OPEN ACCESS

Saudi Journal of Economics and Finance
Abbreviated Key Title: Saudi J Econ Fin
ISSN 2523-9414 (Print) | ISSN 2523-6563 (Online)
Scholars Middle East Publishers, Dubai, United Arab Emirates
Journal homepage: http://saudijournals.com

Review Article

Corporate Governance Frameworks: A Comparative Study of Saudi Arabia, Germany, the United Kingdom, and the United States

Adel Dhaher Alresheedi[1*]

[1]Department of Accounting, College of Business and Economics, Qassim University, P.O. Box: 6640, Buraidah 51452, Saudi Arabia

DOI: https://doi.org/10.36348/sjef.2025.v09i04.005 | **Received:** 05.03.2025 | **Accepted:** 11.04.2025 | **Published:** 14.04.2025

***Corresponding author:** Adel Dhaher Alresheedi
Department of Accounting, College of Business and Economics, Qassim University, P.O. Box: 6640, Buraidah 51452, Saudi Arabia

Abstract

This paper compares corporate governance frameworks in Saudi Arabia, Germany, the United Kingdom, and the United States, highlighting key similarities and differences. Saudi Arabia's governance framework is shaped by Shariah principles and emphasizes shareholder protection, while Germany employs a dual-board system that prioritizes stakeholder engagement. The UK follows a principles-based approach, promoting flexibility, whereas the US adopts a rules-based system with strict regulatory oversight and shareholder accountability. The study examines key governance aspects, including board structures, shareholder rights, transparency, and regulatory compliance. Findings indicate that Saudi Arabia has made significant progress in aligning with international governance standards but still faces challenges in areas such as board independence, transparency, and investor protection. Compared to Germany's stakeholder-oriented approach and the shareholder-centric models of the UK and US, Saudi governance remains more conservative, with room for improvement in corporate disclosure and regulatory enforcement. The paper concludes by identifying areas for reform in Saudi Arabia's corporate governance, such as enhancing board independence, improving reporting standards, and increasing regulatory oversight. Aligning governance practices with global standards could strengthen investor confidence and corporate sustainability in the region.

Keywords: Corporate Governance, Saudi Arabia, Germany, United Kingdom, United States.

INTRODUCTION

Corporate governance plays a critical role in ensuring accountability, transparency, and ethical decision-making within organizations (Ben Mohamed *et al*., 2012; Baccar *et al*., 2013; Almaiman *et al*., 2024). While strong governance frameworks contribute to corporate stability and investor confidence, governance structures vary significantly across countries due to differences in legal traditions, economic priorities, and cultural influences (Baccar *et al*., 2016). Saudi Arabia has made notable progress in strengthening its corporate governance framework, particularly following the introduction of the Corporate Governance Regulations by the Capital Market Authority. However, gaps remain in areas such as board independence, shareholder rights, and regulatory enforcement, limiting the framework's alignment with global best practices.

Existing research extensively examines corporate governance in individual countries but offers limited comparative analyses that specifically contrast Saudi Arabia's evolving governance model with well-established frameworks in developed economies. This study addresses this gap by comparing Saudi Arabia's corporate governance framework with those of Germany, the United Kingdom, and the United States. These countries represent diverse governance approaches: Germany's stakeholder-oriented dual-board system, the UK's principles-based model, and the US's rules-based structure. By analyzing key governance aspects—such as board composition, shareholder protections, transparency, and compliance—this study provides insights into Saudi Arabia's current position and potential areas for reform.

The findings of this research contribute to the ongoing discourse on corporate governance by identifying best practices that can enhance Saudi Arabia's governance model. Strengthening regulatory enforcement, improving disclosure standards, and increasing board independence could support the country's economic diversification goals and enhance its attractiveness to global investors.

1. Framework of Corporate Governance in KSA

There has been increasing attention to turn the corporate governance into an established concept within Saudi Arabia over the past decade. Evolution in the regulatory framework define for the corporate governance serves as an evidence of efforts being made in this direction (Alsanosi, 2011; Faraj& Widener University, 2014). Recent developments made in this regard have contributed handsomely to the effectiveness of the corporate governance framework in the region. For example, recently, the Saudi Capital Market Authority has taken initiatives to amend the Articles of CGR that deal with the roles and responsibilities of the board of directors with a purpose to defining the regulatory framework applied to the compensations relating to the members of the board of directors of the companies that are listed on "Tadawul,"i.e., Saudi Stock Exchange. The purpose behind introducing this amendment is to reinforce the adherence of joint stock companies to the principles of corporate governance (Lessambo, 2014; Habbash, 2015).

Another purpose behind the new and the first published corporate governance model is also to bring transparency in the mechanism of CG. There are certain terms and conditions already existing in the charters of Basel, and other financial institutions such as Banks. Some of these ideas seems to have borrowed for the preparation of this new corporate governance model. Hence, it is inspired by other jurisdictions' CG models, too (Mahayni, 2016).

It is important to note that law in Saudi Arabia seeks "Shariah" (the Islamic jurisprudence) to underpin its principles. Religion is the centrally influential to the Saudi culture as all the norms and traditions of the country are developed in religious conformity (Zaghloul, 2015; Wilson, 2012). The impact of religion can also be observed when it comes to the regulatory framework for the corporate governance. For example, directors within the board need to be transparent that is considered in compliance with the religious obligation for the leader to be "righteous" and "trustworthy" (i.e. "sadiq" and "amin"). The Capital Market Authority has recently brought it into official form. Each firm is under an obligation to comply with the officially published framework of Corporate governance unless there is an exception (Capital Market Authority, 2016).

Here, it is also noteworthy that the Capital Market Authority has introduced the regulatory framework with a purpose to protecting the benefit of shareholders. Capital Market Law gives coverage to a diverse range of areas relating to the corporate governance that mainly includes issuance of securities, trading the securities, manipulation, insider trading, sanctions, and penalties in the event of violations (Ahmed & Othman Yeop Abdullah Graduate School of Business (Universiti Utara Malaysia), 2012).

Undoubtedly, the board of directors holds key importance when it comes to corporate governance. Before investigating into the regulations to be followed by the directors, it is important to develop the understanding to the basic role of a director within the board in Saudi Arabia. Almajid, McCormack, & University of Manchester (2008); and Faraj& Widener University (2014), are of the view that directors have the best knowledge about their organizational and all organizational processes and matters. They are also given the decision making authority and they will to act the way they like in with an ultimate purpose of protecting the stakeholders as well as shareholders.

However, some principles are borrowed from the Islamic jurisprudence to make them the part of corporate governance framework followed within an organization (Baker & Anderson, 2010; Burton, 2016). In the first place, the director must not have any interest in any transaction or contract that are executed for the account of the company. If he has any interest, he is under an obligation, in most cases, to disclose his interest. These measures are directed towards avoiding the conflict of interest that can result in adverse implications for an organization. It implies that the directors need to be "independent directors" which in terms of law means the directors who do not associate any other material relationship with their organizations other than the amount that they receive as remuneration (Ramady, 2012; and Dinh *et al.*, 2014). This obligation is a part of integrity that is time and again highlighted in Islamic code of conduct or "Shariah".

The director, in Saudi Arabia, is also barred from starting a business that comes into competition with the company that he controls as a director without prior permission or authorization. He should also avoid commercial activities that may bring any harm to the company's business operating under his directorship (Zattoni, 2012; International Monetary Fund & World Bank, 2012). The companies are not allowed to issue a loan to any of their directors. Not only that, but the director can also not contract a loan for any third party. However, banks and financial institutions are exempted from this provision as they can issue a loan for their directors under the same terms and conditions as applied to other borrowers (Reardon, and Almalik, 2015).

1.1. Board of Direct Under CG Framework in Saudi Arabia:

Besides that, the principles are also defined that deal with the functions of board. For example, the first role of the board of director is very similar to the role of project manager during the phase of planning. The board of directors is responsible for defining and designing the plans, policies, strategies, and key objectives for their respective organizations. Then, it also falls into the category of its responsibilities to monitor its implementation and make time to time amendments if required (Capital Market Authority, 2016).

Board of directors is also under an obligation to define the roles and principles to be followed at the internal level of organization. For instance, there are predetermined rules defined at the level of board to decide in certain scenarios of conflicts. For example, Article 46 of the framework reads that the conflicted member is to avoid in any decision making process held by the board of directors or general assembly. In other words, the director identified with a conflict of interest does not hold the right to vote in any matter being considered in board meetings and general assemblies. Similarly, the board also holds the right to decide which type of financial and accounting rules are supposed to be followed by the organization. Then, the board of director also predetermines the mitigation strategies to be followed while encountered by certain types of risks. It also has to monitor the implementation of the rules and principles defined (Capital Market Authority, 2016).

The board of director is also responsible to define the rules and standards for the appointment of members in the board of director. It also needs to make sure that its standards are not in contradiction with the mandatory provisions of the regulatory framework applied to the board. They should not involve any kind of prejudice, discrimination, or bias towards any party. Furthermore, it is mandatory for the board to obtain prior approval by the general assembly/shareholders before applying its rules and principles at internal level (Capital Market Authority, 2016).

In addition the board is also under an obligation to periodically prepare the annual reports and get them published after the approval of general assembly obtained for this purpose. Besides, the board also has the authority to provide its recommendations to the ordinary and extraordinary general assembly from time to time. It also has to adopt interactive approach to its shareholders and keep them informed about all the developments from time to time. The board can interact with shareholders by holding time to time meetings with them. Importantly, these are the directors within the board who determine an organization's overall all approach to the compliance with the principles of sustainability and corporate social responsibility. They define the values and standards that are integrated with all the functions and operations of an organization (Capital Market Authority, 2016).

1.2. Corporate Governance Regulation in Saudi Arabia for publicly listed companies

1.2.1. Preliminary Provisions

In Article 1 of the CG Framework, there are definitions of key terms and phrases used in the document. For example, Corporate Governance is defined as the set of rules and regulations directed towards guiding and leading the company and defining the relationships between different stakeholders (Fernando, 2011). Shareholders' Assembly refers to the assembly that is formed of the company's shareholders aligning to the standards and by-laws enacted by the company. Similarly, there are definitions for the terms like Executive Director, Non-Executive Director, related parties, and several others. The terms and designations are defined in accordance with the standard definitions used for them (Capital Market Authority, 2017).

The Article 2 consists of the preamble according to which the purpose of the official Corporate Governance (CG) framework is to implement CG practices that sufficiently protect the rights of the shareholders as well benefiting the stakeholders. Then, it is also stated that the compliance with the regulations of the framework is deemed mandatory unless there is an exception. In addition, all other laws and instructions enacted by supervisory authorities are considered applicable to the company besides the CG framework (Capital Market Authority, 2017).

The third Article is directed towards defining the objectives of the underlying framework. Key objectives include enhancing the scope of shareholders' responsibilities; protecting shareholders' rights; developing the skills and capabilities of the shareholders regarding decision making; bringing transparency and equity; and defining the standards to apply during conflicts and disputes (Capital Market Authority, 2017).

1.2.2. Shareholders' Rights

Article 4 addresses the issue of fair treatment of shareholders. It obliges board members to maintain equity and fairness regarding their treatment of shareholders and protect their rights without any discrimination or bias. In Article 5, the rights related to shares are defined according to which the shareholders are entitled to shares out of the company's profit. They also deserve share out of its assets upon liquidation. They are also provided the right to attend the general assembly meetings and monitor the company's performance. They can also file lawsuits against the members whom they consider guilty of any wrongdoing. They also share the authority to nominate the members within the board with the board of directors (Capital Market Authority, 2017).

As per Article 6, the board members should have access to all the data directly or indirectly relating to the company. They should also be provided historical information upon demand. Article 7 obliges the board to report the shareholders on all the matters discussed among the members and ensure their participation in decision making process on the basis of common understanding to the company's aims and objectives. As per the Article 8, during the election, each shareholder shall be allowed to cast not more than one vote against one share to the candidate whose information has already been displayed on the official website. Final Article of this paper reads that the net share or dividend is to be determined by the bylaws introduced at the organizational level and clear standards and policies defined by the board (Capital Market Authority, 2017).

Paper 2 determines the rights, roles, and responsibilities of the assemblies. There are three types of assemblies including extra ordinary general assembly, ordinary general assembly, and shareholders' assembly. These assemblies collectively carry out all considerations relating to regulatory obligations, defining the standards, appointing the members of the board, determining their role and behavior, etc (Capital Market Authority, 2017).

1.2.3. The Board of Directors

The composition of the directors totally depends on the bylaws defined by the company wherein the number of directors and their role is clearly defined. The board of directors is under an obligation to hold at least six meetings a year and meet at least twice a month, and these meetings must be attended by 50% of total membership which must not be less than three members. The company is obliged to give the members training to build required a set of skills among them. The board is also responsible for introducing the standards and process on the basis of which the performance of the directors is appraised on regular intervals. Finally, the board of directors should also put into place a clear policy ensuring the avoidance of the conflict of interests with the company (Capital Market Authority, 2017).

1.2.4. Company Committees

Part four of the charter points out different kinds of committees and elaborates their roles and responsibilities. The board may decide on the number and type of committees depending on the company's requirements to perform effectively. General Committee is composed of independent directors and drafts the regulations that are required to form other committees. Audit Committee that is under an obligation to meet at least once in every three months carries out the verification of the company's financial reports and verifies the company's compliance with its bylaws. Remuneration committee, on the other hand, is under an obligation to carry out all the tasks and responsibilities relating to the compensation of the board of members. In case the compensation exceeds SR 2,500,000, the committee is responsible for generating a report to ensure that the benefit is in line with the performance. Nomination Committee defines the rules, regulations, and set of standards to nominate the members within the board while the Risk Assessment Committee is assigned the role to assess the internal and external risks faced by the company and design risk mitigation framework accordingly. Corporate Governance Committee is options that (if created) reports on the compliance of the company with the core regulations of the corporate governance framework and drafts recommendations in this connection (Capital Market Authority, 2017).

1.2.5. Internal Control

It is the responsibility of the board of directors to introduce an internal audit system within the company. The purpose of such system is to assess the policies, processes, and strategies directed towards risk management and their compliance with the principles of corporate governance. In the internal audit unit, there must be at least one member appointed by the internal audit committee who is also responsible for reporting to the same committee (Capital Market Authority, 2017).

Firstly, the committee is under an obligation to issue a quarterly report based on the performance appraisal of the board of directors including any recommendations if considered necessary. The committee is also responsible for providing the annual report to the risk management committee based on its findings and assessment of the year (Capital Market Authority, 2017).

1.2.6. The Company's External Auditor

This part firstly deals with the process of assigning the responsibility according to which the board is supposed to assign the auditing of the company's account to an external auditor. The auditor must possess the knowledge and skills required to prepare the audit. The audit will assess as to which degree the financial statements of the company truly indicate the company's performance and financial status (Capital Market Authority, 2017).

Then, there are certain obligations to be fulfilled regarding the nomination and appointment of the external auditor. The external auditor must be authorized by the competent authority [1], and recommended by the audit committee. It must be made sure that the interests of the external auditor are not in conflict with the company's interests. Minimum two candidates i.e. audit firms should be nominated for the position of external auditor. The external auditor is under an obligation to perform the duty of loyalty the company which requires to keep the corporate interest ahead of personal interest in any event of conflict of interests. He is also supposed to notify the concerned authority if the board of directors shows negligence in any important matter. It is also responsible for making the board call meetings if it fails to achieve any of its objectives. The external auditor is also contractually bound to indemnify the company for any loss or damage that the company suffers due to his fault. If the fault is committed by more than two external auditors, they will collectively be responsible for indemnifying for the same (Capital Market Authority, 2017).

1.2.7. Stakeholders

Article 83 incorporated in Part 7 deals with the relationships with shareholders. The board is responsible

[1] A competent authority refers to an individual or organization that is legally empowered and authorized to perform an act. The competent authority has the sole right to perform the assigned act.

for defining clear policies and regulations directed towards building and maintaining the relationships with the shareholders. For example, there should be policies defined for the methods of compensation. Then, there should also be methods and policies defined to resolve to the disputes and conflict between the company and stakeholders. The rules and regulations should also determine the professional conduct of the managers and other employees. These behaviors are defined in line with general principles of ethics and professionalism (Capital Market Authority, 2017).

There should also be clearly defined principles and policies that make sure that board of directors adopt the fair and unprejudiced attitude and behavior towards all stakeholders in meeting the regulatory obligations relating to them. Stakeholders should also be given access to the information through which their roles and responsibilities are defined. In this way, they will be able to duly perform their duties. The rules and regulations defined at the level of bard should comply with the general principles of ethics, fairness, and justice (Capital Market Authority, 2017).

There should also be principles to define the methods that the stakeholders should utilize to report to the board about unethical and unlawful practices by other stakeholders. These should be complemented with the regulations directed towards penalizing the conduct that violates with the predefined regulations. The company should also pay attention to employee benefits for which it can consider the services of welfare organizations as well. Employees should also be made part of the decision making process in all crucial matter being considered at the organizational level. There should be proper retirement plans along with the schemes directed towards granting the benefit to employees (Capital Market Authority, 2017).

1.2.8. Professional and Ethical Standards

There should be appropriate rules and regulations that guide the monitoring of the professional conduct adopted by each and every stakeholder. The shareholders should endeavor to fetch the best possible monetary benefit in the form of net profit, but there should also be standards obligating them to care for the benefit of other stakeholders. It should also be made sure that none of the members within the board is abusing its position and the company's assets are being utilized for the purpose and objectives of the company itself. There should also be appropriate rules regarding the access to the company's internal information, and none of the members within the board should be allowed to leak any part of it. The company should also ensure that the benefits of shareholders are not in conflict with social benefits. A policy should be defined to make the operations highly sustainable at the social level (Capital Market Authority, 2017).

The ethical standards are divided into three categories including professional conduct involving duty of loyalty and care, and general compliance with the rules and bylaws of the company; and social responsibility. Social responsibility comprises social initiatives including disclosure of the company's policies towards society and making the people familiarize with those policies. It is also obligatory by the company to prepare and issue the reports on regular intervals outlining the company's approach and strategies relating to social responsibility (Capital Market Authority, 2017).

1.2.9. Disclosure and Transparency

There should be clearly defined policies directed towards the disclosure allowing the shareholders and stakeholders to access the internal information of the company. It must be made sure that the information is not used for any other purpose than specified. All the information required by the stakeholders need to be available on the company's official website. Reporting rules are defined at internal levels that determine the type of information to be disclosed, its timing, and the methods of disclosing the information. The policies defined for the disclosure of information should be reviewedat regular intervals followed by revisions (whenever required) (Capital Market Authority, 2017).

There should be a detailed board's report wherein all the operations that the company has performed within a fiscal year should be mentioned along with the forces and factors that affected those operations. Besides, there is the audit committee's report, disclosure by the board, and disclosure remuneration involved in the process of disclosure and the process of maintaining the transparency during disclosure (Capital Market Authority, 2017).

1.2.10. Implementation of Corporate Governance

The part dealing with the implementation of corporate governance is divided into two distinct articles complementing each other. Article 94 is centered on the implementation of CG according to which it is the responsibility of the board to define rules that are consistent with the regulations defined in the charter of corporate governance to guide the implementation and monitoring of the CG. It should also check the effectiveness of the CG and make certain recommendations as and when considered necessary. The corporate governance committee is formed by the board. If such committee is created depending on the circumstance and requirements of the company under those circumstances (as discussed earlier the number and type of committees to be created is optional depending on the conditions), it is under an obligation to comply with the rules and competencies defined under the Article 94. The committee will oversee the effectiveness of the corporate governance framework followed by the time to time recommendations for improvement (Capital Market Authority, 2017).

1.2.11. Retaining of Documents

The company will be responsible for retaining all important documents including meeting minutes, reports, letters, and any others for a period of time of minimum ten years. However, if there is any lawsuit that is filed or is expected to be filed against the company, the company will be under an obligation to retain these documents until the end of the lawsuit (Capital Market Authority, 2017).

1.2.12. Closing Provisions

At any time, the authority reserves the right to demand any information or detail in excess of those already provided with a purpose to check the company's level of compliance with the principles of corporate governance. Finally, it is defined in the Article 98 (i.e., the concluding article) that the framework's validity depends on the period of time determined at the time of its approval (Capital Market Authority, 2017).

2. Framework of Corporate Governance in German

2.1. Introduction

It is mentioned in the preface of the German Corporate Governance Code that the purpose of the code is to define the statuary requirements for the supervision and management for German listed corporations. The code is aimed to bring confidence among different stakeholders by bring in transparency into the German corporate system. There is also significant focus on ensuring the adherence to the ethically acceptable practices besides compliance with law.

Supervisory Board has the authority to make decisions that hold central importance for the company. The Supervisory Board is authorised to appoint supervisors that serve as advisors for the Management Board in certain matters (Siemens, 2017). Appointments in supervisory board are made in the general meeting held among the shareholders of a company. In case the company has more than 500 employees, it is obligatory for it to have 30% of its supervisory board members to be the employee representatives. 50% employee representation is required for the companies having more than 2000 employees. In the companies that have more than 2000 employees, the Chair of the supervisory board entails the right of casting vote. All the shareholders representatives and employee representatives are under an obligation to act in the best interest of the companies to which they associate (Siemens, 2017). Besides, the Code also allows the German listed corporations to alternatively follow the one tier system of governance that is spread across the whole Europe as an internationally accepted model of corporate governance (Siemens, 2017).

2.1.1. Shareholders and General Meeting

The section dealing with shareholders and general meeting is divided into three subparts including shareholders, general meeting, and invitation to general meeting. According to the subsection dealing with shareholders, it is clearly stated that shareholders are allowed to exercise their rights in general meetings and others without infringing the regulatory obligations. They are also given the voting rights by law. It is further clarified in the second provision pertaining to shareholders' rights that there is the right of a single vote attached to each share and none of the share can exceed that limit. There are no preferential or maximised voting rights in the German Code of Corporate Governance (Siemens, 2017).

According to the provisions defined during general meeting, it is the responsibility of management board to submit the management report, annual financial reports, and consolidated financial statements. Actions and decisions of Supervisory Board or Management Board are approved or disapproved during General Meeting. General Meeting is also authorised to elect the auditor and representative to the management board (Siemens, 2017).

The General Meeting is also authorised to adopt resolutions over Article of Association aiming at structural measures. It also entails the right to resolve the remuneration of management board (Siemens, 2017). In case new shares are issued, shareholders will entail right with respect to their interest in the share capital. Shareholders also entail the right to participate in General Meeting and provide their input in form of feedbacks, questions, or recommendations (Siemens, 2017). It is the responsibility of the Chair to ensure timely completion of the General Meeting which should last for 4-6 hours maximum (Siemens, 2017).

In the section relating to "invitation to General Meeting, it is mentioned under article 2.3 that Management Board is obliged to conduct the General Meeting at least once in a year with a disclosure of the items of Agenda. It is also obligatory from the Management board to make all essential documents available on the website for the stakeholders. The essential documents that need to be uploaded on the website by the Management Board mainly include annual reports, notice of conducting the meeting, financial statements, etc (Siemens, 2017). The corporation has the responsibility to use facilitate the shareholders' rights. The management board is responsible for appointing the proxy to be used to facilitate the shareholders' rights. It is important to make the proxy accessible during General Meetings.

It is the responsibility of corporation to make certain arrangements for the General Meeting for the convenience of attendants. It is obligatory to use the latest technologies for smooth communication during the General Meeting. The communication should ideally be carried out in an internet integrated environment (Siemens, 2017).

2.1.2. Cooperation between Management Board and Supervisory Board

It is clearly stated in the opening line that the Management Board and Supervisory Board are responsible to cooperate closely in the best interest of the corporation. There is close cooperation and coordination over strategic management and its implementation between Management Board and Supervisory Board. It is stated that coordination is made on regulator intervals to discuss the key issues relevant to the implementation of strategic measures (Siemens, 2017). Furthermore, certain stipulations and considerations planned by Management Board need approval from the Supervisory Board prior to their implementation. Some of these considerations include Article of Association as well as individual transaction (if applicable). The Management Board requires approval from the Supervisory Board over all the decisions that have the potential to alter the financial status, status of net assets, and operational outcomes for the company (Siemens, 2017).

It is the responsibility of Management Board to report to the Supervisory Board in all important matters. Besides, Supervisory Board is also under an obligation to make sure that it is has sufficient information about the proceedings of the Management Board. In this respect, it is obligatory from the Supervisory Board to clarify the responsibilities and obligations of the Management Board regarding reporting and keeping the Supervisory Board in detail. The Management Board is responsible to report the Supervisory Board in all important matters without any delay. The considerations that fall into the category of important matters mainly include planning, strategy, strategy implementation, risk situation, business development, risk assessment, risk management, and legal and ethical compliance (Siemens, 2017). The management board is obliged to address the departments pertaining to the business development after clarifying the rationale behind any such departures. The reports by the Management Board to the Supervisory Board should ideally be sent prior to the meetings in recommendable format which is usually text (Siemens, 2017).

It is defined under Article 3.5 that a clear dialogue between Management Board and Supervisory Board in collaborative environment is in the best interest of the company. There should also be collaboration and communication between the members of Supervisory Board and Management Board. However, it is also important for both the boards and members within both the boards to comply with the rules defined for ensuring high level of confidentiality. They should ensure preventing any breach of information exchanged between the members of each board (Siemens, 2017). In case there is enough representation of shareholders and employees in the Supervisory Board, the board is allowed to conduct meetings separately with partial participation of Management Board. It can also avoid the partial involvement of the Management Board and conduct meetings independent of the Management Board as and when needed.

In case of takeover offer, both the boards should preliminary inform the shareholders through a statement and await the results before taking any actions. The takeover offer should be in the best in interest of the company. An extraordinary General Meeting should be held to negotiate the takeover offer with shareholders. The Management Board and Supervisory Board are held responsible for any damage caused to the company due to their irresponsible actions or decisions. However, a business decision is exempt from such liability which is taken on the basis of concrete information. If the corporate has taken out the D&O policy for the Supervisory Board and Management Board, a deductable of minimum 10% of total loss resulting from the business decision should be agreed (Siemens, 2017).

The loan for the members of Management Board or Supervisory Board is subject to the approval by the Supervisory Board. The last article relating to the underlying section requires both the boards to publish their reports on annual basis in conjunction with the Corporate Governance Statement (Siemens, 2017).

2.1.3. Management Board

The section of Management Board is broken down into three subsections including first dealing with tasks and responsibilities, second with composition and remuneration, and third with conflict of interest. Initially, it is made clear that the Management Board has to align its strategies with the interest of all stakeholders. It should get its strategies approved by the Supervisory Board before the implementation of the same. It is important to ensure compliance with all the legal and ethical obligations. The Management Board also has to strategise measures for risk management. Employees should also be encouraged to provide suggestions in certain matters if necessary. There should also be measures directed towards preventing the breach of information (Siemens, 2017). It is also made clear that while appointing the members in the team of executive, it is obligatory to ensure the targeted participation of women to maintain the minimum level of diversity. There are also targets for the growth of diversity with increasing participation of women over the period of time within two levels of management below the top management of the company (Siemens, 2017).

It is stated in the first article relating to the subsection dealing with composition and remuneration that the management board shall comprise a chair or spokesperson and several other members. The board has to be governed by the rules of procedure that apply to all the considerations including the allocation of roles and responsibilities. The Supervisory Board is responsible to manage, decide, and review the remuneration of the members within the Management Board on regulator interval. If, however, a member within the Management

Board is appointed by a committee, the committee has to propose the remuneration plan which is subject to the approval by the Supervisory Board. The Supervisory Board conducts the evaluation of performance for all the members within the Management Board in order to decide or revise their remuneration accordingly. These decisions are made in plenary sessions (Siemens, 2017).

Main criteria used for the determination of remuneration of the members within the Management Board include the current remuneration structure, economic situation, future prospects of growth for the company, performance of individual members, and the nature of their roles and responsibilities. Furthermore, Supervisory Board is also responsible to differentiate between the remuneration of the members within the Management Board and the top management. It should also design the policies with reasons for maintaining the difference between the remuneration of Management Board and the senior management of the company and its development over the period of time. In case the Supervisory Board considers taking assistance of some external agent to evaluate the appropriateness of the remuneration plan, it is mandatory to appoint an independent expert (i.e. who has no association with the company or the Management Board) for this purpose (Siemens, 2017).

It is defined that the there are multiple types of remuneration including fixed remuneration which also includes pensions and variable remuneration that need to based on forward looking approach of the company. It is important that the remuneration policies and plans are designed in the best interest of the organisations. At the time of termination of a contract, the benefits paid to the members should not exceed twice the annual remuneration and the remuneration calculated for the total duration of remaining tenure of the agreement. However, if the member's fault becomes the basis for any such termination, no remuneration shall be applicable. If a termination takes place due to change of control, the benefit commitment for the terminated members must not exceed 150% of the severance cap. The Chair of the Supervisory Board shall made the shareholders informed about the current status of remuneration plan and any amendments made or planed in this connection (Siemens, 2017).

It is mandatory to disclose the remuneration of every member by name specifying the selection between fixed and variable remuneration. Such disclosures shall also be applied to the cases of early termination or the revisions made with the remuneration plan from time to time. The disclosures are made in the management reports or financial statements published annually. The disclosures need to be kept easy to understand describing the principles features of the remuneration system. The remuneration report shall include the benefits granted to the members and the service expenses incurred relating to pensions and other commitment benefits for the reporting period (Siemens, 2017).

In the subsection titled as conflict of interest, it is clearly stated that the members within the Management Board shall keep the company's interest above the personal interest in non-competition arrangements. The members are prohibited from granting or receiving any inappropriate benefits from or to any third parties. If a conflict of interest exists, the member within the Management Board must report the same to the Supervisory Board and other members of the Management Board. The transactions of the Management Board will be subject to the approval from the Supervisory Board. Sideline activities by the Management Board members can only be assumed after the approval from the Supervisory Board for such activities outside the company (Siemens, 2017).

2.1.4. Supervisory Board

The section dealing with Supervisory Board is broken down into six subparts including tasks and responsibilities, duties and authorities of supervisory board chair, establishment of committees, composition and remuneration, conflict of interest, and efficacy and review. The Supervisory Board is obliged to carry out advisory and supervisory function for the Management Board. It must intervene into and supervise all the decisions that hold central significance for the company. The Supervisory Board is also responsible to appoint the members within the Management Board ensuring the minimum participation of female participants as a part of diversity planning combined with a proper succession plan. It entails the right to eliminate or replace any member within the Management Board. It can also delegate the responsibility to the committees regarding the appointment of members within the Management Board subjective to the approval from the Supervisory Board. The conditions in the employment contracts are also defined and amended under the supervision of Supervisory Board (Siemens, 2017). Five year employment contract is not considered a rule of thumb as a reappointment or elimination can take place before the end of first year of appointment under special circumstances if needed.

It is clarified in the subsection dealing with duties and authorities that the chair of Supervisory Board can be any member from the Supervisory Board working in close coordination with the members of Supervisory Board. The Chair is also under an obligation to become available (within certain limits) for the investors to negotiate on certain matters relevant to the company. The Supervisory Board is also responsible and entails the right to approve and coordinate with the Management Board in the matters pertaining to planning, strategy, implementation of strategy, and any amendments in the best interest of the corporation.

Supervisory Board also entails the right to form committees depending on the circumstances faced by the company and number of members within the Supervisory Board. The Chairs of the committees are obliged to keep the board members informed in all important matters. For example, an Audit Committee (as an obligation) is formed having an obligation to carry out the functions relevant to accounting, risk assessment, and providing advice on certain matters pertaining to risk management. Chair of Supervisory Board has no right to chair the Audit Committee whose chair must be independent and a former member of a Management Committee with minimum two years past his expiration of contract with previous office (Siemens, 2017). Supervisory Board is also under an obligation to appoint Nomination Committee to provide suggestions and proposal for the appointment of members in the Supervisory Board (Siemens, 2017).

In the section of composition and remuneration, it is clearly stated that the members of the board must have relevant knowledge and skills. The Supervisory Board ensure the compliance with international standards pertaining to the knowledge, age, number of independent members within the board, diversity, and all other contractual obligations. The Supervisory Board is obliged to maintain diversity making it mandatory to have at least 30% of men or 30% of women in the board in the companies subject to Co-determination Act. In other industries that come under the Gender Equality Act, the board shall follow the targets of diversity as per the legal requirements. The proposals by Supervisory Board shall be taken into consideration while preparing the profile defining the criteria of eligibility and other considerations similar to this (Siemens, 2017). In the process of election, the Supervisory Board is obliged to declare the stake or interest of any member in the company. A material interest means holding above 10% voting share (Siemens, 2017).

It is mandatory for Supervisory Board to maintain the specified number of independent members having no direct or indirect relation with shareholders or the members of any other governing or controlling bodies. Only less than three former member of Management Board can be appointed as the member of Supervisory Board. They should also not be a member of any of competitors' boards (Siemens, 2017). The proposed members shall be brought to the knowledge of shareholders. The appointment will be made through an application by the court and shall remain limited until the next General Meeting from the time of appointment (Siemens, 2017).

Former Members of Management Board can only be eligible to become the members of Supervisory Board after the lapse of two years since the termination of their terms of previous office. However, the members with less than two years since the end of their contract can be eligible only on the proposal of shareholders with more than 25% share of voting rights. The board members must have sufficient time available to carry out their respective responsibilities and must agree to undergo any training or professional development programs designed for them. The remuneration shall be decided in General Meeting with differentiated plans for Chair and Deputy Chair. Performance based remuneration must be linked with the growth of the company. For the disclosure of remuneration, same method shall be used as used for the disclosure of remuneration of the Management Board (Siemens, 2017). In case the members of board have 50% or less attendance in the meetings of the board of committees, it must be disclosed in the reports by Supervisory Board. Participation via phone call or internet also counts towards attendance but not as a rule (Siemens, 2017).

Supervisory Board members are bound not to have any conflict of interest. If a conflict arises out of any change, it must be made known to the board by the subject member. The board must also disclose the same in the General Meeting. Permanent conflicts will result into termination of the members having conflict of interest. Review of the efficacy of the board's activities shall be conducted on regular intervals (Siemens, 2017).

2.1.5. Transparency

All shareholders shall be kept equally informed by the corporation. It is also stated that the information about important events such as publication of annual reports, interim reports, General Meeting, and any other shall be made available in the "financial calendar" on official website of the company (Siemens, 2017).

2.1.6. Financial Reporting and Auditing

Financial reports including consolidated financial reports, management reports, and interim financial reports containing all important financial information about the company shall be published on regular intervals (yearly and half yearly) to keep the shareholders and third parties informed. The Management Board shall prepare, auditors shall audit, and the Supervisory Board shall examine these reports. As for the auditing, the auditor must be independent and should inform the supervisory board if his independence if affected by any means during the process of auditing. Supervisory Board has to conclude on the auditing fee through engagement letter. The auditor is also authorised to identify inconsistencies in the Supervisory Board's frame of work and inaccuracies in defining the Code by the Management Board and Supervisory Board and bring the same to the knowledge of Supervisory Board. The auditor shall audit the financial reports issued by the Supervisory Board and shall inform the board about any issues identified during the assessment (Siemens, 2017).

2.2. Corporate Governance Code of Saudi Arabia vs. German Code of Corporate Governance

Latest version of the Corporate Governance Regulations in Saudi Arabia is issued by Capital

Marketing Authority (2017) in February 2017. Key similarities and differences between Saudi Arabia and German Code of corporate governance are discussed in the table as below:

Category	Similarities	Differences
Preliminary Provisions	Both the Codes are directed towards defining the shareholders' responsibilities and brining transparency to the corporate governance in the best interest of the company. The purpose is also to ensure the compliance with regulatory obligations (Siemens, 2017; Capital Market Authority, 2017).	The Saudi Arabia Code is focused on ensuring the compliance with law while it is stated in German Code that it is directed towards maximising the compliance with ethical standards along with legal obligations (Siemens, 2017; Capital Market Authority, 2017). It is also important to note that German Code is for General Stakeholders including shareholders, employees, suppliers, investors, etc while Saudi Arabia Code is mainly focused on shareholders (Siemens, 2017; Capital Market Authority, 2017).
Key Terms	There are some similar terms between both the Codes like board, the company, corporation, and independent directors (Siemens, 2017; Capital Market Authority, 2017).	There are some terms that are specifically associated with Saudi Arabia Code or have their different equivalent in German Code. For example, the meeting of General Assembly has its equivalent as General Meeting in German Code. Similarly, there are no terms like relatives, executive and non-executive directors, and executive management (existing in Saudi Arabian Code) in German Code of corporate governance (Siemens, 2017; Capital Market Authority, 2017).
Shareholders' Rights	Both the codes emphasise the equality of rights. Similarly, it is also common to make it mandatory for the board to keep the shareholders informed in all key matters. The codes also require maintaining equity and fairness in treatment towards shareholders. It is also made clear in both the codes that each shareholder has only one vote against each share. Furthermore, it is also clearly understood that the shareholders are granted the right to attend the general meetings (Siemens, 2017; Capital Market Authority, 2017).	Shareholders in Saudi Arabia are additionally granted the right to file a lawsuit against the members whom they deem as wrongdoer. Similarly, the shareholders in Saudi Arabia are also authorised to monitor the performance of the board while this responsibility is assigned to the Supervisory Board in German Code of governance (Siemens, 2017; Capital Market Authority, 2017). In Saudi Arabia, shareholders also entail the right to nominate the members in the board while this right is specifically held by Nomination Committee subject to the approval of Supervisory Board in Germany (Siemens, 2017; Capital Market Authority, 2017).
Board of Director	The number of member and the roles and responsibilities of each are clearly defined as per both the codes. The members within board are to attend the training programs designed for their skill development. The conflict of interest must be avoided in both the cases (Siemens, 2017; Capital Market Authority, 2017).	In Saudi Arabia, the composition mainly depends on the company's bylaws while German Code considers international standards along with legal requirements in this connection. In Germany, there is dual management system with separate roles defined for the Management Board and the Supervisory Board while there is only one Board of Directors in Saudi Arabia to carry out both the functions. In Saudi Arabia, it is mandatory to meet six times a year while in Germany the members within both the boards continuously coordinate with each other.
Company Committees	The roles and responsibilities of General Committee, Remuneration Committee, Nomination Committee, and all others are similar in both the codes (Siemens, 2017; Capital Market Authority, 2017).	In Saudi Arabia, it is the board of director that entails the right to form the committee while such authority remains with the Supervisory Board in German Code (Siemens, 2017; Capital Market Authority, 2017).

Category	Similarities	Differences
External Auditor	It is made obligatory for auditor to possess relevant knowledge and skills. Furthermore, it is also important for the auditor to keep the company's interest ahead of personal interest in both the cases (Siemens, 2017; Capital Market Authority, 2017).	The selection of the auditors and the formation of Audit Committee in Germany largely depends on Supervisory Board while in Saudi Arabia, the auditor must additionally be authorised by the Competent Authority (Siemens, 2017; Capital Market Authority, 2017).
Reporting	It is similar in both the cases to have it mandatory for the company to make all the essential information about reporting and disclosure available on the official website to make it easily accessible for all stakeholders (Siemens, 2017; Capital Market Authority, 2017).	In case of Saudi Arabia, major disclosures are made through the Board Report, Audit Committee Report, and Disclosure Remuneration made on yearly basis. In Germany, the reports are published on quarterly and interim basis besides annual reports that mainly include financial reports, consolidated financial reports, and the management report (Siemens, 2017; Capital Market Authority, 2017).
Corporate Governance Implementation		In Saudi Arabia, the board forms the corporate governance committee to oversee the implementation of the board's performance while in Germany this task is carried out either by the Supervisory Board or Audit Committee in coordination with Supervisory Board (Siemens, 2017; Capital Market Authority, 2017).
Retaining the Documents	The documents in both the countries are retained by the company (Siemens, 2017; Capital Market Authority, 2017).	It is additionally clarified in Corporate Governance Code of Saudi Arabia that the company is obliged to retain the documents until the end of lawsuit if a lawsuit is filed (Siemens, 2017; Capital Market Authority, 2017).

2.3. Expected Changes in Corporate Governance Code in Saudi Arabia in Future

The foregoing shows that Saudi Arabia is in the need of brining certain improvements with its charter of corporate governance.

2.3.1. Better Compliance with International Standards

Firstly, it is anticipated that Saudi Arabia will also move to the compliance with international standards as in case with German Code of corporate governance in order to enhance the acceptability. It is believed that adherence to the international standards will open up several new opportunities for Saudi Arabia. As the trends of globalisation are on rise and Saudi Arabia seeks the ways to venture into the global market, it is essential for the corporate governance to increase its recognition across international measures. Openness to international standards will help Saudi corporations to undergo easier expansion and have better chances of success in the international market. Regulations which are more in line with traditionally established domestic considerations cause challenges for Saudi Arabia in the international market (Mitchell, 2016).

2.3.2. Improved Reporting

Furthermore, Saudi Arabia also has to adopt international reporting standards because there is no concept of annual reports, management report, and consolidated financial reports in Saudi Arabia Code of Corporate Governance. Another possible change can be the splitting of the board into the Management Board and Supervisory board to eliminate certain complications relating to administration and control. It is also important to apply the code to General Stakeholders as in case with German Code for improved transparency in future.

2.3.3. Shift from Family to Independent Members

The term family is frequently used on the corporate governance framework of Saudi Arabia which indicates a focus on recruitment of members from the family (Capital Market Authority, 2017). Due to this factor, the transparency within the Saudi Board is questionable. There is a need to switch from involvement of family to independent board members in order to address the need for increased transparency. Furthermore, it would help Saudi corporations to promote merit based selection to nepotism which would be another achievement while seen through the lens of ethics and sustainability.

2.3.4. Separation of Responsibility

Another issue faced by the corporate governance of Saudi Arabia is the vague understanding to the roles and responsibilities at the top level. There is no clear division of responsibility between the chair and the chief executive in practice. Usually, CEOs are seen playing the role of Chair (Mitchell, 2016). Therefore, as the Saudi corporate governance moves to increased transparency (as suggested above), it is likely to make Chair independent of executive.

3. Framework of Corporate Governance in the United Kingdom

3.1. Introduction

The main purpose of this section of the paper is to compare the principles of corporate governance of the United Kingdom (UK) with those in the Kingdom of Saudi Arabia (KSA). This section provides an overview of the corporate governance principles of the UK. Furthermore, a table included in this section to show the comparison between the corporate governance code of both countries. Also, potential changes in KSA regulation is illustrated at the end of this section.

3.2. Summary of Corporate Governance Principles of the UK

Financial Reporting Council (FRC) is an independent regulatory institution, which prepares standards and principles for public limited companies in the UK. The institution is responsible for setting standards for development, composition, accountability, remuneration, and audit. FRC periodically published code, which is formerly named as the Combined Code (ICAEW, 2020). The institution was formed in 1990 but regulated and updates principles to make it acceptable by public limited companies operating in the UK. A few major updates and improvements in regulations are discussed in this section.

- It revised the UK Corporate Governance Code in 2014 to enhance the quality of information presented to investors.
- It further revised the UK Corporate Governance Code in 2016 to ensure the implementation of Audit Regulation and Directive.
- The recent revision in 2018 was attributed to a comprehensive review of the code with extensive outreach and consultation (Financial Reporting Council, 2019).

The continuous revision of standards and policy in the UK Corporate Governance Code is the evidence that FRC is consistent in bringing improvement in its operations and facilitate its stakeholders. Now, there is a need to discuss specific principles of the UK Corporate Governance to review and analyse its importance. Five main principles of the UK Corporate Governance that are last updated are discussed in this section.

3.2.1. Sharing of Board Leadership and Company Purpose

According to this principle, the Board is responsible for protecting the interest of stakeholders by ensuring its inclusion in the value proposition of the company. The board is entitled to make rational decisions that are beneficial for all (UKAP, 2019). The implied responsibility is not limited to ensure the commitment, but it also includes the express information in the mission and objectives of the company. Furthermore, it is the implied duty of the Board to consider the interest of all stakeholders rather than sticking to the common objective of an organisation.

The main reason for introducing this principle as an ethical code of conduct is to ensure that the company works in the interest of wider society. The requirement is the alignment of the company's objectives, mission, and values with this principle of corporate social responsibility (Thomsen & Conyon, 2019). The changes should reflect in the corporate culture of a company to ensure the establishment of prudent and effective control via a comprehensive framework (Clarke, 2017). The main concern of this social principle is to promote sustainable development in society by aligning the operational activities of all companies.

The activities attributed to this principle includes the effective engagement of stakeholders, including internal and external (Mallin, 2018). The executive members of a company should incorporate this principle in the purpose, vision, and objective to show a consistent move towards the development of wider society. A company is not solely responsible for enhancing the interest of its shareholders, but it also requires to satisfy all stakeholders at a time to remove the chances of loss in the future. Furthermore, Transparency and Clarity are also essential elements in the case of a public limited company. The executive team of a company cannot simply express that it follows all principles regarding social responsibility. The essentiality is to show this concern in the values and objectives of a company to maintain consistency in operations (Micklethwait & Dimond, 2017). In addition, the Promotion is also mandatory to maintain stability in operations and ensure the compliance of policies and practices. The diversified culture is the main requirement in today's competitive environment that no organisation can get success unless implementing strategies to promote this culture.

Companies share relevant information about the board members and their experience on the official website to facilitate external stakeholders. In this scenario, the management is required to share the relevant and reliable information of all board members to reduce any conflict in the future (Micklethwait & Dimond, 2017). Complete and concise information is essential to mitigate the chances of loss in the long run. The main reason for this principle is to remove the omissions and errors in sharing the information with the officials of the company.

3.2.2. Division of Responsibilities in a Formal Way

The Board of Directors of a company is primarily responsible for the activities and operations of a company. They are authorised to make rational decisions in any critical situation, but there is a need to express the different responsibilities of each director

(Emeagwali, 2017). The main reason for including this principle is to ensure transparency and fair view to stakeholders. It is the prime responsibility of all directors to share the information and prepare a code of conduct to be followed by the directors (UKAP, 2019). It should be noted that the Chairman is also a member of the Board. Therefore, the principle also requires the division of responsibilities of the Chairman to ensure the fulfilment of social responsibility.

Communication and collaboration among the members of the Board are also essential to maintain consistency in the top management of a company (Mura, 2018). It is the responsibility of a chairman to organise and call a meeting for debate and discussion on various matters. There should be a strong consensus among different members of the Board, and they should ensure the combined judgment and skills in each situation. The efforts should be followed by comprehensive planning and research to reduce the chances of non-acceptability of this matter by stakeholders. The sharing of relevant information among different members is also essential to reduce the chances of conflicts during the execution or implementation of the plan. All members should show their consent on specific matters, and they should be held responsible for their duties (Rasche, Morsing, & Moon, 2017).

All members should have clear information regarding their responsibilities that they can understand their role within the top management of an organisation. The chairman of the company should prepare a legal document by highlighting the responsibilities of each director to ensure their consistency in their respective duties. In addition, the presence of non-executive directors in the Board is also highly considered in analysing the social responsibility of public limited companies. Under this principle, all non-executive directors of the company are entitled to have sufficient information related to their role within an organisation. However, they require sufficient time to understand their roles and responsibilities within an organisation and participate in the discussion (UKAP, 2019). The non-executive directors of a company provide constructive challenge, specialist advice, and constructive challenge to participate in the discussion and decision-making of the company.

All members on the board are primarily liable to protect and retain the interest of stakeholders in their decisions and actions. However, there may be a difference between their authorised responsibilities to be liable for their respective actions (Mallin, 2018). Therefore, it is important to prepare a formal document by ensuring the mutual consent of all members to divide the responsibilities. In addition, this information should be clearly expressed in the annual reports of a company to represent a true and fair view.

3.2.3. Composition, Succession, and Evaluation of Directors

The process of appointment of directors should be transparent and based on merit to reduce the chances of conflicts. The requirement ensures diversity in the top management that is without any favouritism or discrimination (Choudhury & Petrin, 2019). The overall process should be formal and refreshed to promote diversity in the upper level of an organisation (Clarke, 2017). The leaders of an organisation require to promote positive change that is beneficial for all stakeholders. Therefore, this principle mainly relates to the selection and appointment of directors in the Board to show transparency.

The requirement is to create a formal document for the appointment of directors in the top management of the company. The annual evaluation of the procedure is also essential to ensure the succession of the project (Tricker, 2019). The succession plan is required based on the prepared criteria to maintain consistency in decision-making. Additionally, the members of the board need to understand the business and industry (Mallin, 2018).

The continuous evaluation of policies and strategies is essential to ensure transparency at the top management. The members of the board are required to ensure diversity and transparency at all levels to ensure stability in business operations and decisions (Clarke, 2017). The assurance of merit is also mandatory to show that the company is committed to ensuring transparency in its top management. A company cannot go beyond its ethical limitations to take any advantage that does not comply with implied and express social responsibility principles.

Corporate culture has a high value in the modern competitive environment that companies cannot apply rules and policies according to its leadership. The requirement is to ensure the evaluation of the actions and decisions of the board members (Maynard, 2017). Although the members have the authority to make decisions on behalf of all stakeholders, it is mandatory that they should have proper justification for that. Few companies form a committee to ensure this element in their premises. However, others are abiding by the social responsibility to mitigate the risk of loss and maintain stability in operations. The leaders of an organisation are in a position to implement a culture of sharing the information to avoid any conflict in the top management.

The principle has bound the board members that they cannot simply make decisions based on their desires and judgments. The review of industry dynamics and market trends is also important to ensure the rational decision-making process. Therefore, the board members should have sufficient knowledge and experience to make a wise financial decision rather than sticking to the common objective of profitability. Furthermore, the evaluation process should match the external environment to ensure the reliability and relevancy of the decision.

3.2.4. Audit, Risk, and Internal Control by the Board

The board is responsible for sharing relevant, true, and fair information in annual reports to satisfy its stakeholders. The requirement is to mention various risks, audit matters, and internal control of a company in the annual report (UKAP, 2019). Although the board is authorised to make decisions in critical situations, the sharing of information is essential to show a true and fair view. Furthermore, it also requires to highlight the going concern element to satisfy stakeholders that the company has planned to achieve its long-term goals and objectives.

The information related to business stakeholders should be presented in the half-year annual report. The main requirement is to include this information in the prospectus of the company by highlighting various material uncertainties that may plague the mission and vision of the company (Marano & Grima, 2018). A company is also required to mention inherent risks in annual reports that are estimated to affect financial performance in the future.

The inclusion of contingent liabilities is also essential to disclose the relevant information and facts in annual reports. The Board has the authority to review and assess contingent liabilities, but they need to share the information via annual reports to stakeholders (Maynard, 2017). A company is liable to protect the interest of all stakeholders every time, irrespective of the level of intensity. Even the board is also liable to express the time of contingent liabilities to avoid any difficulties in the future. The details have a direct impact on the decision of stakeholders whether to continue a relationship with the company or to ignore the opportunity.

The role of the audit committee is also important in a company, which frequently and regularly assess the performance of a company (Tricker, 2019). The requirement is to ensure that at least one member of the committee should have sufficient knowledge and experience of the financial matters along with the industry information (Plessis, Hargovan, & Harris, 2018). The formal process of establishing an audit committee with relevant facts is also mandatory to ensure the achievement of expected outcomes in the future. Furthermore, the auditor’s comments, whether internal or external, should be included in annual reports to show a true and fair view.

The requirement is to ensure that the financial statements and audit comments in the annual report should match with each other. The board is responsible for showing a clear and concise view to its stakeholders, and the company is liable to remain consistent on its policies and strategies (Thomsen & Conyon, 2019). The notes to financial statements should be included in the annual report of a company to make it understandable and acceptable by stakeholders. External stakeholders, including investors, mainly seek exclusive information that can assist them in decision-making.

3.2.5. Remuneration of Directors

Remuneration, in this case, refers to the compensation of directors. A director cannot decide his/her compensation by own, but there should be a defined process. The principle has high importance in ensuring transparency and fairness in the decision of directors. Every director is responsible for protecting the interest of stakeholders and cannot set the remuneration according to personal desires. The element has high significance in the corporate world that all directors should receive their remuneration according to their capabilities. No one has permission to take unfair advantage of the authority or designation to get personal benefits from a company.

The decision of remuneration should be based on the well-designed structure for this purpose. The independent judgment is essential to show the transparency to various stakeholders of the business. The board is impliedly responsible for protecting the interest of its stakeholders (Plessis *et al*., 2018). Therefore, it is unethical to set remuneration according to the desire. However, the committee may decide the remuneration of each director based on their skills and abilities to remain committed to the organisation. The appointment of all board members should match with the appointment of individual employees in a company to avoid any favouritism.

The arrangement of remuneration is also essential to incorporate the capacity to recover those performance-related payments. The involvement of the option for the purchase of stocks of a company also relates to this principle. No director has the authority to decide the quantity of a number of shares, which he/she is entitled to acquire from the same company. The board members act as an agent of stakeholders, and they cannot go beyond the authority to take any unfair advantage of their position. Furthermore, the stakeholders of a company are entitled to ask for the relevant details of offering high remunerations to a few or all directors on the board.

The remuneration also includes perquisites and benefits that should be reasonably matched with the qualification and experience of directors. The board members should have a strong reason for granting various benefits to a few or all directors (Emeagwali, 2017). There should be no leverage to take an unfair advantage by any member on the board. It is the responsibility of the board to represent a true and fair view with proper justification for their decisions. The details of all types of remuneration offered or given to the board members should be expressed in the annual report of a company. Stakeholders seek for relevant disclosures in the annual report of a company to understand the decision taken by leaders of an organisation. Therefore, it is mandatory that the leaders should include all relevant details to satisfy stakeholders.

3.3. Importance of Principles

All principles mentioned in this section of the paper have clarified that the UK Corporate Governance principles are based on the social responsibility practices of global companies. FRC has the authority to change the standard and make amendments in existing rules periodically to ensure the compliance of rules with the approach of satisfying all stakeholders at the same time. A company cannot go beyond these principles to retain its valuable position in the UK market. Furthermore, it has to face different lawsuits in case of avoiding any principle listed in this section.

The detailed discussion on the five main principles of corporate governance in the UK has clarified that the authority gives high importance to this issue. The rules and regulations mentioned in the form of principles are followed by unethical and unfair advantage taken by the board members of public limited companies in the past. The inclusion of such principles was essential to prohibit the leaders of an organisation from committing any unlawful or unethical action that has a direct impact on the interest of shareholders.

The element of transparency and accountability are highly considered in the corporate governance of the UK to reduce the chances of loss in the future. Furthermore, the long-term stability of a company depends on the successful follow-up of ethical standards specified by the governing body of a country.

3.4. Comparison of Corporate Governance codes of the UK and KSA

The principles of corporate governance vary from country to country. However, each company is entitled to follow the principles of the country in which it has operations. Table 1 specifies the differences and similarities to present the details formally.

Table 1: Evaluation of Corporate Governance of the UK and KSA

Principle	Similarity	Difference
Leadership and Purpose	The board members are responsible for designing and preparing a framework for the appointment and tenure to remain on the board in KSA (Ali, 2019). The situation is similar to that in the UK, representing the similarity on remaining consistent with the purpose and value of a company.	The main difference related to this principle is the disclosure of names of the board members before the commencement of their appointment date in KSA. However, the board is required to disclose the information after five days of the commencement date to show clarity and conciseness. This element cannot be seen in the corporate governance principles of the UK.
Division of Responsibilities	The level of independence of directors is high in both countries. The board members are responsible for protecting the rights of shareholders by dividing the responsibilities according to that mentioned in the codes and in the framework of the company (Ali, 2019). No director is a requirement to act beyond the specific and mentioned responsibilities in the framework of a company.	The only difference related to this principle is that the corporate governance principle of the UK emphasises protecting the interest of all stakeholders, irrespective of their level of interest in the company. In other words, the board members in the UK company are liable to show a consistent enhancement in the interest of all stakeholders, irrespective of their importance in the company.
Evaluation of Directors	The principle of evaluation of directors periodically is common in both countries. The general rule is that directors are the agents of shareholders (owners) of a company, and they are responsible for the protection of their interest.	The difference in this principle between the two countries is highly considered that the Corporate governance principle of KSA limits the board members to avoid conflict of interest. The board members are not allowed to take an unfair advantage, such as gifts, remunerations from competitors, or shareholders of a company other than the allowed remuneration. However, the UK's corporate governance prohibits directors from taking unfair advantage from anyone to show clarity and transparency.
Risk and Internal Control	The assessment and mitigation strategies to reduce different risks and ensuring internal control are the same in both countries. The requirement is to disclose the information according to relevant laws and ensure the sharing of information to protect the interest of shareholders.	The only difference in this principle is that the UK's corporate governance code specifies that full disclosures should be included in the annual report of a company published at the yearend. However, the corporate governance principle of KSA includes the disclosure and notes on the official website to facilitate users. Additionally,

Principle	Similarity	Difference
		it also involves the sharing of details of the appointing of each member of the board on the investor relation page on the website of a company and Tadawul.
Remuneration	The sharing of relevant details of the remuneration of directors has high significance in both countries. The corporate governance practices of both countries also specify that there should be no secret regarding the compensation and benefits of both parties.	The difference regarding this principle is limited to the type of information sharing. The code of ethics in KSA clarifies that disclosure of social and professional matters are relatively more important to ensure accountability and transparency. The inclusion of this principle in KSA is based on the records of conflict of interest in the past by various directors. Therefore, the authorities have mentioned that there should be no confidentiality in the case of the remuneration of directors.

The comparison of corporate governance principles of KSA and the UK shows that all companies are legally bound to remain consistent with their respective laws and regulations. The institutions are different, but the working of authority in each case is similar that they intend to protect the interest of stakeholders. The requirement is to ensure transparency and accountability in the actions of the board members to reduce the chances of conflicts in the future. All public limited companies operating in any of the two countries are primarily liable to ensure the element of true and fair view in sharing the information with external stakeholders.

The similarities show that both countries are consistent on their mission to protect the rights of stakeholders. No company is allowed in any of the two countries to take any unfair advantage, which may result in a conflict of interest in the future. The potential control of both authorities on public limited companies is mandatory to reduce the chances of the collapse of the business, which were observed in the past. However, it should be noted that all corporate governance codes of each country are mandatory for companies to follow the guidelines formally.

The situation varies for each country, depending on its economic, political, and environmental factors. Therefore, there may be a difference in the framework of each company specifying rules and regulations that have high importance in following the principles. All companies are socially responsible for protecting the right of people in society rather than solely concerning the interest of shareholders only. In this sense, a company should follow the guidelines set by the authorities of the country to avoid any disruption in business operations.

The distinct policies and guidelines are prepared by the authorities after reviewing the external business environment. In this sense, it is essential to prepare policies according to the culture prevailing in the country. Therefore, it is the main reason for the difference in the corporate governance policies of both countries. The compliance of these codes is also essential to ensure a consistent move towards the mission of a company. Therefore, companies operating in both countries are primarily liable to follow the instructions set by the authorities, rather than solely working on their mission and vision.

The culture followed in both countries is also different, which is the dominant factor for the difference in their corporate governance principles. However, the disclosure of information in annual reports is essential in both cases to ensure compliance with the social responsibilities of a company. Although public limited companies are liable to share the financial information with their stakeholders, the disclosure of non-financial information is also mandatory to ensure consistency in approach.

3.5. Potential Changes in KSA Regulations

The discussion in this section highlights that there is a difference between corporate governance codes of the UK and KSA. However, the UK's principles are based on international standards that represent selection and recruitment on merit. On the other hand, the culture of the structured family business is noticed in the case of KSA. It is discussed earlier that the main reason for the difference in regulations is culture followed in both countries.

The trend of family-oriented businesses in KSA creates issues in promoting merit in public limited companies. The disclosure information in the annual report of KSA's companies also shows this element. Therefore, the regulatory authorities of KSA are trying to change this element by ensuring the factor of merit in the appointment and remuneration of directors. The involvement of family members in the top management creates issues and hurdles in promoting the culture of merit and diversity. The requirement is to ensure transparency and accountability at the top management to maintain consistency in operations.

The change in culture is important for the growth of companies operating in KSA. The requirement is to bring a drastic change in the upper management that it can be transferred to different departments of the company. Furthermore, the change is also essential in dealing with different companies operating in the global competitive environment. KSA companies cannot rely on their culture to satisfy external stakeholders located in different countries.

The matching of business strategies and operations with different businesses in the global market is essential to ensure a consistent move towards growth. The consistent move of KSA to globalisation is also highly considered in analysing the social responsibility principles of the country. The government of KSA also realise this change and trying to make amendments in-laws comply with international standards. Furthermore, the rapid changes in the external environment have a direct impact on the preparation of policies. The KSA government also intends to bring improvement within the territory to ensure the prosperity of the whole country.

The trend of improvisation and changes in existing laws and regulations can bring growth and prosperity to a country. Although the changes are made according to the culture and political environment of a country, KSA is trying to match its policies with international standards to retain valuable positions in the world market. The leaders of this country focus on continuous changes in their business environment to ensure stability in the country.

The CMA are also trying to reduce the gap between different types of stakeholders who have an investment in their country. The problem is that foreign investors face difficulties in comparing the performance of two companies if there is a difference between the reporting practices of such companies. Therefore, the amendments are introduced, including the harmonisation of KSA GAAP, to ensure the comparison of KSA companies with others companies in different countries.

The adoption of international standards in reporting is also important to attract foreign investors mainly because the internationally recognised standards are widely understood and reporting following these standards is trusted worldwide. KSA is trying to reduce the risks and issues that its business community faces while dealing with businesses at international levels. Although it has different laws and regulations for criminal offenses, the general rule is the same that it prepares policies to reduce fraud and misrepresentation. The main objective of the authorities is to mitigate the risk of material misstatement in the annual financial statements of a company.

Therefore, it mainly focuses on changing the rules and policies for public limited companies to comply with international companies. Furthermore, KSA companies have strategic partnerships with companies located in other countries which largely focuses on the improvement of corporate culture and organisational learning. Therefore, the change in rules and regulations is essential to satisfy them so that the country is consistent with the objective to avoid and reduce any future risk.

4. Corporate Governance in the USA

4.1. Introduction

This section of the paper is aimed to conduct a comparative analysis focusing on the corporate governance principles in United States and those in Kingdom of Saudi Arabia (KSA). Initial part of the section has summarised the corporate governance principles from the framework published in 2018 (Corporate Governance Code, 2018). This is followed by a detailed comparison between the corporate governance principles and practices in USA and KSA in a tabular form.

4.2. Summary of the Corporate Governance Principles of USA

U.S Securities & Exchange Commission (SEC) is an independent Federal regulatory body in United States which is authorised to enforce the regulations relating to the interaction between corporations and investors (Corporate Governance Code, 2018). The US has a history of corporate laws introduced under SEC such as:

- The Securities Exchange Act (SEA) 1934: This act was enforced to regulate and monitor the transactions of securities after they reach the secondary market in order to enhance their transparency (Corporate Governance Code, 2018).
- Foreign Corrupt Practices Act (FCPA) 1977: This act prohibited the corporations to bribe the government by making it legally unacceptable (Corporate Governance Code, 2018).
- Sarbanes-Oxley Act 2002: This was the ground-breaking enforcement established on the pretext of a number of corporate scandals. Current corporate governance system is largely based on the principles evolved from this act such as obligating the listed corporations to have board of directors, need for independency of directors, need for audit committee, and standardising the financial statements (Corporate Governance Code, 2018).

Latest version of the corporate governance principles in the United States was released in 2018. These principles belong to six different categories including accountability of boards to shareholders, shareholders' voting rights, boards' obligations towards shareholders, board leadership structure, effectiveness of board, and management incentive structure (Corporate

Governance Code, 2018). These principles are summarised as below:

4.2.1. Accountability of Boards to Shareholders

According to the updated version of corporate governance framework of the USA, boards remain accountable to their shareholders. The shareholders have the right to elect the directors whom they find in the best interest of the corporation as well as being in their own best interest. They are free to elect whosoever they like to elect the director of their listed corporation. The members who are elected by the shareholders also have to make sure that they achieve the targeted milestones. Shareholders entail the right to evaluate their performance on the basis of long term measures such as long term change in financial indicators or any other. They can also hold them accountable if performance gaps are identified during the appraisal (Corporate Governance Code, 2018).

According to the USA Code of Corporate Governance, there are no classified boards and the directors have to undergo the process of election on annual basis. Since directors have to stand for election every year, it enhances the level of accountability for shareholders (Corporate Governance Code, 2018). In other words, shareholders will refrain from voting for a nominee who they did not find in the best interest of corporation while he was given a chance. It makes every director careful as he has to appear as a candidate for the next election for which they have to make a strong case.

Furthermore, it is also mandatory for the directors to get majority of shareholders votes in an uncontested election in order to sustain their position as directors. However, if they fail to receive the required number of votes, they are under an obligation to resign from their position. The board is also obliged to accept the resignation of such directors or give a formal rationale for rejecting the resignation (if the board chooses not to accept the resignation). However, if the board does not provide a clear formal reason for not accepting the resignation, directors with insufficient votes in uncontested election are not allowed to act as director anymore (Corporate Governance Code, 2018).

As a part of maximising the accountability, it is made sure that the shareholders with giant share in a corporation have exclusive rights with regard to their directors. Therefore, the directors who have been holding a huge share for a significant amount of time have the right to nominate the chosen directors for inclusion in the management in shareholder meeting (Corporate Governance Code, 2018). These rights are specifically held by the shareholders with dominant stake in the corporation.

New principles deter the board from anti-takeover measures as it can negatively affect the accountability. Correspondingly, it also reduces the shareholders' ability to get exact idea of the value of their share. Therefore, these measures must be avoided only until found in the best interest of the corporation. In other words, the board can consider it as the least desired option chosen only as a response to inevitability. If a board, however, adopts anti-takeover measures, it must explain the reason for adopting such behaviour to the shareholders through clear statement (Corporate Governance Code, 2018).

The directors are also brought under an obligation to disclose the sufficient information about their practices and compliance with the governance code on regular intervals (Corporate Governance Code, 2018). This enables the shareholders to keep the overall behavior of the board in check.

4.2.2. Shareholders' Voting Rights

According to the latest corporate governance code applied to the United Sates corporate Market, shareholders can enjoy the voting rights in proportion to their economic status. The companies are advised to adopt a share structure that grants rights for voting to shareholders in line with their value of shares. It discourages the practices that lead to unjust voting system. Each shareholder must enjoy privileges that are attributable to its economic status within the corporation. The economic status of each shareholder must be determined by the total value of his stake in the company as well as the total value of his share (Corporate Governance Code, 2018).

The corporations are advised through the charter that they prefer to have one-share one-vote structure. In other words, the number of votes that a shareholders can cast in an election must be equal to his number of shares in the same organisation (Corporate Governance Code, 2018). For instance, if a shareholders has a single share within an organisation, he will have the right to cast only one vote. The shareholders having a share value less than the value equivalent to one full share do not have the right to cast a vote.

The purpose behind one-share one-vote structure is to increase the directors' accountability towards the board. Shareholders' concerns regarding their corporations are in proportion to their shares. Therefore, the directors with highest amount of stake receive greater impact of a negative input by the directors affecting the company as compared to the impact on the directors with lower shares. Therefore, it is justifiable to grant some superior rights to the shareholders with greater stake. It creates an atmosphere that fosters and supports accountability.

Some companies have dual structures or class structures that are also advised to be careful while operating with such structure to avoid the inconsistencies associated with the proportionality of a shareholders' value of stake with their right to vote. These companies are advised to gradually shift from class structure to a structure that supports simplicity and justifiable approach in this regard. It is made essential that any privilege in terms of voting granted to the shareholders must strictly be aligned to the amount of their total share (Corporate Governance Code, 2018).

The companies are also enlightened on the demerits of traditional structures where shareholders are not treated as per their stake. However, the corporate governance mechanism shows flexibility towards them and gives them proper time to phase out their old practices in order to give way to new ideas. This flexibility is rooted in the fact that some practices are entrenched into the organisational traditions. They have become such firm part of the system that it is hard to pull it out all at once. Therefore, they are given the liberty to continue with those practices but with a tendency to shift to new model in order to seek standardised approach (Corporate Governance Code, 2018). Gradual shift to new model which uses the proportion of share to determine the shareholders' voting right is a part of efforts aiming to increase the accountability of the board towards its shareholders.

4.2.3. Responsiveness of the Board towards its Shareholders

The directors are also required to be fully responsive to the shareholders. They also need to be proactive enough to understand the perspectives held by their shareholders. Ultimate purpose of this consistency is to align the directors' efforts to the shareholders' interest (Corporate Governance Code, 2018). Shareholders are granted the right to share their proposals that they find in the best interest of the corporation with the directors. It is one of the core responsibilities of the board to duly consider and review those proposals and respond to them in an appropriate way. Their key preference should be to implement the changes being proposed. However, if they choose to do otherwise, they should provide a clear written rationale for not taking the proposed initiatives. The rationale must provide clear reasons for the proposed actions not being in the best long term interest of the company (Corporate Governance Code, 2018).

Sometimes, shareholders may not find the proposals on the part of the management to be in the best interest of the company and may oppose them to prevent the implementation of the proposed ideas. In such situations, boards are advised to fully comprehend the whole controversy. For this purpose, board of directors will have to understand as to what is being proposed and how it can benefit the company while seen from the management's perspective. Then, they should scan it for the shareholders' perspective to see which factors are being highlighted by them as matter of concern and why they find them avoidable. The board should, however, take a neutral position and try to allay the concerns of the wrong party. However, they must consider the benefit and satisfaction of shareholders all along. If the shareholders are justifiable in their criticism against the proposed changes, they have to convince the management against taking the proposed measures. Similarly, if the shareholders are wrong, the boards should try to justify its position in favour of the proposed changes but should not proceed with implementation unless approved by the shareholders (Corporate Governance Code, 2018).

The charter has greatly emphasised the need for understanding the shareholders' view. The board is advised to have independent directors who are appropriately chosen to have interaction with the shareholders in order to understand their perspective so they can keep their efforts aligned to their interest. The independent members in the board that interact with the shareholders must make note of key points that they find the parts of shareholders' agenda (Corporate Governance Code, 2018). In this way, they will be able to remember the same and sustain an appropriate environment.

The board needs to be responsive in all matters to the shareholders. If the board is not responsive or fails to understand the shareholders' view or deliver accordingly, shareholders are entitled to opposite the re-election of the directors whom they find responsible for such failure (Corporate Governance Code, 2018). Hence, the ultimate authority remains with the shareholders who can shape their behaviour of directors to suit the long term interest of their company (Corporate Governance Code, 2018).

4.2.4. Independency of Leadership Structure

It is essential for the boards to have an independent structure (Zaabouti and Ben Mohamed, 2025). They should also having no interference on the part of the management or shareholders in the matters supposed to be decided by them. Boards are responsible to oversee the management and guide the management in all important matters. The management is also obliged to act upon the instructions by the board of directors. However, the management is independent in terms of managing the business. Board of director is responsible to oversee as to how the management is managing the business activities and operations and if its performance is acceptable on predetermined standards (Corporate Governance Code, 2018).

Furthermore, there is emphasis on having independent leadership structure which can be either of two types. One of these structures is where there is one chairperson that acts independently in all matters. Another structure is where a director is independent leader of the lead. There is strong advocacy in America for each structure. Therefore, the company is free to choose the structure that it finds appropriate (Corporate Governance Code, 2018).

By emphasising on independent structure, the board is advised against the CEO duality. In other words, a CEO must be responsible to oversee the business and management without having any direct or indirect interference into the matters and decisions specific to the directors. Similarly, the chairperson of the board is also prohibited from having any intermediation in the matters specific to the CEO (Corporate Governance Code, 2018). Both of these persons are independent in their matters and should be focused on the areas that are relevant to their roles and responsibilities.

Then, it is also important for the executive chairperson of a company and the leader of board to enter into an agreement. The contract must be binding upon both containing the terms and conditions defining the scope of their roles and responsibilities relating to the oversight function. Both need to be independently accountable to the shareholders. Each of them should also make the shareholders clearly understand the terms and conditions agreed upon. Similarly, the leader of board is authorised to review the terms and propose any changes from time to time if needed in consultation with the shareholders. The leader is also responsible to bring any concern to the light relating to the oversight functions and explain the reasons for any changes being proposed. For example, if they have concerns about the division of responsibilities between the leader of the board and the executive chairperson, they should be communicated clearly and concisely in a timely manner (Corporate Governance Code, 2018).

4.2.5. Effectiveness of the Board

It is also important for the board to adopt the practices that can help it raise its effectiveness (Ezzeddine and Jarboui, 2017). The board should be careful about its choices and make informed decisions. In order to maximise the effectiveness, the boards are advised to have diversity in them. The members within the boards should have direct industry experience which is relevant to the industry of the company. Furthermore, it is also essential for them to have diversity in terms of background and way of thinking (Corporate Governance Code, 2018).

In addition, it is also obligatory for the board to have majority of its directors independent. These directors should operate independent of each other to carry out the oversight function. It is explained that the independency of directors is essential to ensure the effectiveness of oversight. Likewise, majority of independent directors can better protect the interest of the shareholders as compared to a scenario where majority of them is dependent (Corporate Governance Code, 2018).

The boards are also under an obligation to establish committees that operates on behalf of the board. The boards are to delegate certain roles and responsibilities relating to the oversight to the committees formed through consultation among its members. At minimum, the board is required to have four committees. These committees include audit committee, executive compensation committee, nominating committee and governance committee. Each committee must be independent in its functions without any influence from any other committee or member within the board (Corporate Governance Code, 2018).

It is also well explained in the charter that the directors of committee have complex roles and responsibilities and they need to take time to fully comprehend their responsibilities in order to be able to efficiently deliver the same. The directors authorised for nominating committee must look into all key dimensions relating to the eligibility criteria of the candidate. If a candidate is found to be eligible, it is also essential for them to be able to spare sufficient time for the company for which they are being considered for which a review of their schedule of outside responsibilities is recommendable (Corporate Governance Code, 2018).

The directors are responsible to attend the committee meetings as well as the board meetings. Their attendance is obligatory because their presence in the board and committee meeting is one of the determinants of their ability to protect the shareholders' interest and to properly carry out the oversight function. Board's members are responsible to attend all the meetings by the boards or committee scheduled in a year. There is also obligation relating to the minimum attendance required by them. However, if their attendance falls below that minimum mark, they must explain the reasons for poor attendance to the shareholders as a part of their accountability (Corporate Governance Code, 2018).

The board should also make sure that the information is available for all the directors who seek it for the purpose of informing their oversight function. They must be provided with information about the management, its key functions, and the responsibilities to be carried out by the management. The directors are authorised to use any source to retrieve the information required such as mid-level management and outside directors. They are not supposed to solely rely on the information from the executive management (Corporate Governance Code, 2018).

In addition to all the responsibilities discussed above, it is also obligatory for the board to have a mechanism in place that ensures time to time refreshment. The board should make sure that it sustains its energy for which replenishment is essential. It should conduct an evaluation on regular intervals. The evaluation will consider the policies and strategic frameworks leading to the suggestions for any required changes. Similarly, the evaluation process will also be sufficiently focused on the policies relating to the retirement age and term limits (Corporate Governance

Code, 2018). Such evaluation on regular basis will allow the board to effectively carry out its refreshment policy.

4.2.6. Alignment between the Board Incentive Structure and the Long Term Strategy of the Company

The boards are also responsible to establish the structures that are perfectly in line with the long term plans, objectives, and strategies of the company. Compensation committee is responsible to assess the company's goals that define its overarching long term strategic approach. These goals should be used to inform the incentive plans for the management. The board is responsible to communicate the nature of the incentive plans and their support for the long term business strategy to the shareholders as a part of justifying their decisions. If there are extraordinary pay decisions made in favour of selective managers or officers, they should clearly be communicated with reasons and drivers of such decisions to the shareholders (Corporate Governance Code, 2018).

It is also important for the boards to sustain the alignment between the incentive structures and the long term strategy of the company. It is possible for the company to shift its strategic approach over the period of time. If this happens, the board should also be committed to re-evaluate the company's strategic approach and its goals and review its incentive structure to regain the alignment between both (Corporate Governance Code, 2018).

4.2.7. Sustainability Disclosures

It has been made mandatory for the US listed corporation to report on their initiatives relating to sustainability. These initiatives involve the interaction of corporation with environment and society. The companies are obliged to follow the pattern and standards defined by OECD to report on sustainability. They should avoid the negative practices such as concealment or manipulation of information the revelation of which later on is subject to penalties (Corporate Governance Code, 2018).

4.3. Corporate Governance Code of Saudi Arabia vs. USA Corporate Governance Code

Key similarities and differences between KSA and USA corporate governance codes are explained in the table below:

Principle	Similarity	Difference
Accountability	KSA CG code also emphasises on accountability. The board must be accountable to shareholders as also in USA corporate governance board (Capital Market Authority, 2018).	In Saudi Corporate Governance code, there is not organised road map to show as to how the board members will be held accountable. Shareholders can use any measure that they choose to determine the eligibility to the members in the board. Hence, there is possibility of the personal bias of certain shareholders to affect the process (Misangyi & Acharya, 2014; Qian & Yeung, 2015). Also, the fate for the directors who do not get the majority's vote in an uncontested election is not properly defined as considered in US corporate governance code. This factor also affects the transparency and accountability (Srivastav & Hagendorff, 2015).
Shareholders' voting rights	Same as in USA corporate governance code, the KSA CG code also allocates one share against one vote (Capital Market Authority, 2018).	In KSA, there is no flexibility for the classified structure as in US CG corporate governance board. Hence, there are no regulations specifically applying to the companies that have class structure (Iliev, Lins, Miller, & Roth, 2011). Another key difference between KSA and USA corporate governance code in terms of voting right is that in KSA directors are also allowed to use proxies which is not considered in USA CG. In USA only directors can use their voting rights. The use of proxy can bring inconsistencies especially when the people who are using that proxy have some personal bias towards certain directors or do not understand the core objectives and goals of the company (Jizi, Salama, Dixon, & Stratling, 2013).
Responsiveness of board towards shareholders	In KSA also, it is important for the board of directors to ensure the benefit of shareholders. The board of director is responsible to understand what is required by the business and should endeavour to act in the best interest of the company (Capital Market Authority, 2018).	However, unlike USA board, KSA lacks an organised structure to ensure as to how board of director will act in the best interests of the shareholders or the company. The fact that majority of the directors in the board can have dual role or it might have a dual role of CEO is largely at the base of this tendency. There is no formal method as adopted in US corporate governance mechanism to ensure that the board of director keeps its activities align to the long term objectives

Principle	Similarity	Difference
		and goals of the company (Sáenz González & García-Meca, 2013). This issue also shows the lack of compliance of the KSA CG to the international standards (Zhu, 2014). Most of the operations are carried out in an informal way. It is understood that the board will ensure the benefit of shareholders but there is a lack of proper accountability. Similarly, it is given in the USA corporate governance charter that the board can take the measures against the proposals of the shareholders if it stands in better interest of the company with clear statement of rationale. However, in KSA, there is no leeway for the board, and it has to act strictly upon the instructions processed by the shareholders. There is no second option for the board. It has to put the proposals by the shareholders into practice without using its experience to consider their suitability (Capital Market Authority, 2018). This shows a lack of independency of board which is inherent to the KSA structure (Aguilera & Crespi-Cladera, 2016; Al-Malkawi, Pillai, & Bhatti, 2014).
Structure	In both countries, boards have organised structure. They have to follow the structures which are defined in the corporate governance codes (Capital Market Authority, 2018).	In Saudi Arabia, the boards are not necessarily independent. The CEOs can have dual role as they can also be the chairperson of the board at the same time. This duality can cause them to have some influence or power to intermediate in the roles and responsibilities relating to each domain under their control. For example, they can use their position to influence the decisions of board. At the same time, as a chairperson of board, they can have unscrupulous interference in the matters specific to the management. This duality of role can critically affect the transparency and accountability (Abdallah & Ismail, 2017). Correspondingly, in KSA, mostly boards have members from families due to their family based structures. Due to this factor, they lack merit based selection. The members in the board of directors have direct or indirect relations with the managers or other people in the taskforce of the business (Abdallah & Ismail, 2017). Due to this factor, it is common among them to be interdependent and influence each other's' decisions and actions. The managers can have critical influence over the matters of the boards. Likewise, board can affect the way the management operates. Even though it can bring synergy and simplify the process, it affects the merit and authenticity of the processes.
Incentive structure	In the corporate governance mechanisms of both countries, there are some prerequisite terms and conditions applying the compensation.	There is stark difference between KSA and USA CG code pertaining to the incentive structure. The incentives for executives, for example, in the US code need to be in line with the long term objectives and goals of the company. However, in KSA, there is no such concept. The incentive structure is benchmarked against the industrial norms and applied to a company. There is no re-evaluation even if the company's long term strategic approach shifts over the period of time. Hence, it has a chance of mismatch between the executives' approach and the long term strategic goals of the company (LEVIT & MALENKO, 2016; Filatotchev & Nakajima, 2014).
Compliance	Both corporate governance models are based on some standards underpinning their development and implementation (Capital Market Authority, 2018; Corporate Governance Code, 2018).	One sheer contrast between US and KSA structure is that KSA structure does not properly comply with international structure and has certain peculiarities. Due to the specific considerations of the KSA corporate governance code, it is challenging for the KSA companies to properly integrate into

Principle	Similarity	Difference
		emerging globalised corporate culture (McCAHERY, SAUTNER, & STARKS, 2016).
Sustainability disclosures	Both models pay partial attention to Sustainability Disclosure and relate it to corporate governance as an integral part (Capital Market Authority, 2018; Corporate Governance Code, 2018),	United States Corporate Governance mechanism complies with the minimum standards set by OECD in its sustainability disclosures. The organisations are supposed to disclose the information with any deliberate manipulation about their contribution at social and environment level and any harms inflicted in this regard (Corporate Governance Code, 2018) However, the findings from KSA show that its traditions align to GCC where the concepts of Corporate Social Responsibility (CSR) or sustainability yet have to take an organised form (Platonova, Asutay, Dixon, & Mohammad, 2016).

4.4. Potential Changes Expected with KSA Corporate Governance Code

First change that can be expected in the Saudi Arabian corporate governance code is the shift from family based structure to a more merit based structure. Too much emphasis on family based structure leads to the chances of deviation from the company's overarching goals. Likewise, it also causes the boards to overlook the importance of industry experience which is important for directors to protect the interest of the shareholders (Capital Market Authority, 2018). This change is in line with the efforts of the Saudi Corporate governance to adapt to international standards of CG. As the corporate governance starts move towards internationally acceptable principles in order to improve its global integration, it will be essential for the board to bring transparency and independency in its operations. Similarly, the board is also expected to move to the system of annual formal reporting and disclosure which is currently missing the CG code. It will improve the transparency and accountability and will allow the Saudi Arabian board structure to better align to the core needs arising from the growing trends of globalisation (Capital Market Authority, 2018).

At the same time, as the Saudi Corporate Governance Mechanism moves to global integration, it will also have to introduce a better system for accountability and transparency. Board members need to be made accountable to the shareholders in an organised manner so their accountability can be tracked and assessed and they can be held accountable for their measures with evidence at hand (Capital Market Authority, 2018). For this purpose, the corporate governance structure in Saudi Arabia has to make some critical changes. It is expected that there would be a proper formal process for appraising the performance of the board of directors and to track their alignment with the core objectives and interests defined by the shareholders. In this way, if the directors are found to be deviating from these considerations, they can easily be advised against or asked to give justification for their misalignment. It is expected that there will be a formal process for coordination in place enabling the shareholders and directors to better manage their relations.

These changes will help the KSA CG code to better comply with international standards. After adopting these changes, Saudi corporations involving their boards and management will feel more comfortable while working with their offshore counterparts. This will improve the collaboration, transparency, and accountability besides streamlining the flow of activity.

CONCLUSION

Corporate governance plays a critical role in ensuring accountability, transparency, and ethical decision-making within organizations. While strong governance frameworks contribute to corporate stability and investor confidence, governance structures vary significantly across countries due to differences in legal traditions, economic priorities, and cultural influences. Saudi Arabia has made notable progress in strengthening its corporate governance framework, particularly following the introduction of the Corporate Governance Regulations by the Capital Market Authority. However, gaps remain in areas such as board independence, shareholder rights, and regulatory enforcement, limiting the framework's alignment with global best practices.

Existing research extensively examines corporate governance in individual countries but offers limited comparative analyses that specifically contrast Saudi Arabia's evolving governance model with well-established frameworks in developed economies. This study addresses this gap by comparing Saudi Arabia's corporate governance framework with those of Germany, the United Kingdom, and the United States. These countries represent diverse governance approaches: Germany's stakeholder-oriented dual-board system, the UK's principles-based model, and the US's rules-based structure. By analyzing key governance aspects—such as board composition, shareholder protections, transparency, and compliance—this study provides insights into Saudi Arabia's current position and potential areas for reform.

The findings of this research contribute to the ongoing discourse on corporate governance by identifying best practices that can enhance Saudi Arabia's governance model. Strengthening regulatory enforcement, improving disclosure standards, and increasing board independence could support the country's economic diversification goals and enhance its attractiveness to global investors.

REFERENCES

- Abdallah, A. A., & Ismail, A. K. (2017). Corporate governance practices, ownership structure, and corporate performance in the GCC countries. *Journal of International Financial Markets, Institutions and Money*, no. 46, pp. 98-115. doi:10.1016/j.intfin.2016.08.004.
- Aguilera, R. V., & Crespi-Cladera, R. (2016). Global corporate governance: On the relevance of firms' ownership structure. *Journal of World Business*, vol. *51*, no. 1, pp. 50-57. doi:10.1016/j.jwb.2015.10.003.
- Ahmed, M. G., & Othman Yeop Abdullah Graduate School of Business (Universiti Utara Malaysia). (2012). Corporate governance and foreign portfolio investment in Saudi Arabia.
- Ali, H. M. (2019). Saudi Arabia Regulations on Corporate Governance. *International Journal of Asian Social Science, 9*(2), 229-239. Retrieved from https://pdfs.semanticscholar.org/f01e/588ea8bb408a13a6d72fbf17ded6860b919a.pdf
- Almaiman, M., Salloum, C., Ramadani, V., Ezzeddine, B. M., & Dana, L. P. (2024). Institutional dynamics and governance structures in shaping CSR, social entrepreneurship, and private equity investment. *Journal of Small Business & Entrepreneurship*, 1–20. https://doi.org/10.1080/08276331.2024.2440834
- Almajid, F. M., McCormack, G., & University of Manchester. (2008). Conceptual framework for reforming the corporate governance of Saudi publicly held companies: A comparative and analytical study from a legal perspective. Manchester: University of Manchester.
- Al-Malkawi, H. N., Pillai, R., & Bhatti, M. (2014). Corporate governance practices in emerging markets: The case of GCC countries. *Economic Modelling*, no. *38*, pp. 133-141. doi:10.1016/j.econmod.2013.12.019.
- Alsanosi, M. T., & University of Leicester. (2011). Corporate governance: The Saudi Arabian capital market and international standards. University of Leicester.
- Alsanosi, M. T., & University of Leicester. (2011). Corporate governance: The Saudi Arabian capital market and international standards. University of Leicester.
- Baccar, A., Ben Mohamed, E., & Bouri, A. (2013). Managerial optimism, overconfidence and board characteristics: towards a new role of corporate governance. *Australian journal of basic and applied sciences*, *7*(7), 287-301.
- Baccar, A., Ezzeddine, B. M., & Bouri, A. (2016). MANAGERIAL PSYCHOLOGY AND CORPORATE INVESTMENT RATIONALITY: EVIDENCE FROM TUNISIAN LISTED FIRMS. *Savings and Development*, *40*(1), 51–73. https://www.jstor.org/stable/90002019
- Baker, H. K., & Anderson, R. (2010). Corporate governance: A synthesis of theory, research, and practice. Hoboken, NJ: Wiley.
- Ben Mohamed, E., Baccar, A., Fairchild, R. and Bouri, A. (2012). Does Corporate Governance Affect Managerial Optimism? Evidence from NYSE Panel Data Firms. *International Journal of Euro-Mediterranean Studies* 5, 41–56 (2012). https://doi.org/10.1007/s40321-012-0004-6
- Burton, E. (2016). Business and entrepreneurship in Saudi Arabia: Opportunities for partnering and investing in emerging businesses.
- Capital Market Authority. (2016). Corporate Governance Regulations.
- Capital Market Authority. (2017). *Corporate Governance Regulations.* Available at https://www.meira.me/system/files/member_only_private_files/Saudi%20Arabia%20New%20Corp%20Gov%20Regulations_2017.pdf[Accessed 27th February 27, 2019]
- Capital Market Authority. (2017). Corporate Governance Regulations. Retrieved May 16, 2018 from https://www.meira.me/system/files/member_only_private_files/Saudi%20Arabia%20New%20Corp%20Gov%20Regulations_2017.pdf
- Choudhury, B., & Petrin, M. (2019). *Corporate Duties to the Public*. New York, NY: Cambridge University Press.
- Clarke, T. (2017). *International Corporate Governance: A comparative approach*. New York, NY: Taylor & Francis.
- Corporate Governance Code. (2018). *US Corporate Governance Code, 2018.* Available at https://gettingthedealthrough.com/area/8/jurisdiction/23/corporate-governance-2018-united-states/ [Accessed 27th February 27, 2019]
- Dinh, Tran Ngoc Huy, Nguyen, Viet Hung, Dinh, & Tran Ngoc Hien. (2014). Modern International Corporate Governance Principles and Models After Global Economic Crisis (Part Ii). Partridge Singapore.
- Emeagwali, L. (2017). *Corporate Governance and strategic decision making.* New York, NY: Books on Demand.
- Ezzeddine, B.M., Jarboui, S. Do Corporate Governance Mechanisms Affect Public Transport Firm Value?. *Journal of the Knowledge Economy* **8**, 916–928 (2017). https://doi.org/10.1007/s13132-015-0302-3

- Faraj, M., & Widener University. (2014). Toward new corporate governance standards in the Kingdom of Saudi Arabia: Lessons from Delaware.
- Filatotchev, I., & Nakajima, C. (2014). Corporate Governance, Responsible Managerial Behavior, and Corporate Social Responsibility: Organizational Efficiency Versus Organizational Legitimacy? *Academy of Management Perspectives*, vol. *28*, no. 3, pp. 289-306. doi:10.5465/amp.2014.0014.
- Financial Reporting Council. (2019). *History of the UK Corporate Governance Code*. Retrieved from https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/history-of-the-uk-corporate-governance-code
- Foley, S. (2017). The battle of the US corporate governance codes. FT. Retrieved on June 2, 2018 from https://www.ft.com/content/e52f6f22-e93c-11e6-893c-082c54a7f539
- FRC. (2016). The UK Corporate Governance Code. Retrieved on June 2, 2018 from https://www.frc.org.uk/getattachment/ca7e94c4-b9a9-49e2-a824-ad76a322873c/UK-Corporate-Governance-Code-April-2016.pdf
- Habbash, M. (2015). CORPORATE GOVERNANCE, OWNERSHIP, COMPANY STRUCTURE AND ENVIRONMENTAL DISCLOSURE: EVIDENCE FROM SAUDI ARABIA. Journal of Governance and Regulation, 4(4). doi:10.22495/jgr_v4_i4_c4_p3
- ICAEW. (2020*). UK Corporate Governance Code.* Retrieved from https://www.icaew.com/technical/corporate-governance/codes-and-reports/uk-corporate-governance-code
- Iliev, P., Lins, K. V., Miller, D. P., & Roth, L. (2011). Shareholder Voting and Corporate Governance Around the World. *The Review of Financial Studies*. doi:10.2139/ssrn.1702546.
- International Monetary Fund, & World Bank. (2012). Saudi Arabia: Reports on the observance of standards and codes. Washington, DC: International Monetary Fund.
- Jizi, M. I., Salama, A., Dixon, R., & Stratling, R. (2013). Corporate Governance and Corporate Social Responsibility Disclosure: Evidence from the US Banking Sector. *Journal of Business Ethics*, vol. *125*, no. 4, pp. 601-615. doi:10.1007/s10551-013-1929-2.
- Lessambo, F. I. (2014). Corporate Governance in Saudi Arabia. The International Corporate Governance System, 154-158. doi:10.1057/9781137360014_12
- LEVIT, D., & MALENKO, N. (2016). The Labor Market for Directors and Externalities in Corporate Governance. *The Journal of Finance*, vol. *71*, no. 2, pp. 775-808. doi:10.1111/jofi.12287.
- Mallin, C. (2018). *Corporate Governance*. London, UK: Oxford University.
- Marano, P., & Grima, S. (2018). *Governance and Regulations: Contemporary issues*. London, UK: Emerald Group Publishing.
- Mayhani, Z. (2016). Saudi Arabia: Key Highlights Of The Draft Saudi Arabian Corporate Governance Regulations. Mondaq.Retrieved on August 28, 2017 from http://www.mondaq.com/saudiarabia/x/491962/Corporate+Governance/Key+Highlights+Of+The+Draft+Saudi+Arabian+Corporate+Governance+Regulations
- Maynard, J. (2017). *Financial accounting, reporting, and analysis*. London, UK: Oxford University Press.
- McCAHERY, J. A., SAUTNER, Z., & STARKS, L. T. (2016). Behind the Scenes: The Corporate Governance Preferences of Institutional Investors. *The Journal of Finance*, vol. *71*, no. 6, pp. 2905-2932. doi:10.1111/jofi.12393.
- Micklethwait, A., & Dimond, P. (2017). *Driven to the Brink: Why Corporate Governance, Board Leadership, and Culture Matter*. London, UK: Palgrave Macmillan UK.
- Misangyi, V. F., & Acharya, A. G. (2014). Substitutes or Complements? A Configurational Examination of Corporate Governance Mechanisms. *Academy of Management Journal*, vol. *57*, no. 6, pp. 1681-1705. doi:10.5465/amj.2012.0728.
- Mitchell, M. (2016). Will a corporate governance framework create a clear path for Saudi Arabia? MM. Retrieved May 21, 2018 from http://metin-mitchell.com/will-a-corporate-governance-framework-create-a-clear-path-for-saudi-arabia/
- Mura, L. (2018). *Entrepreneurship: development tendencies and empirical approach*. New York, NY: Books on Demand.
- Platonova, E., Asutay, M., Dixon, R., & Mohammad, S. (2016). The Impact of Corporate Social Responsibility Disclosure on Financial Performance: Evidence from the GCC Islamic Banking Sector. *Journal of Business Ethics*, vol. *151*, no. 2, pp. 451-471. doi:10.1007/s10551-016-3229-0.
- Plessis, J. J., Hargovan, A., & Harris, J. (2018). *Principles of Contemporary Corporate Governance*. London, UK: Cambridge University Press.
- Qian, M., & Yeung, B. Y. (2015). Bank financing and corporate governance. *Journal of Corporate Finance*, no. *32*, pp. 258-270. doi:10.1016/j.jcorpfin.2014.10.006.
- Ramady, M. A. (2012). The GCC economies: Stepping up to future challenges. New York: Springer Science+Business Media.

- Rasche, A., Morsing, M., & Moon, J. (2017). *Corporate Social Responsibility*. London, UK: Cambridge University Press.
- Reardon, J., and Almalik, A. (2015). Corporate governance and directors' duties in Saudi Arabia: overview. Practical Law. Retrieved August 18, 2017, from https://uk.practicallaw.thomsonreuters.com/8-608-8945?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1
- Sáenz González, J., & García-Meca, E. (2013). Does Corporate Governance Influence Earnings Management in Latin American Markets? *Journal of Business Ethics*, vol. *121*, no. 3, pp. 419-440. doi:10.1007/s10551-013-1700-8.
- Siemens. (2017). Corporate Governance Code. Retrieved May 16, 2018 from https://www.siemens.com/investor/pool/en/investor_relations/corporate_governance/170214_Code.pdf
- Srivastav, A., & Hagendorff, J. (2015). Corporate Governance and Bank Risk-taking. *Corporate Governance: An International Review*, vol. *24*, no. 3, pp. 334-345. doi:10.1111/corg.12133. A
- Thomsen, S., & Conyon, M. (2019). *Corporate Governance and Board Decisions.* New York, NY: Djøf Forlag.
- Tricker, B. (2019). *Corporate Governance: Principles, policies, and practices.* London, UK: Oxford University Press.
- UKAP. (2019). *UK Corporate Governance Code*. Retrieved from https://www.iasplus.com/en-gb/standards/corporate-governance/uk-corporate-governance-code
- Wilson, R. (2012). Legal, regulatory and governance issues in Islamic finance. Edinburgh: Edinburgh University Press.
- Zaabouti, K., & Ben Mohamed, E. (2025). Enhancing Technical Efficiency in the Oil and Gas Sector: The Role of CEO Characteristics and Board Composition. *Journal of Risk and Financial Management*, *18*(2), 80. https://doi.org/10.3390/jrfm18020080
- Zaghloul, S. S. (2015). The enforcement of corporate governance practices in Saudi Arabia: Is arbitration the way forward? Leeds.
- Zattoni, A. (2012). Corporate governance and initial public offerings: An international perspective. (Corporate governance and initial public offerings.) Cambridge [u.a.: Cambridge Univ. Press.
- Zhu, F. (2014). Corporate Governance and the Cost of Capital: An International Study. *International Review of Finance*, vol. *14*, no. 3, pp. 393-429. doi:10.1111/irfi.12034.