Currently, I am not entirely satisfied with its performance in the company as it tends to rely on conventional methods. However, I am optimistic about the future as the chair of the Institute of Internal Auditors is now the president of the General Court of Audit, which gives hope for a more effective internal audit.

Numerous studies have emphasised the significance of the internal audit function and its potential to enhance CG quality from various perspectives (e.g., Beasley et al. 2000; Raghunandan et al. 2001; Gramling et al. 2004; Davidson et al. 2005; Goodwin-Stewart and

Kent 2006b; Gendron and Bedard 2006; Turley and Zaman 2007). However, the results of this study indicate that there is still a considerable journey for internal audit to effectively contribute to the improvement of CG in Saudi SOEs.

7.7 Management Challenges

The interview findings indicate unanimous agreement among the interviewees regarding the challenges faced by management in Saudi Arabian SOEs concerning CG. These challenges were found to be more complex in SOEs compared to private firms. It was also acknowledged that the conventional mechanisms employed to address management self-interest and moral hazard might not always be effective in SOEs. Furthermore, the interviewees confirmed that the driving force behind CG implementation in Saudi SOEs is primarily the management, although the board of directors has recently taken on an increased role. These findings align with the argument put forth by Cohen et al. (2002), which suggests that the inclusion of top management in CG is indicative of the influence exerted by top-level executives on the governance practices within an organisation. This also supports the argument made by Lisic et al. (2016) that increased proficiency in the structure of audit committees does not inherently lead to more effective monitoring. Instead, the actual effectiveness of audit committees in monitoring is dependent on the power of the CEOs.

As stated by a senior manager:

> *Our board's culture is not business-oriented, which poses challenges in persuading them to consider corporate governance as one of their important responsibilities. The executive management is aware of this limitation, and we make our best efforts to operate within these constraints.*

An internal auditor commented on the role of the board of directors in Saudi SOEs with regard to CG:

> *It is only recently that our board has started to take corporate governance seriously. I believe CG was not previously regarded as a highly significant aspect by the board.*

Similarly, an external auditor observed:

> *The executive management still holds significant control over the corporate culture, including corporate governance. In SOEs, board members are rarely involved in CG in an effective manner. We can tell how good the company governance by observing the attributes of the executives in any company.*

Several interview respondents expressed concerns and some dissatisfaction regarding the limited freedom given to executives and their involvement in day-to-day business operations. This is a common issue because political interference tempers managerial discretion, especially for SOEs heavily reliant on the state for resources (Lioukas et al. 1993). In addition, SOE managers may drive their firms to gain personal political or economic benefits, such as securing senior governmental positions (Hung et al. 2012). There is an interesting theoretical dilemma for SOEs: greater managerial autonomy heightens agency conflicts but simultaneously reduces political interference in decisions (Cuervo-Cazurra et al. 2023). Research by Lazzarini et al. (2021) suggests that when managers are granted appropriate operational autonomy over resources and risk, they are motivated to generate knowledge outputs, and when faced with reduced autonomy and strict resource and risk monitoring, managers tend to withdraw. The OECD (2015) also emphasises the importance of providing management with appropriate freedom to carry out daily business activities without interference.

A board member of a mining SOE provided the following explanation regarding operational autonomy:

> *The level of freedom granted to the executive management of state-owned enterprises cannot be equivalent to that of private companies due to the unique nature and significance of these entities. In certain matters, the board does not have the final say, and our goal is to ensure that executives have the necessary freedom to make timely business decisions.*

However, a senior manager in a postal service expressed a different perspective:

> *I believe that the extent of freedom granted to executives is not based on their professionalism but rather on personal relationships and connections. If the board members favour the CEO, they may grant them greater freedom, but if not, they may withhold it.*

In contrast to the findings of the questionnaire survey, where 64% of respondents agreed that CG implementation is undertaken by the highest individual in Saudi Arabian SOEs (see Table 6.9 in Chapter Six), the majority of interview respondents (78%) highlighted that it is common practice to delegate this responsibility to line managers. This delegation negatively impacts the effectiveness of CG in Saudi SOEs.

An internal auditor shared their perspective on the issue of delegation:

> *I believe there is a genuine issue regarding the implementation of CG in companies. CEOs are typically not directly involved in the implementation process, and even if they*

> *are, there is often a lack of effective monitoring mechanisms. From my standpoint, CEOs may perceive CG as a secondary priority compared to other responsibilities.*

A board member acknowledged the issue of delegation, stating:

> *We have addressed this concern by clearly establishing that CG is the responsibility of both the board and senior members of the company. Without this shared responsibility, the effectiveness of CG may be limited, as others may not take it seriously.*

A senior executive emphasised their commitment to CG:

> *The head of the Governance, Risk, and Compliance (GRC) department reports directly to me, and I ensure that all reporting is done in a timely and accurate manner. I exercise extreme caution regarding CG and anything that could lead to unethical practices. The executive management and I ensure that everything is reported to the board, fulfilling our responsibilities.*

The interview findings revealed that Saudi SOEs face a challenge with executives who view their positions as stepping stones to other roles, either within the government or the private sector. It is not uncommon for executive positions in SOEs to be filled by state bureaucrats rather than professional managers, and these positions are often seen as a career progression for successful civil servants (Morck et al. 2008). State bureaucrats may lack the necessary experience for open-minded discussions, which affects their ability to function successfully with executives from the private sector (Frederick 2011). Agency theorists have long discussed the challenge of delegating decisions to agents whose objectives may not align with those of the principals. In the context of SOEs, several authors have suggested that SOE managers are inadequately selected and lack strong incentives to pursue efficiency and profitability, particularly when compared to managers in private firms (Vickers and Yarrow 1988; Boardman and Vining 1989; La Porta and Lopez-de-Silanes 1999; Dharwadkar et al. 2000). A senior manager highlighted the following:

> *SOEs can face difficulties in attracting qualified individuals due to the lack of attractive compensation, especially in strategic sectors like utilities. However, working in SOEs can still provide opportunities for career advancement.*

SOEs are often viewed as an extension of the state that aims to address market failures and safeguard public goods. This perspective suggests that state owners, in contrast to private owners, pursue a broader range of stakeholder interests, including financial, social, and political objectives (Tirole 1999; Jensen 2002; Musacchio and Lazzarini 2014a; Bruton et al. 2015). Consequently, compensation structures in the public sector tend to prioritise factors like hierarchy and seniority over direct links to economic performance, which is different from the typical private sector approach (Dixit 2002).

One of the issues identified is that compensation in Saudi SOEs is not strongly linked to achieving SOE objectives, particularly social objectives, which are an essential part of and the reason for the creation of SOEs. The concerns expressed by interview respondents may explain the low agreement obtained from the questionnaire survey regarding executive management compensation (see Table 6.9 in Chapter Six). Saudi SOEs are less likely to link CEOs compensation to firms' performance compared to privately controlled public firms (Conyon and He 2016). Research conducted by Conyon and He (2011) and Firth et al. (2007) also highlight that the sensitivity of executive pay to firm performance is significantly lower in SOEs. The prevalence of weak incentives, such as fixed salaries, in SOEs further implies that managers bear less accountability for underperformance (Kornai 1992; Cull and Xu 2005).

A board member emphasised the issue of fixed compensation, stating,

> *We strive to operate like a corporate entity, but one of the obstacles we face is that some of our senior executives are government employees. It is illegal for government employees to receive salaries or benefits from other entities. As a result, we may not be able to offer competitive salaries to certain executives. However, some of them prefer the security that comes with a government job.*

Another board member explained the approach to compensation:

> *We do compensate executives based on performance, and it is not solely the board's decision. We adopt a strategic approach and consult with other relevant parties. We believe that our approach is appropriate because if we were to solely base compensation on financial performance, we would encounter issues. Our focus is on delivering services rather than solely pursuing financial gain.*

A senior manager noted the varying nature of SOEs:

> *It depends on the nature of the SOEs. We are witnessing a trend where some SOEs resemble private companies, such as banks or investment firms owned by sovereign funds. In such cases, I believe that compensation based on performance is appropriate. However, for SOEs that provide public goods and essential services and whose prices are regulated by the government, it may not be reasonable to compensate their management solely based on performance.*

Many respondents highlighted the stickiness and bureaucracy involved in changing the structure of Saudi SOEs to resemble corporations similar to private firms, as well as the tedious process it entails. In addition, interviewees highlighted the influence of mimetic pressure, which arises in situations of uncertainty, leading companies to imitate the structures and practices of successful and legitimate organisations in their industry (Judge et al. 2010). Touron (2005) suggests that, particularly in uncertain circumstances, firms are inclined to mimic the behaviour of organisations they aspire to resemble, whether in the same sector or among industry leaders

As highlighted by a senior manager:

> *Implementing changes within SOEs, including their basic structure, is a challenging task that often encounters resistance and takes longer than usual. However, since I started working here, we have made significant changes to transform the company into a well-performing entity. We have prioritised effective corporate governance within the structure to ensure sustainable growth.*

7.8 Suggestions for Improving the Implementation of Effective CG in SOEs

The majority (90%) of interview respondents emphasised that a single measure alone cannot effectively improve the implementation of CG in Saudi SOEs. Similarly, in line with the questionnaire survey responses, the majority of interviewees (32 out of 40) highlighted the deficiency in board member qualifications and firm-specific knowledge, which negatively impacts the effective implementation of CG in SOEs. Therefore, they recommend placing more emphasis on enhancing board member qualifications.

An external auditor expressed the following concern:

> *To be frank, many directors lack CG knowledge. I work with the Audit Committee (AC) of an SOE, which is supposed to be the most developed subcommittee as it is mandatory for all companies, regardless of their size. In many cases, I find it challenging for the AC to grasp my concerns.*

A senior manager shared a similar concern:

> *Unfortunately, the lack of education and training among board members is a significant issue in developing countries. Governance is still in its early stages here, and board members often believe that they don't need education and training to be effective members. I would like to see training requirements, but not in the current sense. An online course that lasts two hours or even just one hour, followed by obtaining a certificate, this could not be a valuable approach.*

A board member acknowledges the issue of lack of member qualifications and mentions an ongoing initiative:

> *There is an initiative currently being developed in the Ministry of Municipal, Rural Affairs, and Housing. The plan is to implement a training programme for board representatives in SOEs to equip them with the necessary skills to be effective board members. It may take time and face resistance, but I am confident it will be a solution to address the lack of knowledge among board members.*

However, the interviewees emphasised that introducing reforms requiring specific qualifications for board appointments cannot realise benefits unless substantial changes are made to the board composition, such as increasing the threshold of independent members to 50%. In addition, interviewees added that qualifications and firm-specific knowledge must be combined with continuous education about board responsibilities and expectations.

A senior manager highlighted the need to change the composition of the board:

> *This change will open the door for more qualified individuals and enhance dialogue. Currently, representatives are mostly high-ranking officials who often lack the time or willingness to engage in meaningful discussions. Therefore, I believe that independent members will contribute to the board and its governance.*

An external auditor pointed out:

> *The current board composition style in many SOEs prevents qualified board members from effectively contributing. The presence of representatives, due to their titles and hierarchical positions, significantly affects the level of discussion. That's why you often see shorter board meetings in SOEs compared to other types of companies. The culture of hierarchy and ranking positions often leads to unanimous voting in favour of the chairperson's preferences. In most SOEs, the chairpersons are ministers.*

The interviewees unanimously agreed that creating awareness about the importance of board members' diligence is a crucial factor for the effective implementation of CG in Saudi Arabian SOEs. Many interview respondents emphasised that government representatives, due to their full-time jobs in the government, are often busy, and independent members may not fully understand their roles, often considering themselves as consultants rather than being accountable for the overall performance of the board. Interview respondents pointed out that SOEs should have a well-designed board charter that clearly defines the responsibilities of board members, which is particularly lacking among government representatives. They also highlighted the need for the charter to explicitly emphasise the roles, responsibilities, and authority of the board's subcommittees, as many SOEs have charters that are basic and do not cover all necessary aspects, and these charters are not regularly updated.

A board member explained the issue of not having a well-written charter:

We don't have a written charter specifying the powers and responsibilities. In addition, there are no qualified individuals to review them for accuracy. When I joined this company, there was a charter in place, but it was incorrect. It took me months to completely revise it. I found that strategic responsibilities were mixed with financial responsibilities, and I even noticed internal audit responsibilities overlapping with executive matters.

An internal auditor expressed their perspective on the importance of the charter:

For me, governance is all about the authority matrix, which essentially means that everyone in this company has powers and responsibilities. Governance is the ability to identify these responsibilities and determine who has the power to carry them out, enabling accountability. It's important for people to understand that the delegation of power does not mean the delegation of responsibility.

In line with the findings of the questionnaire survey, interview respondents expressed a preference for the partial listing of Saudi SOEs as it was believed that subjecting SOEs to the market would enhance their CG. They argued that CG requirements are more developed in the market, and the CMA possesses greater capabilities to monitor the implementation of CG compared to the Ministry of Commerce. Respondents favoured partial listing over complete listing, citing successful examples of partially listed SOEs and emphasising that the core purpose of SOEs, which is the delivery of goods and services, would not be jeopardised in the case of partial listing.

The head of the internal audit department stated:

There is no doubt that subjecting SOEs to the oversight of the CMA, as a regulator, will address the issue of weak regulation for SOEs. Whether we like it or not, increasing the initial public offering (IPO) of SOEs is one of the objectives of Vision 2030.

A board member explained ways to enhance the effectiveness of SOEs' CG:

There are two ways to improve the governance of SOEs. The first one is to list them, which would compel them to adopt good governance practices. The other way, which I have doubts about, is for the Ministry of Commerce to take on a role in overseeing unlisted SOEs. In my opinion, imposing compulsory requirements is the way to ensure that governance is upheld.

An external auditor mentioned:

If SOEs were listed, the entire landscape would change. Shareholders would rely on our opinion and pay attention to our comments. Generally, from the perspective of an external auditor, I believe that governance is strengthened through listing.

The majority of respondents expressed reluctance towards complete privatisation as a solution to the challenges of implementing effective CG in Saudi SOEs. They emphasised that complete privatisation may result in the loss of SOEs that serve strategic purposes or operate in strategic sectors. These SOEs were created to fill gaps in the market that the private sector alone cannot address or handle efficiently. Respondents' reservations align with the findings of Crompton and Jupe (2003), who discovered that the privatisation of the British railways, rather than benefiting taxpayers, resulted in significant losses due to substantial under-pricing of public assets during the privatisation process. Hu et al (2023) claimed that the ideal approach to SOE reform is not exclusively privatisation. They demonstrated that unification of power and responsibilities can be highly efficient, and perhaps offer a more cost-effective and practical alternative to privatisation.

An internal auditor commented on this issue, stating,

> *From a CG perspective, yes, private ownership is often more motivated to implement CG practices to ensure responsible investment. However, we should proceed with caution as privatisation may divert SOEs from their original goals.*

Similarly, a board member shared their perspective on privatisation as a means to enhance CG:

> *Complete privatisation of all SOEs may not be beneficial for the overall economy in the long run. There are concerns about how private owners can sustain the low profitability of certain SOEs. Immediate price increases of essential goods and services following privatisation could lead to social problems. While SOEs may not be perfectly governed, privatisation has proven to be ineffective in the majority of SOE sectors. Perhaps there are alternative ways to improve CG in SOEs without resorting to privatisation.*

Interview respondents, particularly board members, emphasised the importance of the board secretary role in CG requirements and regulations. They believe that the board secretary plays a significant role in facilitating the functions of the board and liaising with board members, which is crucial in SOEs. However, they highlighted that the board secretary in many Saudi SOEs is often a low-level employee who lacks basic knowledge related to the role and is assigned to the position without a dedicated full-time job as a board secretary. Research by Li and Lee (2022) found that having CFOs serve as board secretaries contributes to increased information transparency and their findings are more noticeable in SOEs.

A board member commented on the role of the board secretary:

The work requires a lot of coordination between board members, and many secretaries are enthusiastic and motivated but do not have full-time job as a board secretary and the basic knowledge.

The majority of interview respondents do not strongly support the recommendation to centralise state ownership in all SOEs under a single ownership. They argue that it would only add an additional layer of bureaucracy and may lead to unhealthy intervention. These concerns are consistent with the argument presented by Milhaupt and Pargendler (2017). Furthermore, interviewees caution that if the single ownership is under the authority of one ministry, typically the Ministry of Finance, it could result in unchecked power over the SOEs and deviation from their objectives. These remarks align with the findings of the questionnaire survey, which showed a low response rate regarding this recommendation.

An internal auditor stated,

Centralised ownership may appear to address the issue of the absence of a general assembly, but it might be merely a structural change. Good governance is about the substance, not just the formality.

A senior manager remarked,

I don't see any benefits in consolidation because it would be impossible to consolidate all the SOEs under one holding company. SOEs operate in various industries, and I don't believe a holding company could effectively manage that. It would create chaos.

A board member expressed uncertainty regarding centralized state ownership, saying,

I think it will have an impact on the governance of SOEs, but I'm not sure if the holding company will maintain its distance and refrain from interfering with the SOEs.

Furthermore, consistent with the findings of the questionnaire survey, many interview respondents (approximately 70%) expressed their disagreement with the idea of establishing a specific CG code for Saudi SOEs. They were concerned that such a code would create an uneven playing field between SOEs and private firms and could potentially provide a legal basis for practices that do not align with best practice guidelines.

A senior manager explained why the idea of a specific CG code was not welcomed:

Governance is deeply rooted in the culture of effectively, efficiently, and ethically running a company. If regulators attempt to impose regulations that fit all, it could lead to disastrous outcomes. Governance should be principle-based, allowing each SOE to adopt its own governance approach that works best for its unique circumstances.

An external auditor pointed out that the issue primarily stems from the lack of a strong enforcement and monitoring body, as well as the need for more comprehensive laws and regulations.

> *The Ministry of Commerce serves as the sole regulator for most unlisted SOEs. However, the ministry, despite its best efforts, lacks the necessary capabilities and resources to effectively oversee adherence to governance standards. When we compare governance in listed companies and banks, we observe better overall governance due to the presence of strong regulatory bodies such as the Capital Market Authority (CMA) and the central bank. A perfect code alone is not sufficient to ensure good governance practices; what truly yields results is a robust regulator.*

A board member expressed concerns that a specific CG code could exacerbate the divide between SOEs and private companies:

> *It is not a favourable proposition. Despite the unique characteristics of SOEs, I believe they should strive to be as similar as possible to other companies. Implementing a separate code could widen the gap between SOEs and private companies.*

A senior manager offered a more balanced view on the idea of establishing a specific CG code for Saudi SOEs

> *It may address certain issues, such as the establishment requirements for subcommittees and the organisation of the relationship between the board and the affiliated ministry (general assembly). I see it as an ambitious plan that has the potential to enhance the practice of CG in SOEs.*

On the other hand, interview respondents believed that establishing an independent government entity to ensure CG regulations and best practice guidelines in all Saudi Arabian SOEs could significantly enhance the implementation of CG. They argued that one of the major challenges in Saudi SOEs governance is the lack of enforcement and the limited capacity of the Ministry of Commerce, which currently serves as the sole regulatory body for all unlisted SOEs.

7.9 Conclusion

The interview survey aimed to conduct a comprehensive examination of the factors constraining and challenging the implementation of effective CG in Saudi Arabian SOEs. Various observations have highlighted challenges faced by Saudi SOEs in achieving effective CG implementation. Respondents unanimously indicated a weak role of the ownership entity in clarifying the objectives of individual SOEs, along with a lack of operational autonomy. In addition, concerns were raised about the professionalism of the board of directors, particularly in terms of appointments and compensations.

Furthermore, the interview findings indicated some institutional challenges, for instance, the absence of a robust independent regulator. The interview surveys also identified critical factors that influence the ability of boards of directors to perform their responsibilities effectively. These include limited autonomy in decision-making processes, board members not fulfilling their roles diligently, and a shortage of independent members in terms of both quantity and authority, along with a high representation of government officials.

Moreover, the interview survey highlighted weaknesses in the performance of statutory audits carried out by the Saudi Arabian GCA. Several challenges related to external auditors were noted, particularly the lack of industry expertise. The findings also revealed that disclosure practices are suboptimal. Regarding internal auditing, key challenges were identified, including insufficient human resources and administrative support from management as well as the practice of reporting to line managers which compromises their independence. Concerning the executive management of Saudi SOEs, challenges were observed in the limited freedom given to executives and their involvement in day-to-day business operations. In addition, the implementation of CG was not identified as a high priority for executive management, and executives often used their roles in SOEs as steppingstones to other positions in the government. Lastly, respondents provided suggestions on how to effectively enhance the implementation of CG in Saudi Arabian SOEs.

CHAPTER EIGHT: CONCLUSION

8.1 Introduction

The primary objective of this study is to investigate the main challenges and obstacles associated with the implementation of effective CG in Saudi Arabian SOEs. This endeavour was driven by the dearth of prior research in the context of SOE CG, and to the best of the researcher's knowledge, no previous academic research had been conducted on the CG environment of Saudi SOEs. Consequently, this study took a comprehensive exploration of issues related to CG practices within SOEs in Saudi Arabia. The primary focus of this chapter is to conclude the thesis. It commences with an overview of the thesis’s chapters in Section 8.2. Then, Section 8.3 presents a review of the findings. In addition, this chapter offers some key contributions and theoretical implications in Section 8.4, and policy implications in Section 8.5. Section 8.6 outlines certain limitations of the research, while Section 8.7 identifies potential areas for future research. Finally, Section 8.8 concludes the thesis with some concluding remarks.

8.2 Overview of Thesis

This study has undertaken a comprehensive examination of the challenges and obstacles related to implementing effective CG in Saudi Arabian SOEs. The thesis comprises eight chapters. Chapter One introduced the motivations, objectives, and research significance. This chapter also provided an overview of the research methodology, emphasising the need to employ a combination of quantitative and qualitative methods to collect data. Chapter Two provided an introduction to the history of SOEs, highlighting their unique characteristics. Within this chapter, an overview of Chinese and Singaporean SOEs is presented. Chapter Two also presented an overview of the Saudi Arabian context, with special reference to its SOEs and the CG environment, including the country's regulatory framework. Chapter Three provided a comprehensive review of the CG literature, encompassing its theories and models. An overview of the OECD Guidelines on CG of SOEs was also included in this chapter. Chapter Four summarised the literature regarding the roles of boards of directors, senior managers, internal auditors, and external auditors in CG.

Chapter Five explained the research methodology adopted in this study. This chapter discussed the research design and offered insight into the two main types of empirical research in the social sciences: the quantitative approach and the qualitative approach. Many researchers have highlighted that quantitative research, while valuable, is significantly enhanced when used in conjunction with qualitative research methods, such as case studies and interviews. This combination allows for data triangulation which strengthens the conclusions drawn. The current study utilised a mixed methods design, incorporating a questionnaire survey and semi-structured interviews. The chapter also provided a brief discussion of the advantages and disadvantages of a questionnaire survey. Then, it elaborated on the questionnaire study population and sampling procedures. The chapter offered a detailed explanation of the questionnaire design, including its structure. The final questionnaire comprised forty-one statements categorised into six aspects of challenges. In addition, the questionnaire included a section with ten suggested statements to improve the governance of Saudi SOEs. The chapter outlined the process employed for testing and piloting the questionnaire and described how the questionnaire was administered. Response rates are also presented in this chapter, along with measures taken to ensure validity and reliability.

Also, chapter Five provided a discussion of the second method of data collection, namely semi-structured interviews. This section presented a brief overview of the interview method, along with the rationale for employing semi-structured interviews in conjunction with the questionnaire survey. In addition, this chapter outlined the procedures for administering the interviews. The interview participants consisted of ten representatives from each of the four sample groups: board of directors, senior managers, internal auditors, and external auditors. The chapter also explained the statistical tools employed for data analysis. Both descriptive and inferential statistics were utilised in this study. Descriptive findings are presented through measures such as frequencies, percentages, ranks, means, medians, and standard deviations. The significance of responses was assessed using the Wilcoxon Signed Rank Test. The primary objective of hypothesis testing was to investigate potential significant differences among the various respondent groups. This was done using two non-parametric tests, namely the Kruskal-Wallis Test and the Mann Whitney U Test. For the analysis of interview responses, a cross-case analysis approach, as proposed by Miles and Huberman (1994), was adopted.

Chapter Six provided an analysis and discussion of the responses obtained from the questionnaire survey. This chapter presented the perspectives of 40 board members, 42 senior managers, 45 internal auditors, and 30 external auditors who responded to a series of questions pertaining to six distinct types of challenges: ownership, institutional, board of directors, external auditing and disclosure, internal auditing, and management. Their responses were analysed using the Statistical Package for Social Sciences (SPSS), employing descriptive statistics including frequency, mean, standard deviation, and ranking. Furthermore, the chapter involved inferential data analysis. The Wilcoxon Signed Rank Test was utilised to assess the significance of agreement or disagreement with the fifty-one statements in the questionnaire. In addition, the chapter employed the Kruskal-Wallis test to explore potential differences in responses among the four distinct sample groups concerning their perceptions of the six broad aspects of CG challenges, as well as measures to enhance CG. In cases where significant differences were observed, the Kruskal-Wallis pair-wise comparison was employed to determine precisely which groups showed variance. In addition, the chapter conducted a Kruskal-Wallis test to determine whether there were any statistically significant differences in the mean scores reported by participants belonging to different categories of SOEs.

Chapter Seven offered an in-depth examination of the interview survey responses undertaken with forty participants, including ten board directors, ten senior managers, ten internal auditors, and ten external auditors. This interview survey covered similar broad challenges as discussed in the questionnaire survey. The primary objective of the interviews was to gain a deeper and more nuanced understanding of the challenges in implementing effective CG in Saudi Arabian SOEs. Given the sensitivity of the CG topic, especially within SOEs, an open discussion of these issues could be challenging. Therefore, the interviews aimed to facilitate and provide additional insights into aspects that may not have been fully addressed or highlighted by the closed-ended questionnaire survey. The responses in the interview survey were consistent and similar to the findings from the questionnaire survey. However, on a few specific points, there were discrepancies between the interview responses and the questionnaire findings, which will be detailed in the next section the Review of Findings Section. Chapter Eight, the present chapter, will offer a thorough review of the findings, explicate the research contributions and implications, and address the research’s limitations. In addition, it will provide recommendations for further research.

8.3 Review of Findings

8.3.1 Questionnaire Survey

The overall findings from the questionnaire survey highlighted several challenges and obstacles impeding the effective implementation of CG in Saudi SOEs. Firstly, regarding the ownership entity (parent ministry), the results revealed that these entities have historically been hesitant to grant the appropriate level of operational autonomy to SOEs. This lack of autonomy poses various challenges to implementing effective CG, such as the presence of an ambiguous line of responsibility. This ambiguity presents a fundamental challenge in ensuring accountability.

Moreover, the absence of operational autonomy raises questions about the rationale behind holding Saudi Arabian SOEs accountable for any inefficiencies. This observation aligns with the commonly acknowledged issue in the literature, where owners fail to provide the necessary autonomy to SOEs and lack a clear differentiation between the roles of the board and the owner, thereby jeopardising the autonomy of SOE boards (Okhmatovskiy et al. 2022). Determining the appropriate level of autonomy is a theoretical dilemma for SOEs, as an increase in autonomy can lead to agency conflicts while simultaneously reducing interference (Cuervo-Cazurra et al. 2023). Empirical findings by Lazzarini et al. (2021) indicate that, given their relatively higher level of operational autonomy, SOEs outperform private companies. However, based on a questionnaire developed by the OECD (2018) regarding the professionalisation of boards of directors, the majority of governments fail to distinguish between the roles of the board and the ownership function, consequently challenging the autonomy and independence of boards.

Furthermore, the findings indicated that ownership entities have not been transparent in their policies for board nominations. Transparent board nominations are crucial for ensuring that the right individuals become board members, which in turn enhances the overall functioning of the board of directors and the implementation of effective CG in SOEs. The low agreement expressed by participants reflects the challenges in CG implementation in Saudi SOEs, supporting Okhmatovskiy et al.'s (2022) argument that board nominations and appointments are often made without transparency and competitive selection. In addition, the results highlighted a low level of satisfaction regarding the attractiveness of remuneration for board members. This issue could impede the recruitment of experienced members capable of performing their duties diligently and effectively. As Tricker (2015) noted, board remuneration plays a critical role among other factors, as it is challenging to attract world-class members to accept positions on SOE boards.

Secondly, the findings from the questionnaire survey emphasised the urgent need for a robust, independent enforcement regulator to safeguard CG rules and regulations and ensure Saudi Arabian SOEs' compliance with these standards. Recent research suggests that the political and regulatory environments significantly influence CG systems (Firth et al. 2006b). Countries with inadequate investor protection laws and weak law enforcement tend to have poor CG (La Porta et al. 2000). The results underscore the need for strong law enforcement institutions. Empirical studies by Defond and Hung (2004) have supported the notion that strong law enforcement contributes to the enhancement of CG. Ke and Zhang (2021) highlight the lack of investor protection in many developing economies and argue that while it may be relatively easy to propose investor protection regulations, their enforcement is often lax and ineffective in such economies. Therefore, a main challenge in these economies is to identify effective mechanisms for improving the enforcement of CG regulations. Anderson and Gupta (2009) argue that investor rights are meaningless when commercial laws in a country are weak or poorly enforced. Therefore, the extent and quality of legal protection for investors depend on two elements: the statutory provisions of commercial law and the degree to which these statutes are enforced (Dahya et al. 2008). The results also highlighted another critical institutional challenge: the lack of clarity and consistency in the legal and regulatory requirements pertaining to CG. The low levels of clarity, consistency, and transparency in these legal requirements may stem from the challenge of applying the legal and institutional frameworks designed for private companies to SOEs. Grossi et al. (2015) have pointed out that this misalignment often complicates the establishment of clear CG guidelines for SOEs, making it difficult to enforce consistent standards across different entities.

Thirdly, the questionnaire responses have illustrated certain shortcomings concerning the boards of directors. A prevailing consensus across all participant groups is the acknowledgement that SOE boards are predominantly comprised of government representatives and lack independent directors. These findings align with the argument by Puffer and McCarthy (2007) that SOEs tend to be dominated by insiders and government representatives. Studies conducted by Neville et al. (2019), Carcello et al. (2002), Rutherford and Buchholtz (2007), and Beasley and Salterio (2001) have supported the inclusion of more independent directors. Although this finding is concerning, it is not surprising given that this study aligns with the findings of Ding et al. (2014), which show that state ownership in SOEs weakens board independence. Furthermore, the findings revealed that SOEs' boards possess limited authority to design appropriate managerial incentives for managers based on the distinctive characteristics of each SOE. This is a deviation from agency theory, which assumes that the board is the most appropriate entity within a company to develop such remuneration policies. Moreover, the pursuit of multiple objectives further complicates the development of efficient incentive contracts in SOEs (Bai and Xu 2005; Firth et al. 2006a). Increasing the board's authority to design tailored compensation structures could positively impact CG implementation by enhancing efficiency and innovation. In addition, the results from the questionnaire survey raised concerns about board members' dedication of time and the effectiveness of board evaluations. It is widely recognised that board members of SOEs often do not allocate sufficient time to their board responsibilities. Research, such as that conducted by Carcello et al. (2002), highlights various board characteristics, including diligence and expertise, which are fundamental to the effectiveness of the board of directors. Furthermore, it appears that many SOEs either do not conduct board evaluations or treat them as mere formalities. Grosman et al. (2016) found that only 11% of SOE boards conduct proper evaluations, highlighting a significant gap in oversight and accountability.

Fourthly, the findings demonstrated that the collaboration between external auditors and the Saudi Arabian GCA falls short of anticipated levels. This finding aligns with the research of Al-Dehailan (2004), who identified the lack of qualifications of auditors sent by the GCA as a major obstacle to its effectiveness. Maroun and Atkins (2014b) emphasised that regulations supported by governmental authorities are a vital mechanism for enhancing audit quality and restoring trust in the audit process. Moreover, the results indicated a low level of satisfaction regarding most disclosure statements, indicating that Saudi SOEs need to enhance their disclosure practices. Sufficient disclosure is critical for CG as accounting information provides independently verified data about the performance of managers (Sloan 2001). The findings reflect concerns about the adequacy of current disclosure levels, suggesting that Saudi SOEs must improve their transparency practices. This issue aligns with the work of Xiao et al. (2004) and supports Grosman et al.'s (2016) inquiry into whether state ownership correlates with low or high levels of transparency and disclosure, with evidence showing generally lower disclosure in SOEs. A possible explanation for this deficiency is that the state's direct access to corporate information may diminish the perceived need for additional public disclosure. However, given that citizens are effectively the primary investors in SOEs, there is a strong vested interest in promoting greater transparency and disclosure to allow for public evaluation of these enterprises' performance (Allini et al. 2016).

Fifthly, the responses unveiled several inherent weaknesses regarding internal auditing in Saudi SOEs, primarily related to the absence of an updated charter for the internal audit department. While the majority of respondents expressed an acceptable level of agreement regarding the relationship and communication between the audit committee and internal audit, and the involvement of the audit committee in the appointment and termination of the head of internal audit, concerns were raised about the independence of the internal audit department. Research by Christopher et al. (2009) found that in many companies, the CEO or CFO takes responsibility for appointing, dismissing, and evaluating the head of the internal audit function, which may impair its independence. Building greater communication based on openness and trustworthiness is expected to enhance the internal audit function's independence from management (Raghunandan et al. 2001). In addition, the questionnaire survey highlighted that the internal audit departments in Saudi SOEs often lack adequate resources to fulfil their responsibilities. Professional recommendations, such as those by AICPA (1998), emphasise the need for companies to provide sufficient funding for internal audit departments and invest in the education, experience, certification, and ongoing training of internal audit staff. These factors are important, as they are considered by external auditors when evaluating the competence of the internal audit function. This study reaffirms the argument by Lenz and Hahn (2015) that investment in internal auditing services is directly linked to the value these functions contribute to an institution’s strategic, operational, compliance, and financial reporting objectives.

Sixthly, respondents appeared dissatisfied with the level of freedom afforded to executive managers. It was noted that the board involves itself in day-to-day business operations. All three respondent groups expressed significantly less agreement compared to board members. This is a common issue because political interference tempers managerial discretion, especially for SOEs heavily reliant on the state for resources (Lioukas et al. 1993). The OECD (2015) emphasises that management should be allowed the appropriate freedom to conduct day-to-day business without interference, and Lazzarini et al. (2021) highlighted the importance of managerial autonomy in SOEs. In addition, similar to the issue of compensation for board members, the results showed that executive managers’ compensation does not adequately align with management’s interests and the long-term objectives of the SOEs, which is a critical CG mechanism. Research by Conyon and He (2011) and Firth et al. (2007) also highlights that the sensitivity of executive pay to firm performance is significantly lower in SOEs. The prevalence of weak incentives, such as fixed salaries, in SOEs further implies that managers bear less accountability for underperformance (Kornai 1992; Cull and Xu 2005). Strengthening the alignment of executive compensation with performance metrics could be pivotal in enhancing accountability and enhance the implementation of effective CG for SOEs.

Furthermore, the inferential data analysis employed the Wilcoxon Signed Rank Test to assess the significance of agreement/disagreement with the statements in the questionnaire survey. The test results indicated that most of the statements received significant agreement. However, external auditors provided fewer agreements compared to the other three sample groups. In addition, the test confirmed that certain statements, as indicated in the descriptive results, did not demonstrate significant agreement across all four sample groups. For instance, none of the four sample groups significantly agreed that SOEs are subject to a strong and independent enforcement regulator. The test results also indicated that, apart from the board of directors group, the three groups did not show significant agreement regarding the clarity and consistency of the legal and regulatory framework in CG. This suggests that, while laws and regulations may appear clear to high-ranking officials, the same may not hold true for those directly involved in implementation. In general, the Wilcoxon Signed Rank Test results suggested that there might be some differences in responses within the sample groups, providing a more nuanced understanding of the challenges in implementing effective CG in Saudi Arabian SOEs.

Finally, the Kruskal-Wallis test was employed to explore potential differences in responses among the four sample groups. The test results suggested that there is no significant difference in the responses between the sample groups concerning four key aspects of challenges in the implementation of CG in Saudi SOEs: ownership, institutional, board of directors, and external auditing and disclosures, as well as management. The consensus among the four sample groups regarding the majority CG challenges investigated suggests that these challenges pose significant obstacles to the implementation of CG in Saudi Arabian SOEs. However, the null hypotheses regarding internal auditing challenges and the ways of enhancement were rejected by the test results at a 5% level of significance. Subsequently, the Kruskal-Wallis pair-wise comparison was employed to precisely identify which groups showed differences with each other. The results indicated a particular difference in the responses from external auditors concerning internal auditing challenges compared to the other three sample groups. This divergence may come from external auditors' more critical evaluation of internal audit functions, influenced by their status as external observers and their work's reliance on the quality of internal departments. Similarly, variations in responses regarding methods of enhancement were observed, with the board of directors providing lower responses compared to internal and external auditors. One potential explanation for this could be that certain suggestions, such as reducing the number of government officials on Saudi Arabian SOEs boards of directors and limiting multiple directorships, may not be well-received by board members. The key hypotheses formulated to guide the analysis of the questionnaire survey chapter are summarised in Table 8.1.

Table 8. 1 Summary of The Hypotheses Results

Hypothesis	Hypothesis statement	Result
Hypothesis 1	Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to *CG **ownership challenges*** are statistically insignificant.	Supported
Hypothesis 2	Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to *CG **institutional challenges*** are statistically insignificant.	Supported
Hypothesis 3	Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to CG ***board of directors' challenges*** are statistically insignificant.	Supported
Hypothesis 4	Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to ***external auditing and disclosure*** challenges are statistically insignificant.	Supported
Hypothesis 5	Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors, and External Auditors) with respect to ***internal auditing challenges*** are statistically insignificant.	Rejected
Hypothesis 6	Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors and External Auditors) with respect to ***management challenges*** are statistically insignificant.	Supported
Hypothesis 7	Differences observed in the mean scales of the four sample groups (Board Members, Managers, Internal auditors and External Auditors) with respect to ***the ways of enhancement*** are statistically insignificant.	Rejected

8.3.2 Semi-Structured Interview Survey

The overall findings from the interview survey have corroborated the results of the questionnaire survey, shedding light on various challenges that hinder the effective implementation of CG. However, the interview findings revealed that while the objectives of SOEs are generally clear, they often pose challenges to CG implementation due to the necessity of reconciling governance arrangements from both the private and public sectors. This observation is consistent with Shleifer's (1998) argument, which highlights that SOEs face the dual task of pursuing both social and commercial goals, leading to complex governance challenges. It is not uncommon for SOEs to be assigned non-profitable objectives that align with national goals, such as employment and social stability (Lazzarini et al. 2021; Sun et al. 2021; Cuervo-Cazurra et al. 2023), in addition to their profit objectives. Managing these multiple and potentially conflicting objectives is a central challenge in SOE governance, as recognised by both the World Bank, the OECD, and Menozzi et al. (2012). SOEs are typically subject to a broad set of state objectives (Lazzarini and Musacchio 2018), which create both benefits and costs for these enterprises (Nash 2017).

Moreover, interview respondents emphasised the critical need for effective governance over the relationship between ownership entities and SOEs, particularly concerning operational autonomy. This observation is aligned with the well-documented issue in the literature where owners often fail to grant necessary autonomy to SOEs, leading to a lack of clear differentiation between the roles of the board and the owner, which in turn jeopardises the autonomy of SOE boards (Okhmatovskiy et al. 2022). Recognising the autonomy of SOEs is essential for separating decision-making processes from political influences and ministerial bureaucracy, which ultimately aim to enhance the efficiency of both enterprises and government (Lioukas et al. 1993).

In addition, the interview findings illuminated concerns about the effectiveness of the general assembly. It was noted that it is not uncommon for the chairperson to also assume the role of the general assembly, which compromises the effectiveness of board responsibilities. Respondents further highlighted that many SOEs have a general assembly consisting of either an individual or a single ministry (the parent ministry), which often results in an inefficient general assembly. This aligns with Musacchio and Lazzarini's (2015) argument that SOEs suffer from weak monitoring by the ownership entity. Policy recommendations from the OECD and World Bank emphasise the importance of the state acting as an informed and active owner. Furthermore, the findings indicated that board appointments in Saudi Arabian SOEs are frequently influenced by political agendas, leading to frequent board replacements. This observation supports Kuzman et al.'s (2018) view that the issue of board selection in SOEs is exacerbated by frequent, politically motivated board replacements, which are often tied to election cycles rather than being based on performance-related criteria.

Regarding institutional challenges, interview respondents emphasised the presence of weak regulatory oversight, which hampers the effective implementation of CG in Saudi Arabian SOEs. They also noted that, in many cases, SOEs can be exempt from certain laws and regulations, a finding that aligns with previous research by Klapper and Love (2004). In addition, it was acknowledged that the absence of fair competition contributes to inefficiencies in CG within SOEs. This observation is consistent with Bunkanwanicha and Wiwattanakantang's (2009) research, which indicates that politically connected firms often receive substantial advantages, such as favourable government policies, which act as barriers to market entry for competitors. However, respondents expressed less concern about the differential treatment of listed SOEs compared to private firms or the issue of equitable treatment of shareholders. They attributed the robust regulation and oversight in this aspect to the Capital Markets Authority (CMA). This finding contrasts with Grosman et al.'s (2016) argument that listed SOEs often lag in adopting best CG practices intended to protect the interests of minority shareholders.

In terms of the board of directors, interview responses indicated that despite SOEs adopting the formal structure of a corporation with boards gaining authority, they often find themselves having to consult with the ownership entity on various matters, including issues that, according to best practices, should fall within the fundamental role of the board. This additional layer of consultation has exacerbated the bureaucracy that already exists in SOEs. This finding resonates with Apriliyanti and Randøy's (2019) observation that government influence heavily impacts the decision-making process in Indonesian SOEs. Moreover, interview respondents pointed out that CEOs are not always appointed by the board of directors, despite the board, particularly the chairperson, playing a predominant role in this process by consulting with the ownership entity. This dynamic further complicates the governance structure. The interviews also revealed concerns about the board's limited ability to design customised compensation structures, reflecting broader issues in executive compensation. Another issue highlighted was the time commitment of board members to their SOE duties, underlining a lack of willingness among some members to fully understand and fulfil their board responsibilities. Board diligence is important for the proper functioning of boards of directors. According to Carcello et al. (2002), board diligence includes factors such as the number of board meetings and the behaviour of individual board members, including their preparation, attentiveness, participation, and post-meeting follow-up. Furthermore, while the board charter has received some attention, the delegation of power and responsibilities remains problematic in some of Saudi Arabian SOEs. The charter does not clearly define the roles, responsibilities, and authority of both the board and executive management, continuing to create governance challenges.

Regarding board composition, the interview findings are consistent with the questionnaire results, highlighting a lack of independent members whose roles are often not clearly defined. It has been observed that independent members are commonly consulted on only limited matters. This suggests that independent directors on Saudi Arabian SOE boards are not fully fulfilling their roles, primarily due to inadequate guidance in the CG code, as highlighted by Braendle (2015), and resistance to adopting governance practices originally designed for private firms. Furthermore, the chairperson wields significant influence over the appointment or recommendation of independent directors, often without consulting the committee in charge or other board members. This dynamic can result in a reluctance among independent directors to challenge the chair's decisions, even when it may be necessary. The findings also reveal that the board of Saudi Arabian SOEs is predominantly composed of government representatives. Interestingly, in contrast to the questionnaire findings, interview respondents expressed concerns about the board's lack of knowledge in implementing CG policies and procedures that align with the SOE's business model. This aligns with Thompson et al.'s (2019) findings, which observed that politically appointed board members may not fully understand their roles and responsibilities. The lack of expertise among state representatives often leads to inefficient monitoring of SOE managers (Dharwadkar et al. 2000). This challenge is further compounded by the dispersion of monitoring duties across various state agencies (Zou and Adams 2008).

In terms of external auditing and disclosure, significant deficiencies were identified. Respondents believed that a major fix of the current practices of the Saudi Arabian GCA is needed, as the existing approach does not substantially contribute to enhancing corporate CG in Saudi SOEs. In addition, respondents highlighted a lack of industry expertise among external auditors, which undermines the effectiveness of external auditing. This finding contradicts the questionnaire results, where the majority of respondents expressed no concerns in this area. Ericsson and Lehmann (1996) emphasised the importance of industry-specific experience over general accounting experience, a perspective supported by Balsam et al. (2003) and Ittonen et al. (2015) for external auditors, and by Bedard et al. (2004) for audit committees. The interviewees emphasised the need for industry expertise in external auditors to compensate for the difficulty and bureaucracy involved in changing the audit committee's composition to include a member with industry expertise. The emphasis on industry expertise aligns with the findings of Gul et al. (2009) and Ittonen et al. (2015), which show that industry specialists are associated with lower earnings management. Respondents also expressed pessimism about the role of the audit committee, particularly in terms of the appointment and removal of external auditors based on its recommendations. They also emphasised that the prevailing culture and attitudes within the SOEs can hinder the auditors' role in CG and their integration into the CG mechanisms. Effective audit committees have the potential to enhance the planning and execution of audits, as well as broaden the scope of the attestation function, which can result in increased efficiency and improved quality outcomes (Maroun and Atkins 2014a).

Furthermore, the findings indicated that disclosure practices are primarily driven by regulatory requirements, resulting in limited voluntary disclosure. Most recommended disclosure practices related to SOEs are not adhered to. Empirical studies show mixed results regarding disclosure levels in SOEs. For instance, Wang et al. (2008a) found a positive relationship between the proportion of state ownership and voluntary disclosure, while Xiao et al. (2004) reported a negative correlation. Given that citizens are the primary investors in SOEs, there is a strong interest in promoting greater transparency and disclosure to assess the performance of these enterprises (Allini et al. 2016). It has been recognised that SOEs may have less incentive to provide high-quality accounting information to avoid disclosing underlying deficiencies (Jin et al. 2021). Nonetheless, accounting information plays an essential role in CG by serving as a primary source of independently verified performance data and establishing a clear link between CG and financial accounting (Sloan 2001).

Regarding internal auditing, several challenges and deficiencies were highlighted. One major issue is the significant involvement of senior executives in internal auditing activities, which may undermine the effectiveness of the internal audit function. Their input on the internal audit plan can negatively impact the function's independence. This finding aligns with Abbott et al.'s (2016) research, which emphasises the importance of competence in ensuring an effective internal audit function. In addition, the current study highlights similar similar concerns were raised by Christopher et al. (2009), who suggest that when CEOs and other executive managers are involved in approving the internal audit function's budget and contributing to the internal audit plan, internal auditors may become more aligned with executive management, which potentially compromising their independence. Respondents also noted that the internal audit function does not report functionally to the audit committee, which is a significant concern. A stronger relationship between internal audit and the audit committee is likely to enhance the internal audit's independence from management, reducing the risk of reprisal and improving objectivity, particularly from the perspective of external auditors (Abbott et al. 2012; Raghunandan et al. 2001). Furthermore, the management's substantial role in the appointment and removal of the head of internal audit further complicates the issue. In addition, a lack of resources and skilled personnel were identified as significant impediments to the effectiveness of internal auditing and its role in enhance CG in Saudi Arabian SOEs.

In terms of management, interview respondents expressed concerns about the involvement of board members in the day-to-day operations of Saudi Arabian SOEs. Interestingly, this contrasts with the questionnaire findings, where the majority of interviewees indicated that CG is not a primary responsibility of the highest-ranking individual within SOEs but is largely delegated to line managers. Respondents also noted that many executives view their positions in SOEs as stepping stones to other roles, either within the government or in the private sector.

It is common for executive positions in SOEs to be filled by state bureaucrats rather than professional managers, with these roles often serving as career progression for successful civil servants (Morck et al. 2008). This can lead to a shortage of qualified individuals available to Saudi Arabian SOEs. Agency theorists have long debated the challenge of delegating decisions to agents whose objectives may not align with those of the principals. In the context of SOEs, several authors have suggested that SOE managers are often inadequately selected and lack strong incentives to pursue efficiency and profitability, especially compared to their counterparts in private firms (Vickers and Yarrow 1988; Boardman and Vining 1989; La Porta and Lopez-de-Silanes 1999; Dharwadkar et al. 2000). Furthermore, executives are not compensated in a way that aligns with achieving SOE objectives, particularly social goals. SOEs are frequently viewed as extensions of the state aimed at addressing market failures and safeguarding public goods. This perspective suggests that state owners, unlike private owners, pursue a broader range of stakeholder interests, including financial, social, and political objectives (Tirole 1999; Jensen 2002; Musacchio and Lazzarini 2014a; Bruton et al. 2015). Consequently, compensation structures in the SOE sector tend to prioritise factors such as hierarchy and seniority over direct links to economic performance or the achievement of social objectives. In addition, proposing changes to the internal structure of Saudi SOEs, even when deemed appropriate, can be a cumbersome process involving various governmental entities.

8.4 Theoretical Contributions and Implications for Researchers

The current study makes several contributions to the limited literature on CG in SOEs by conducting a comprehensive investigation into the challenges and obstacles of implementing effective CG in Saudi Arabian SOEs. Specifically, this study, employing a multi-theoretical lens, responds to calls made by researchers such as Abang'a and Wang'ombe (2020), who emphasise the need for a multi-theoretical framework to explain and predict the quality of CG in SOEs. It advocates the use of multiple theories instead of relying on a single universal theory, aligning with the arguments of Bruton et al. (2022) who suggest that CG-related research should employ multiple universal theories.

Furthermore, while CG research has heavily leaned towards quantitative research and theory testing, benefiting from the abundance of secondary data, particularly in the case of listed firms, this approach may sometimes provide evidence that, while meeting academic rigour, may not be fully reflective of the reality of CG in companies. The current study departs from this trend by directly engaging with four key groups where literature has provided supporting evidence for their role in CG. Therefore, this study represents a substantial effort to balance the direction of CG research. It analyses the challenges and obstacles of implementing effective CG through a dual methodology combining empirical quantitative data via questionnaire surveys and qualitative information obtained through semi-structured interviews.

In addition, this research extends previous studies that predominantly focused on the board of directors and its composition in CG research. CG involves numerous actors, and concentrating solely on the board of directors may yield only partial insights. The current study involved board members, senior finance officials and other senior managers, internal auditors, and external auditors; therefore, it offers a comprehensive view of the challenges and obstacles faced in implementing effective CG in Saudi Arabian SOEs. Many researchers, including Cohen et al. (2002), Carcello et al. (2011a), Grosman et al. (2016), and Aguilera et al. (2021b), have identified various actors that play influential roles in CG. Moreover, this research not only focuses on the challenges of implementing effective CG within the Saudi SOEs, but also investigates the institutional challenges affecting the implementation of CG. Scholars have recognised that institutions are crucial in explaining firms' adoption of certain governance structures and practices.

The findings of this study offer insights into the applicability of Agency Theory within the context of Saudi Arabian SOEs. Supporting the arguments by Bruton et al. (2022) and Filatotchev et al. (2021) regarding the appropriate use of universal theories in CG research. For instance, the study provided evidence that independent directors contribute to the effective functioning of the board of directors due to their ability to monitor management- a conventional assumption under agency theory. However, the direct engagement with the current research respondents also highlighted other issues surrounding independent directors. For instance, while independent directors may exist structurally, they often encounter challenges in expressing opposition or offering open critique, particularly when it concerns individuals like government representatives. The findings of this study shed light on soft dimensions in understanding the challenges and the quality of SOEs' CG research. Hence, this study enriches our understanding of CG from both the soft and structural dimensions, both of which are pivotal in CG.

Moreover, the study highlights that while Agency Theory remains relevant, it must be contextualised within Saudi Arabia's unique socio-political landscape. The shift towards New Public Management (NPM) practices since the late 1980s introduced private-sector efficiencies into public management, reflecting the theory's applicability into SOEs. However, the direct application of Anglo-Saxon CG models, which emphasise board independence and professionalisation, may not be the optimal solution for Saudi SOEs. Saudi Arabia's unique socio-political context, characterised by the significant influence of certain individuals, the primacy of personal relationships over regulatory frameworks, and a hierarchical business culture, challenges the direct application of agency theory. Thus, although agency theory provides a valuable lens for examining governance in Saudi SOEs, it does not fully account for the distinctive political, religious, and cultural dynamics of the country.

Interestingly, the findings of this study also contribute to our theoretical understanding of CG from Neo-Institutional Theory perspectives. The study illustrates that CG practices in Saudi Arabian SOEs are often adopted for legitimacy reasons or due to coercive pressures rather than their practical applicability. This tendency can be attributed to the government's pursuit of legitimacy, as emphasised by Solomon et al. (2002) and Solomon et al. (2003), who argue that in order for developing countries to enhance their international competitiveness and attract foreign capital, they need to embrace widely accepted CG standards. Moreover, employing Social Identity Theory, the study enriches the theory by revealing how the selection of CEOs in Saudi Arabian SOEs presents a dilemma. Government representatives and independent directors often perceive themselves as belonging to two distinct and incompatible groups, aligning with the preferences of their respective groups rather than expressing their individual opinions. According to the theory, individuals categorise themselves into groups, and these categorisations and identities influence interactions among individuals from different groups. The case of CEO selection not only raises questions about the extent to which discussions among Saudi Arabian SOEs' boards of directors are harmonious and lead to productive outcomes, but also opens the door for potential utilisation of Social Identity Theory in CG research.

Furthermore, the study contributes to Stewardship Theory by challenging its assumption and demonstrating that executive managers in Saudi Arabian SOEs view their positions as stepping stones to other roles, either within the government or the private sector. The study also contributes to Transaction Cost Theory (TCT), particularly in light of Peng et al.'s (2016) argument for integrating TCT into SOE research. Despite the imperfections of SOEs, TCT suggests that they can lower transaction costs in economies with severe market failures or underdeveloped markets. The persistence of Saudi SOEs extends beyond political ideology, as they may be more efficient at economising transactions compared to market alternatives. This was evident from survey responses indicating that while privatisation was perceived as a potential solution to enhance CG implementation in Saudi Arabian SOEs, there were concerns about whether these enterprises could maintain their existence and fulfil their social objectives post-privatisation. Saudi SOEs have primarily been established due to the underdevelopment of the private sector, which often lacks the capabilities to drive economic growth and deliver essential goods and services. However, while Saudi SOEs may succeed in lowering transaction costs on one front, the risk of increased transaction costs due to political interference remains significant. This highlights the need for effective CG mechanisms and thorough investigations into the challenges that hinder their effectiveness, particularly given the likelihood of continued substantial state ownership in Saudi Arabia due to its political and economic structure.

Resource Dependency Theory (RDT) assumes that directors with multiple board memberships positively impact company performance due to their extensive networks, knowledge, specialised expertise, and ability to mobilise resources. Supporting this assumption, Jahan et al. (2021) found that firms with prestigious multiple board members have higher levels of both accounting and market performance. However, the findings of this study diverge from this assumption, as many respondents favoured limiting multiple directorships among board members. This preference likely comes from the unique context of Saudi Arabian SOEs, where access to resources is less of a concern due to soft budget constraints and preferential state treatment. Respondents, in fact, highlighted that board members and senior managers often do not devote sufficient time to their responsibilities, particularly concerning CG issues, due to their multiple commitments. This suggests, contrary to the common belief in the potential benefits of multiple directorships emphasised by RDT, the risks associated with 'busy boards' in the context of Saudi SOEs may outweigh these benefits.

Regarding Stakeholder Theory, this study contributes to the ongoing debate about what constitutes a stakeholder in CG, particularly within the complex landscape of SOEs that serve a wide array of interests. The study advances the conceptualisation of corporations as socio-economic organisations that aim to enhance the wealth of diverse constituencies, often with conflicting interests. The findings shows that discussions around CG implementation in Saudi Arabian SOEs frequently confront questions about which stakeholders would benefit from such reforms and the potential detriment to others. For example, while public disclosure of financial information may serve the interests of the general public, it could potentially conflict with state interests, especially when sensitive information is involved, such as with SOEs operating in critical industries. Therefore, the study emphasises the need for a nuanced approach to stakeholder management in the governance of SOEs.

Lastly, SOEs in Saudi Arabia play an important role in the provision of public goods, managing resources, and commodities that are commonly owned by the nation. This research has highlighted the unique challenges and obstacles in implementing effective CG within SOEs, shifting the focus from the conventional discussions that predominantly focus on profit-oriented corporations. In this context, some of the theoretical underpinnings of these challenges, which are products of the wide range of beneficiaries, can be situated within the concept of maslaha (public interest), which emphasises societal welfare, ethical responsibility, and accountability in decision-making and governance. The findings of this study could be used to contribute to the broader discussion on maslaha by demonstrating its applicability in addressing governance challenges specific to SOEs, particularly in a Muslim context. By framing CG within the lens of maslaha, Saudi Arabian SOEs could have a better foundation to operate not merely as profit-driven entities but as instruments for achieving broader social and economic development, aligning their objectives with the public interest and ethical imperatives central to Islamic CG principles.

8.5 Policy Implication

The findings of this study carry several important policy implications. Firstly, it is crucial to establish clear boundaries and governance measures for the relationship between the ownership entity (parent ministry) and SOEs. The study reveals that policy makers have primarily focused on CG within SOEs, and often neglected the complex dynamic relationship between ownership entities and SOEs. This oversight has led to various limitations. For example, some individuals within ownership entities may not fully understand the necessity for independence in managing their SOE portfolio. Thus, it is imperative to define these relationships explicitly to enhance the implementation of effective CG in Saudi Arabian SOEs. Implementing a well-defined line of responsibility between SOEs and ownership entities, as recommended by the OECD, would significantly enhance governance practices. Moreover, because of the dominant role of the ownership entity, the findings highlighted that general assemblies in the majority of Saudi SOEs are ineffective. This highlights an immediate need for reforms in this area. The primary implication of these findings is that existing legislation treats all types of enterprises, private or state-owned, with similar regard for general assemblies. However, this study suggests that SOEs, especially those with complete state ownership, encounter difficulties with the legal designation a single ownership entity. While, in practice, SOE often operates with interdependent interests with various governmental entities, acting as a provider of goods and services on their behalf. Nevertheless, these governmental entities typically lack effective participation in general assemblies.

Secondly, a key policy implication of this study pertains to the identified enforcement weaknesses. The findings reveal that the majority of SOEs are unlisted, and consequently, subject only to enforcement by the Ministry of Commerce. Given the diverse range of responsibilities of the Ministry of Commerce, the ministry may find it challenging to effectively ensure the implementation of CG in Saudi Arabian SOEs. An independent government agency, such as the Capital Markets Authority (CMA) for listed companies, could play a pivotal role in promoting and enhancing CG practices within unlisted Saudi SOEs.

Thirdly, the results open several significant implications regarding the role of the board of directors. Boards of directors in SOEs have various weaknesses, resulting in many board members functioning as mere rubber stamps. Regulatory bodies should proactively emphasise the importance of a balanced board of directors, where equal weight is given to both government representatives and independent directors. In addition, mandatory training programmes should be established to explain the roles and responsibilities of board members. It is essential to stress that a board membership is not an honorary position without substantial responsibilities. Furthermore, based on the findings of this research, regulatory bodies should consider mechanisms to empower boards of directors to determine material incentives for executives. However, this process should be approached with caution, as a poorly designed incentive system could lead to the misallocation of resources within the Saudi SOEs. One potential solution may be to establish a cap on the maximum allowable material incentives for executives at the national level. Simultaneously, granting boards of directors the authority to tailor these incentives to align with the unique characteristics and objectives of each SOE could be a useful approach.

Fourthly, this study illuminates various deficiencies concerning external auditing and disclosure. Currently, auditing by the Saudi Arabian GCA is mandatory for Saudi SOEs with 25% government ownership. However, the findings indicate that this external CG mechanism is not operating at its anticipated level of effectiveness. To address this, government and regulatory institutions should implement substantive measures to enhance the efficacy of the GCA. This could involve empowering the GCA with the necessary legal framework and regulations to fulfil its role as an effective CG mechanism. Moreover, equipping the GCA with experienced professionals and adequate resources is critical. Furthermore, a policy should be formulated to enhance the disclosure practices of unlisted SOEs, ensuring, for example, the public dissemination of disclosures through online websites. In addition, the literature has pointed out the advantages of industry-specific experience among external auditors. An avenue to elevate governance levels within Saudi SOEs could be to mandate, or at least strongly recommend, the appointment of external auditors with industry-specific expertise. This approach aligns with the diverse operational landscapes of Saudi SOEs across various industries where industry expertise is required.

Fifthly, legal and professional bodies need to start initiatives that aim to enhance internal auditing within SOEs. The functional and administrative reporting of internal audits should be unequivocally emphasised. The findings provide that, in some cases, executive managers may not fully comprehend the benefits of investing in internal audits. As a result, they may offer reluctant support to allocate resources to the internal audit department.

Finally, CG in SOEs must be approached from all angles to ensure its effective implementation. Current CG practices in Saudi Arabian SOEs, particularly concerning board composition and structure, often take priority over other critical aspects. The results call for action for policymakers, practitioners, and professionals to broaden their focus and emphasise all aspects of governance. This includes formulating robust internal policies within SOEs, emphasising the important role of managers in facilitating policy adoption and utilising the essential functions of both internal and external auditing, as well as disclosure. While structural governance is undeniably important, achieving effective CG practices demands attention to more than just a sound structure.

8.6 Research Limitations

Despite sincere efforts, this study is not without its constraints. Firstly, it focuses on companies where the government holds 50% or more ownership, as explained in Chapter Five. While this approach helps to establish clear boundaries and address the debated criteria for defining SOEs, it is acknowledged that there exist companies with less than 50% government ownership that function similarly to SOEs. These SOEs may face CG challenges that could potentially enhance the findings of this research. Moreover, not all companies meeting the 50% ownership threshold granted permission for access to conduct the interviews, adding a further limitation. Nevertheless, every endeavour was made to secure representative access.

Secondly, a limitation is related to the relatively modest size of the questionnaire survey. It is suggested that a larger sample in the questionnaire could yield more profound insights into the challenges and obstacles of implementing effective CG in Saudi Arabian SOEs. Nevertheless, given that this research incorporated an interview survey alongside the questionnaire survey, it is believed that this limitation does not impede the current study from achieving its objectives. Furthermore, as with any study employing the questionnaire survey method, it is not entirely free from some inherent constraints. For instance, it cannot be assured that respondents always provide responses that wholly reflect what they believe; there may be a tendency to offer answers based on perceived expectations. In addition, despite a rigorous pilot survey, the questionnaire may have lacked some clarity, leading respondents to interpret certain questions differently. A questionnaire with a Likert Scale may not have afforded participants sufficient scope to fully articulate their beliefs. However, as cautioned by Collis and Hussey (2021), questionnaires with open-ended questions can be more challenging for respondents and may deter those with busy schedules from participating. Furthermore, Babbie (2021) argues that closed-ended responses are more straightforward to analyse than open-ended questions, as they provide greater uniformity of responses.

Thirdly, CG is a sensitive topic, particularly in Saudi Arabian SOEs as it may directly link to criticism of politicians and the state. This sensitivity may impact the accuracy and honesty of respondents' responses. In addition, the researcher's presence during the interviews may have influenced the way participants responded. The researcher fully acknowledges these limitations and took all necessary measures to ensure the anonymity of respondents. For example, respondents were given the option to provide off-record comments if they wished. Furthermore, it is important to recognise that interview data analysis is not entirely free from the researcher's influence and interpretation, as is common in qualitative data analysis. However, the researcher is fully aware of this limitation and emphasises the importance of acknowledging that the researcher's beliefs may influence the interpretation and outcomes of the findings. Nevertheless, extensive efforts were made to maintain impartiality. Fourthly, the demographic variables of the respondents were not utilised to protect their anonymity and confidentiality.

8.7 Recommendations for Future Research

While the current study provides valuable insights and contributions to the understanding of CG in Saudi Arabian SOEs, there are opportunities for future research to broaden its scope and enhance the depth of knowledge. Firstly, this study focuses on Saudi Arabian SOEs, which may limit the generalisability of its findings to other settings and contexts. Future research could extend the applicability of these findings by conducting comparative studies across diverse nations and regions. Compare and contrast how CG practices in Saudi Arabian SOEs with those in other developing countries, especially those in the Gulf region that share similar institutional arrangements, would be particularly valuable. Such cross-country comparative research can contribute to the advancement of literature on comparative CG, a subject highly recommended by many CG scholars. Cross-country studies can also shed light on the unique challenges and differences in CG practices among nations, offering insightful information.

Secondly, future research could consider categorising SOEs based on their industry focus. Recognising that SOEs operating in various sectors, such as mining or real estate development, face distinct challenges, conducting research tailored to specific sectors could provide valuable insights. A deeper look into sector-specific challenges would enable researchers to contribute to the development of sector-specific laws, regulations, and best practices that fit the unique characteristics and circumstances of different SOEs. A sector-based approach can provide a more nuanced understanding of CG and help to develop governance strategies for specific industries. In addition, this study did not distinguish between various forms of state ownership within the Saudi SOEs because it was believed that in Saudi Arabia, different forms of state ownership may not actually exist in substance and are merely established for structural or political purposes. Future research, in other context, may benefit from considering variations in state ownership, such as government ownership versus sovereign wealth fund ownership. The CG literature suggests that different forms of state ownership can have varying impacts on CG practices. Therefore, future studies that explore how these ownership structures influence governance dynamics and outcomes within SOEs can provide valuable insights into CG in SOEs.

Thirdly, the findings of this study illustrated several issues related to laws and regulations of CG. Therefore, future research may wish to investigate the perspectives and solicit the opinions of regulators. Their insights could consolidate and enhance the understanding related to CG challenges in Saudi Arabian SOEs and elsewhere. Moreover, further research could expand the scope by incorporating the views of experts and academics. Lastly, due to the lack of prior research, this study explored the challenges and obstacles of implementing effective CG in Saudi SOEs from a broader perspective. This research could serve as a starting point for future researchers to investigate more specific issues, such as the challenges faced by board subcommittees like the audit committee and the nomination and remuneration committee. In addition, the current study highlighted various deficiencies related to internal auditing, external auditing, and disclosure, as well as executive management. Future research could investigate these deficiencies separately and in-depth, providing insights that could contribute to the literature on SOEs' CG.

8.8 Conclusion

This study successfully achieved its primary objective by conducting a comprehensive investigation into the challenges and obstacles associated with implementing CG in Saudi Arabian SOEs. It has identified significant governance weaknesses in the relationship between ownership entities (parent ministries) and SOEs. In addition, the study sheds light on major institutional deficiencies that hinder the effective implementation of CG in SOEs. Moreover, the study highlights issues concerning SOE boards of directors, managers, internal and external auditing, and disclosure. These findings are anticipated not only to make a meaningful contribution to the advancement of CG in Saudi SOEs but also to enrich the broader literature on CG, particularly within the context of developing countries. The insights gathered from the questionnaire and semi-structured interview surveys deepen our understanding of these challenges and enhance both theoretical and empirical research in CG. It is hoped that future researchers will build on these highlighted issues and further explore the pathways it has disclosed.

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Appendices

Appendix A (Ethics Approval for Questionnaire)

Cardiff University / Prifysgol Caerdydd — Cardiff Business School / Ysgol Busnes Caerdydd

Dear Labeid Almahmood,

Research project title: An Empirical Investigation into The Challenges of Implementing Effective Corporate Governance Practices in Saudi State-Owned Enterprises (SOEs)

SREC reference: 654

Ethical Opinion

The School Research Ethics Committee (SREC) reviewed the above application via its proportionate review process. The Committee gave a favourable ethical opinion of the above application on the basis described in the application form, protocol and supporting documentation.

Any substantial amendments to documents previously reviewed by the Committee must be submitted to the Committee via CARBS-ResearchEthics@cardiff.ac.uk for consideration and cannot be implemented until the Committee has confirmed it is satisfied with the proposed amendments. You are permitted to implement non substantial amendments to the documents previously reviewed by the Committee but you must provide a copy of any updated documents to the Committee via CARBS ResearchEthics@cardiff.ac.uk for its records.

The Committee reminds you that it is your responsibility to conduct your research project to the highest ethical standards and to keep all ethical issues arising from your research project under regular review.

Yours sincerely,

Dr Carmela Bosangit
Chair of School Research Ethics Committee

Appendix B (Ethics Approval for Interview)

CARDIFF UNIVERSITY PRIFYSGOL CAERDYDD

Cardiff Business School

Ysgol Busnes Caerdydd

Dear Labeid Almahmood,

Research project title: An Empirical Investigation into The Challenges of Implementing Effective Corporate Governance Practices in Saudi State-Owned Enterprises (SOEs)

SREC reference: 653

Ethical Opinion

The School Research Ethics Committee (SREC) reviewed the above application via its proportionate review process. The Committee gave a favourable ethical opinion of the above application on the basis described in the application form, protocol and supporting documentation.

Any substantial amendments to documents previously reviewed by the Committee must be submitted to the Committee via CARBS-ResearchEthics@cardiff.ac.uk for consideration and cannot be implemented until the Committee has confirmed it is satisfied with the proposed amendments. You are permitted to implement non substantial amendments to the documents previously reviewed by the Committee but you must provide a copy of any updated documents to the Committee via CARBS ResearchEthics@cardiff.ac.uk for its records.

The Committee reminds you that it is your responsibility to conduct your research project to the highest ethical standards and to keep all ethical issues arising from your research project under regular review.

Yours sincerely,

Dr Carmela Bosangit
Chair of School Research Ethics Committee

Appendix C (Invitation to Take Part in Survey)

Cardiff Business School
Ysgol Busnes Caerdydd

Invitation to Take Part in Survey

Dear Participant,

This questionnaire is prepared as part of the requirements for obtaining a doctoral degree from the Cardiff Business School at Cardiff University in the United Kingdom. The research topic is **Challenges of affecting implementing effective corporate governance mechanisms in Saudi State-Owned Enterprises the Kingdom of Saudi Arabia.** Due to your academic and practical experience in governance, and the significant importance of your participation in answering this questionnaire, I am honoured to select you to participate in responding to this questionnaire. I extend my sincere thanks and appreciation for dedicating a part of your valuable time to answer this questionnaire.

Introduction about the researcher and the topic

The researcher works as a lecturer in the Accounting Department at the College of Economics and Administrative Sciences at Imam Muhammad bin Saud Islamic University and is a doctoral student at the Cardiff Business School at Cardiff University in the United Kingdom. The topic of Challenges of affecting implementing effective corporate governance mechanisms in Saudi State-Owned Enterprises the Kingdom of Saudi Arabia has been chosen as my research topic due to the significant and influential role of Saudi State-Owned Enterprises in the economy of the Kingdom of Saudi Arabia, and the essential and inevitable role of governance in the sustainability and effectiveness of these companies and ensuring their competitiveness. For more information, please read the information sheet attached.

Appendix D (Consent Form Questionnaire)

Cardiff Business School
Ysgol Busnes Caerdydd

CONSENT FORM

SREC reference 654

Declaration

I confirm that I have read the information sheet for participants in the research, in its first version dated 14/1/2022, and that I have understood its contents. I confirm that channels of communication with the researcher have been provided to me to ask questions, and my inquiries have been satisfactorily answered (if any). I understand that my participation in this questionnaire is voluntary, and I have complete freedom to refuse participation or withdraw from it while answering it. I understand that withdrawal is not possible after completing this questionnaire, submitting it, and sending the responses. Furthermore, I understand and grant permission for the data I provide through answering this questionnaire to be accessed by individuals from Cardiff University or other relevant individuals. I am also aware that the researcher will delete any data that may indicate the identity of the participant (if any). I understand that the provided data may be used in another research. Additionally, I acknowledge that the results of this questionnaire will be written and published. Therefore,

I consent to participate. ☐

THANK YOU FOR PARTICIPATING IN THE RESEARCH

Appendix E (Consent Form Interview)

Cardiff University / Prifysgol Caerdydd

Cardiff Business School
Ysgol Busnes Caerdydd

CONSENT FORM

Title of research project

An Empirical Investigation into The Challenges of Implementing Effective Corporate Governance Practices in Saudi State-Owned Enterprises (SOEs)

SREC reference 653

	Please initial box
I confirm that I have read the information sheet dated [14/01/2022] version [2] for the above research project.	
I confirm that I have understood the information sheet dated [14/01/2022] version [2] for the above research project and that I have had the opportunity to ask questions and that these have been answered satisfactorily.	
I understand that my participation is voluntary and I am free to withdraw at any time without giving a reason and without any adverse consequences (e.g. to medical care or legal rights, if relevant). I understand that if I withdraw, information about me that has already been obtained may be kept by Cardiff University.	
I understand that data collected during the research project may be looked at by individuals from Cardiff University or from regulatory authorities, where it is relevant to my taking part in the research project. I give permission for these individuals to have access to my data.	
I consent to the processing of my personal information, which are (1) my origination name, (2) my name, (3) my position, (3) the number of my experiences, (4) my educational and professional qualifications for the purposes explained to me. I understand that such information will be held in accordance with all applicable data protection legislation and in strict confidence, unless disclosure is required by law or professional obligation.	
I understand who will have access to personal information provided, how the data will be stored and what will happen to the data at the end of the research project.	

I understand that after the research project, anonymised data may be applied to ensure the confidentiality of the data and may be used for purposes not related to this research project. I understand that it will not be possible to identify me from this data that is seen and used by other researchers, for ethically approved research projects, on the understanding that confidentiality will be maintained.	
I consent to being audio recorded for the purposes of the research project and I understand how it will be used in the research.	
I understand that anonymised excerpts and/or verbatim quotes from my interview may be used as part of the research publication.	
I understand how the findings and results of the research project will be written up and published.	
I agree to take part in this research project.	

________________________	____________________	____________________
Name of participant (print)	Date	Signature
________________________	____________________	____________________
Name of person taking consent (print)	Date	Signature

THANK YOU FOR PARTICIPATING IN OUR RESEARCH

YOU WILL BE GIVEN A COPY OF THIS CONSENT FORM TO KEEP

Appendix F (Main Survey Questionnaire)

Part I: Respondent background information (please circle the appropriate option)

1. Your last educational degree

   ☐ Bachelor
   ☐ Master
   ☐ PhD
   ☐ Other

2. Major of your last educational degree:

   ☐ Accounting
   ☐ Finance
   ☐ Marketing
   ☐ Management
   ☐ Economics
   ☐ Other

3. Do you have any professional qualification in business or in other governance related topic?

   ☐ Yes
   ☐ No

4. To which group you belong

   ☐ Board member
   ☐ Management member
   ☐ Internal auditor

5. Your current experience

   ☐ From One to less than Five years
   ☐ From five to less than 10 years
   ☐ From 10 to less than 15 years
   ☐ 15 year and above

6. Do you have any previous work experience apart from your current position?

   ☐ Yes
   ☐ No

7. What is the main objective of your organisation (or the organisation you have audited)?

☐ Commercial Objectives
☐ Social objectives
☐ Both

8. Is your organisation (the organisation you have audited)?

☐ Listed
☐ Unlisted

9. Would you classify the nature of your organisation's (the organisation you have audited) operating environment as being?

☐ Mainly competitive
☐ Partially competitive
☐ Non-competitive

10. What is your organisation's (the organisation you have audited) main sources of finance?

☐ Government grants and subsidies
☐ Income from selling goods and services.
☐ Mixed of the above

Part II: Instructions: The following set of statements deal with your perception of some issues related to the **main challenges and barriers of implementing effective CG practices in Saudi SOEs.** Please indicate the extent to which you agree or disagree with each of the following statements by circling only one number, where; 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, and 5= Strongly Agree.

Statements	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
(A) Ownership challenges					
1. The ownership entity (parent ministry) has clear objectives for the SOE.	1	2	3	4	5
2. The ownership entity (parent ministry) gives the SOE autonomy to achieve its objectives.	1	2	3	4	5
3. The ownership entity (parent ministry) plays an active role through the general assembly.	1	2	3	4	5
4. The ownership entity (parent ministry) has clear and fair policies and procedures based on merit and transparency for SOE board of directors' nomination.	1	2	3	4	5
5. The ownership entity (parent ministry) has an attractive remuneration policy for SOE board of directors.	1	2	3	4	5
(B) Institutional challenges					

Statements	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1. SOEs are subjected to fair competition.	1	2	3	4	5
2. SOEs are subjected to strong regulator.	1	2	3	4	5
3. Listed SOEs are subjected to same market regulation as private corporations.	1	2	3	4	5
4. Legal and regulatory requirements relating to CG in SOEs are clear, consistent, and transparent.	1	2	3	4	5
5. Legal and regulatory requirements relating to CG ensure equitable treatment of shareholders.	1	2	3	4	5
(C) Board of directors' challenges					
1. Board of directors has the necessary autonomy to carry out its CG responsibilities.	1	2	3	4	5
2. Board of directors devotes the necessary time to CG affairs.	1	2	3	4	5
3. Board of directors has a charter which outlines its objectives, duties, and responsibilities.	1	2	3	4	5
4. Board of directors has the necessary authority to carry out its CG responsibilities.	1	2	3	4	5
5. Board of directors has the necessary authority over the nomination, appointment, and removal of CEOs.	1	2	3	4	5
6. Board of directors has the necessary authority to design a proper managerial incentive to ensure CG.	1	2	3	4	5
7. Board of directors has the necessary knowledge to carry out its CG responsibilities.	1	2	3	4	5
8. Board of directors has the necessary number of independent directors to carry out its CG responsibilities.	1	2	3	4	5
9. Board of directors has the appropriate size to carry out its CG responsibilities.	1	2	3	4	5
10. Board of directors has too many governments representative members.	1	2	3	4	5
11. Board of directors' members is evaluated following formal and standard procedures to evaluate and appraise members.	1	2	3	4	5
(D) External auditing and disclosures					
1. The SOE is subject to an adequate level of audit from the General Court of Audit.	1	2	3	4	5
2. The SOE is subject to an adequate level of audit from an independent external audit.	1	2	3	4	5
3. The work between the General Court of Audit and the external auditor complements each other.	1	2	3	4	5
4. The SOE discloses all aid, grants, and subsidies it receives.	1	2	3	4	5
5. The SOE discloses information related to CG such as governance structure, board remuneration, board selection, and diversity.	1	2	3	4	5
6. The financial statements and disclosures are relevant, reliable, and comparable.	1	2	3	4	5

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
7. External auditors are appointed and/or removed upon the recommendation of the AC.	1	2	3	4	5
8. External auditors have relevant scientific and practical experience in the operations of the SOE.	1	2	3	4	5
(E) Internal auditing					
1. The head of the internal audit department has direct communication with the AC.	1	2	3	4	5
2. The head of the internal audit department is appointed and terminated following the recommendation and approval of the AC.	1	2	3	4	5
3. The internal audit department has adequate resources to carry out its responsibility.	1	2	3	4	5
4. The internal audit department has a charter reviewed and updated regularly.	1	2	3	4	5
5. The SOE has strong internal controls.	1	2	3	4	5
6. The internal auditors are independent.					
7. The internal audit department is supported by the AC.					
(F) Management issue					
1. The executive management has appropriate and adequate freedom to make timely and effective business discussions.	1	2	3	4	5
2. The CEO or top executive in the management team takes responsibility for CG implementation.	1	2	3	4	5
3. The governmental hierarchical system of promotion hampers the effectiveness of CG in SOEs.	1	2	3	4	5
4. The compensation for executive management ensures alignment of management interests with the long-term objectives of the organisation.	1	2	3	4	5
5. The executive management has a clear structure for reporting that ensures an effective CG is in place.	1	2	3	4	5
(G) Ways of enhancement					
1. SOEs should be privatised.	1	2	3	4	5
2. SOEs should be partially listed on the stock exchange.	1	2	3	4	5
3. SOEs should be completely listed on the stock exchange.	1	2	3	4	5
4. SOEs' ownership rights should be centralised under one single professional entity.	1	2	3	4	5
5. Government officials' representation on the board of directors should be reduced.	1	2	3	4	5
6. A tailored CG code for SOEs should be established.	1	2	3	4	5
7. Qualification in CG should be required before board appointment.	1	2	3	4	5
8. The number of multiple directorships should be limited.	1	2	3	4	5
9. A government entity should be established to monitor and enforce CG regulations.	1	2	3	4	5
10. The financial reports of all SOEs should be publicly disclosed.	1	2	3	4	5

Appendix G (Main Survey Questionnaire-External Auditors)

Part I: Respondent background information (please circle the appropriate option)

1. Your last educational degree

- ☐ Bachelor
- ☐ Master
- ☐ PhD
- ☐ Other

2. Major of your last educational degree:

- ☐ Accounting
- ☐ Finance
- ☐ Marketing
- ☐ Management
- ☐ Economics
- ☐ Other

3. Do you have any professional qualification in business or in other governance related topic?

- ☐ Yes
- ☐ No

4. Your current experience

- ☐ From One to less than Five years
- ☐ From five to less than 10 years
- ☐ From 10 to less than 15 years
- ☐ 15 year and above

5. Do you have any previous work experience apart from your current position?

- ☐ Yes
- ☐ No

6. Are you working at one of the Big 4 audit firms

- ☐ Yes
- ☐ No

Part II: Instructions: The following set of statements deal with your perception of some issues related to the **main challenges and barriers of implementing effective CG practices in Saudi SOEs.** Please indicate the extent to which you agree or disagree with each of the following statements by circling only one number, where; 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, and 5= Strongly Agree.

Statements	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
(A) Ownership challenges					
1. The ownership entity (parent ministry) has clear objectives for the SOE.	1	2	3	4	5
2. The ownership entity (parent ministry) gives the SOE autonomy to achieve its objectives.	1	2	3	4	5
3. The ownership entity (parent ministry) plays an active role through the general assembly.	1	2	3	4	5
4. The ownership entity (parent ministry) has clear and fair policies and procedures based on merit and transparency for SOE board of directors' nomination.	1	2	3	4	5
5. The ownership entity (parent ministry) has an attractive remuneration policy for SOE board of directors.	1	2	3	4	5
(B) Institutional challenges					
1. SOEs are subjected to fair competition.	1	2	3	4	5
2. SOEs are subjected to strong regulator.	1	2	3	4	5
3. Listed SOEs are subjected to same market regulation as private corporations.	1	2	3	4	5
4. Legal and regulatory requirements relating to CG in SOEs are clear, consistent, and transparent.	1	2	3	4	5
5. Legal and regulatory requirements relating to CG ensure equitable treatment of shareholders.	1	2	3	4	5
(C) Board of directors' challenges					
1. Board of directors has the necessary autonomy to carry out its CG responsibilities.	1	2	3	4	5
2. Board of directors devotes the necessary time to CG affairs.	1	2	3	4	5
3. Board of directors has a charter which outlines its objectives, duties, and responsibilities.	1	2	3	4	5
4. Board of directors has the necessary authority to carry out its CG responsibilities.	1	2	3	4	5
5. Board of directors has the necessary authority over the nomination, appointment, and removal of CEOs.	1	2	3	4	5
6. Board of directors has the necessary authority to design a proper managerial incentive to ensure CG.	1	2	3	4	5
7. Board of directors has the necessary knowledge to carry out its CG responsibilities.	1	2	3	4	5
8. Board of directors has the necessary number of independent directors to carry out its CG responsibilities.	1	2	3	4	5

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
9. Board of directors has the appropriate size to carry out its CG responsibilities.	1	2	3	4	5
10. Board of directors has too many governments representative members.	1	2	3	4	5
11. Board of directors' members is evaluated following formal and standard procedures to evaluate and appraise members.	1	2	3	4	5
(D) External auditing and disclosures					
1. The SOE is subject to an adequate level of audit from the General Court of Audit.	1	2	3	4	5
2. The SOE is subject to an adequate level of audit from an independent external audit.	1	2	3	4	5
3. The work between the General Court of Audit and the external auditor complements each other.	1	2	3	4	5
4. The SOE discloses all aid, grants, and subsidies it receives.	1	2	3	4	5
5. The SOE discloses information related to CG such as governance structure, board remuneration, board selection, and diversity.	1	2	3	4	5
6. The financial statements and disclosures are relevant, reliable, and comparable.	1	2	3	4	5
7. External auditors are appointed and/or removed upon the recommendation of the AC.	1	2	3	4	5
8. External auditors have relevant scientific and practical experience in the operations of the SOE.	1	2	3	4	5
(E) Internal auditing					
1. The head of the internal audit department has direct communication with the AC.	1	2	3	4	5
2. The head of the internal audit department is appointed and terminated following the recommendation and approval of the AC.	1	2	3	4	5
3. The internal audit department has adequate resources to carry out its responsibility.	1	2	3	4	5
4. The internal audit department has a charter reviewed and updated regularly.	1	2	3	4	5
5. The SOE has strong internal controls.	1	2	3	4	5
6. The internal auditors are independent.	1	2	3	4	5
7. The internal audit department is supported by the AC.	1	2	3	4	5
(F) Management issue					
1. The executive management has appropriate and adequate freedom to make timely and effective business discussions.	1	2	3	4	5
2. The CEO or top executive in the management team takes responsibility for CG implementation.	1	2	3	4	5
3. The governmental hierarchical system of promotion hampers the effectiveness of CG in SOEs.	1	2	3	4	5

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
4. The compensation for executive management ensures alignment of management interests with the long-term objectives of the organisation.	1	2	3	4	5
5. The executive management has a clear structure for reporting that ensures an effective CG is in place.	1	2	3	4	5
(G) Ways of enhancement					
1. SOEs should be privatised.	1	2	3	4	5
2. SOEs should be partially listed on the stock exchange.	1	2	3	4	5
3. SOEs should be completely listed on the stock exchange.	1	2	3	4	5
4. SOEs' ownership rights should be centralised under one single professional entity.	1	2	3	4	5
5. Government officials' representation on the board of directors should be reduced.	1	2	3	4	5
6. A tailored CG code for SOEs should be established.	1	2	3	4	5
7. Qualification in CG should be required before board appointment.	1	2	3	4	5
8. The number of multiple directorships should be limited.	1	2	3	4	5
9. A government entity should be established to monitor and enforce CG regulations.	1	2	3	4	5
10. The financial reports of all SOEs should be publicly disclosed.	1	2	3	4	5

Appendix H (Interview Guide)

Interview Schedule:

Date: ………………………………..

Time: ……………………………….

Place: ………………………………

Introduction:

Thanks for the consent and acknowledge for sparing time.

Introduce myself, and mention of the nature, relevance and importance of the research.

Assure anonymity and strictest confidentiality and seek premotion form recording.

Section (1) background information

Organization………………………………...

Name of the Participant position……….……

Year of current experience……………………other experience…………….

Education level and major………………………

Section (2) questions

State-owned enterprises have demonstrated exceptional performance in Saudi Arabia, significantly contributing to the economy and the welfare of the population. This is attributed to various factors, including a competent board of directors, management, and the selection of skilled auditors. However, it is not uncommon for SOEs, given their scale and diverse objectives, to encounter challenges and obstacles in implementing effective corporate governance (CG). Therefore, I would appreciate your insights on this matter.

- Would you please share your opinions about the challenges of implementing effective CG practices in Saudi SOEs?

The following points could be highlighted to guide the conversations:

- Ambiguous mandates, objectives, and strategies

- Autonomy and bureaucracy
- Accountability and responsibility
- Competency and qualification of key players such as the board of directors, top management, and other relevant committees.

- Do you think SOEs have different obstacles to implementing effective CG practices than private firms? If yes, could you please tell us?

The following points could be highlighted to guide the conversation:

- Who is the ultimate owner and whom do you work for?
- Multiple and contradicted goals such as commercial and social objectives
- Absence of a clear line of responsibility

- To what extent do the dual goals of SOEs, which involve both economic activities and fulfilling public policy objectives, challenge the implementation of effective CG practices?

- What do you think if ministries relinquish the ownership rights to a professional entity to oversee SOEs? If yes, what should be the form of that entity?

- As a board of directors' member and from your experience, what are the major obstacles SOEs face regarding CG?

The following points could be highlighted to guide the conversation:

- Autonomy of the board of directors in setting strategies and policies
- Lack of authority in, for example, setting tailored roles, establishing specialised committees, and nominating and appointing directors, CEOs, and top management.
- Lack of qualification, diligence, and competency.

- As a management team member and from your experience, what are the most significant challenges SOEs face regarding CG?

The following points could be highlighted to guide the conversation:

- Flexibility in designing internal control procedures.
- Incentives.

- As an internal auditor and from your experience, what are the most significant challenges SOEs face regarding CG?

The following points could be highlighted to guide the conversation:

  - Accessing and reporting to the board or audit committee (if applicable)
  - Independence from management
  - Design and effectiveness of internal controls

- As an external auditor and from your experience, what are the most significant obstacles SOEs face regarding CG?

The following points could be highlighted to guide the conversation:

  - Access to relevant and needed information
  - Power of hiring and firing
  - Transparency, Disclosure, and Controls
  - Likes and dislikes about auditing SOEs
  - Attitude of SOE management/internal auditors
  - Have you faced any major accounting issues related to SOEs?
  - Any problems encountered in relation to financial disclosure?
  - Are the internal control mechanisms appropriate in SOEs? Etc

- Do you think existing regulations, for example, the company law, are adequate in KSA to ensure sound CG practices in SOEs?

- Do you think the absence of market discipline and competition impairs the effective implementation of CG in your organization?

- What is the role of government representatives (public servants) on the board of directors? Do they play an effective role, or is it merely ceremonial?

- Do you think the board of directors in Saudi SOEs have the necessary authority, competencies, and objectivity to carry out their responsibilities?

- What do you think about board evaluation?

- What do you think about the role of the General Court of Audit (GCA) in CG?

- What do you think about the role of external auditors in CG?

- What do you think about financial and non-financial disclosure, such as information about the SOE governance structure, types of directors, and their remuneration, being available and easy to access? Do you think this would increase CG effectiveness in your organisation?

- To what extent do you believe internal audit departments in SOEs play a role in CG, and what measures can be taken to increase their effectiveness?

- What is the role of the Audit Committee (AC) in enhancing the role of internal audit in CG?

- Do executive managements have the operational autonomy needed to conduct their day-to-day business?

- What do you think management can do to improve its role in the CG of SOEs? Additionally, what do you perceive as the challenges facing management in this regard?

- What do you think should be done to improve the implementation of effective CG within SOEs?

The following points could be highlighted to guide the conversation:

  - Listed and unlisted SOEs
  - Partial privatisation or full privatisation
  - Development of a tailored SOE CG code
  - Increase in the number of independent directors