IDENTIFICATION AND PRIORITIZATION OF THE CHARACTERISTICS OF CORPORATE GOVERNANCE PRACTICES FOR SAUDI JOINT STOCKLISTED COMPANIES

Ibrahim M. Haidoub
Graduate School of Management
International Islamic University Malaysia
Kuala Lumpur, Malaysia
imhydub@hotmail.com

Rafikul Islam
International Islamic University Malaysia
Kuala Lumpur, Malaysia
rislam@iium.edu.my

Siddique E Azam
International Institute for Halal Research and Training
International Islamic University Malaysia
Kuala Lumpur, Malaysia
siddique77hstu@gmail.com

ABSTRACT

Aligned with the Saudi Vision 2030, which underscores the importance of effective corporate governance in achieving economic development goals, this study aims to identify and prioritize specific characteristics that are crucial for bolstering corporate governance practices in Saudi joint stock listed companies. To achieve this goal, the study employs a quantitative approach and leverages the Analytic Hierarchy Process (AHP) to solicit and analyze expert opinions on the relative importance of various characteristics associated with effective corporate governance with a focus on Saudi joint stock listed companies. The findings highlight board independence as the most pivotal characteristic followed by audit committee independence, separation of position, and then seven other characteristics. Ownership structure was found to be the least influential characteristic. The scope of the research is confined to Saudi joint stock listed companies, and the applicability of the findings to other business contexts may require further exploration. In terms of the practical implications of the study, resources can be allocated to enhance effectiveness of corporate governance practices, especially focusing on the characteristics that are deemed critical based on the priorities. Additionally, corporate policies and governance frameworks can be refined to align with the prioritized characteristics, fostering a governance structure that resonates with international best practices. This research offers a unique perspective on the characteristics that can significantly impact corporate governance practices in the Saudi Arabian context. The developed model holds practical value for corporate leaders, executives, and policymakers, providing a roadmap for the implementation of effective corporate governance practices aligned with the goals of the Saudi Vision 2030.

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Keywords: corporate governance; board composition; board independence; ownership structure; Saudi Arabia, Analytic Hierarchy Process

1. Introduction

The expression "corporate governance" first appeared in the Federal Register in 1976 (Moon, 2021). Diligent (2018) demonstrated that the idea of corporate governance has been dealt with for quite a long time. It has been utilized in the United States, where the overall influence between directors, leaders and stakeholders has been developing for a prolonged time. The issue is important among scholars, organizers, business managers and shareholders.

Turrent and Ariza (2016) pointed out that corporate governance is an important concept especially when considering the emergence of a number of scandals such as the Enron and Andersen scandals in United States. Aluchna and Tomczyk (2019) illustrated that corporate governance remains one of the most intensively researched themes in the finance and business field. As companies grow and become more conversant with good governance, their ability to attract capital from external sources improves, allowing them to expand, diversify, and acquire other businesses in a sustainable manner. Good corporate governance, therefore, contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital (Sarbah and Xiao, 2015).

Shirwa and Onuk (2020) documented that currently every state in the US tends to practice corporate governance activities by adopting certain techniques and approaches that are appropriate to their customs, cultural context, economic setting, political environment and legal framework. However, in Saudi Arabia, the term corporate governance has gained much more attention since the creation of the 2030 vision. The Saudi Capital Market Authority (CMA) is a governmental body characterized by complete financial, legal and administrative independence. Its roles are to regulate the Saudi capital market and improve its performance by preparing the necessary laws and regulations to implement the provisions of the capital market law. Naif and Ali (2019) stated that the main purpose behind establishing the CMA was to regulate and develop the Saudi Capital Market by setting the regulations, rules and instructions that are related to the Saudi stock exchange. However, the CMA has introduced new corporate governance regulations for joint stock listed companies.

Hammad (2019) reported that good governance has become a main condition that is required to realize sustainability and development in Saudi Arabia. The Saudi government has identified corporate governance as a tool to eliminate corruption that is not only an issue of legislation but a way to create sustainable business. The Saudi Vision 2030 requires that corporate leaders, executives, employees, and the public as a whole own the long-term vision on effective corporate governance including the economic development that is a crucial part of Vision 2030.

Naif and Ali (2019) pointed out that Saudi Arabia is a country that has the potential for huge foreign investments with a better share value. Therefore, it is anticipated that in the near future there will be more competition among foreign companies demanding corporate governance best practices so as to enhance corporate performance. Al-Faryan (2020) indicated that one of the main reasons that led the Saudi government to establish a corporate governance framework is the need to diversify and develop the Saudi economy away from oil dependency and develop the capital market as an important capital source.

There are some weaknesses in corporate governance practices in Saudi Arabia that have been addressed by a number of researchers. According to Al-Zahrani (2013), minority shareholders incurred heavy losses from the initial public offering in 2006 and 2008, while Saudi corporate governance regulations relied on the “comply or explain” principle. As a result, Saudi shareholders are weak due to the Saudi Company Law of 1965 that failed to grant shareholders their own rights, which led majority shareholders to exercise control over the rights of the minority who fall under the direct responsibility of the company’s management. Al-Zuhair (2008) opines that this agency problem is well known in Saudi joint stock companies as the issues of compliance, transparency, and disclosure stem in part from the high concentration of share ownership within those companies.

Consequently, given these problems and challenges that the future of corporate governance practices face, an urgent question arises. What are the key corporate governance characteristics for Saudi joint stock companies, and how can they be prioritized to enhance governance practices? To address the research question, this study aimed to explore the key corporate governance characteristics that contribute to effective governance practices in Saudi joint stock companies listed on the Saudi stock exchange (Tadawul) and prioritize the characteristics applying the relative measurement approach of the AHP methodology.

The significance of this study stems from the fact that it represents a good opportunity to understand the relative importance of corporate governance characteristics and the degree to which they are related to each other in Saudi joint stock listed companies. This will make corporate stakeholders, including shareholders, aware of which characteristics are more critical and of primary concern.

Moreover, the study comes after the new amendments on Saudi Regulations on Corporate Governance (SRCG) in 2017. SRCG 2017 provides better rights to shareholders due to its comprehensive provisions on shareholders’ rights. Because experts and professionals in corporate governance are the only group responding to the study, the study is expected to encourage corporate stakeholders to pursue governance best practices. Finally, this study might provide a primary driver for developing further corporate governance frameworks including rules and regulations in Saudi Arabia.

2. Literature review

2.1 Corporate governance framework in Saudi Arabia

The corporate governance framework in Saudi Arabia has evolved significantly over the years. The country’s laws, regulations, and reforms have been continuously updated to enhance corporate governance practices (Mallat, 2022). The Company Law (1965) is considered one of the most significant regulations in Saudi Arabia. According to Naif and

Ali (2019), a second law known as the "Capital Market Law", established in 2003, resulted in the founding of the Capital Market Authority (CMA). Meteb (2015) argued that the primary purpose of the CMA is to organize and institute the "Saudi Arabian Capital Market" and to set regulations, rules and directions that pertain to the Saudi stock exchange. Naif and Ali (2019) reported that the Cabinet, in 2007, called for the establishment of the Saudi Stock Exchange (Tadawul) as a shareholding company to be in charge of the daily activities of the Tadawul. This section highlights the regulatory framework and development of corporate governance in Saudi Arabia, providing the necessary context for understanding the unique challenges and opportunities addressed in this study.

The Capital Market Authority (CMA) is a governmental body that reports directly to the President of the Council of Ministers. In other words, companies listed in the Kingdom of Saudi Arabia are subject to the judiciary of the "Capital Market Authority". The CMA shall undertake the following tasks: 1) Regulating the capital market, improving its performance, and promoting appropriate standards and methods for all departments and entities involved in securities trading, 2) Protecting investors and the public from unfair and improper practices that result from fraud, deception, manipulation, and insider information circulation, 3) Maintaining fairness, efficiency, transparency, and disclosure in securities transactions, 4) Establishing appropriate procedures to reduce risks related to securities transactions, 5) Developing, organizing and monitoring the issuance of securities and transactions in circulation, and 6) Regulating and monitoring the activities of the entities operating under the supervision of the CMA. The CMA is controlled by a board of five full-time commissioned members who are appointed by a royal decree (CMA, 2015).

To understand the corporate governance framework in Saudi Arabia, it is important to review Saudi regulations on corporate governance. Hill et al. (2015) highlighted that the recently issued Saudi Corporate Governance Code (SCGC) of 2017 improves shareholder and board member rights and transparency, aiming to attract foreign investments and supplement the Companies Laws of 2016. SRCG 2017 regulates various aspects including board composition, appointment, responsibilities, and fiduciary duties, emphasizing general disclosure and transparency (Naif & Ali, 2019). Shareholders' rights, as specified in the Company Law, allow attendance at annual general meetings, participation in decision-making, and dividend claims (Al-Faryan, 2020). SRCG 2017 enhances shareholder rights, ensuring equal treatment, access to information, attendance at general assemblies, and audit member selection (Naif & Ali, 2019). Article 89 mandates accurate information disclosure, while Article 96 requires maintaining records for at least ten years ("Updating Corporate Governance in Saudi Arabia: Influence of Company Law Reforms," 2021).

2.2 Characteristics of good corporate governance practices

It is internationally recognized that good corporate governance has a positive impact on the performance of companies, and enables them to move into the next phase of the business lifecycle. Suleiman (2017) highlights that good governance is a concept that has recently come into regular use in political science and public administration. The World Bank declared that there are eight key features of good governance that include involvement, conceptualization, accountability, transparency, responsiveness,

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effectiveness and efficiency, fairness and inclusiveness and follows the rules and regulations (Drishti, 2020). De Villiers and Dimes (2020) indicated that corporate governance is imperative for an organization's effective performance. The following discussion identifies and reviews key corporate governance characteristics from the existing literature, forming the foundation for their prioritization within the Saudi context.

a) Board independence

De Villiers and Dimes (2020) assert that assessing board independence entails considering the presence of nonexecutive members, which helps mitigate executive dominance in decision-making, along with the absence of CEO duality. Al-Janadi et al. (2013) highlight the agency problem stemming from conflicts between shareholders and managers, prompting shareholders to seek robust board oversight. Aggarwal (2013) underscores the pivotal role of independent directors in monitoring managerial behavior, despite facing challenges in directly influencing management. Haidar (2019) elucidates conflicting issues in board structure, with nonexecutive directors encountering constraints on active monitoring. Reguera-Alvarado and Bravo (2017) stress the imperative of independent board control over executives, while Gouiaa (2018) emphasizes the significance of independent directors in strategic decision-making and risk mitigation through effective monitoring. In contrast, Shukla et al. (2020) concluded that board independence in corporate governance increases market risks which was evident from a survey among Indian banks and in line with the findings of Yasser et al. (2017), a study conducted in Pakistan. A recent study (Chatjuthamard, et al., 2023) shows that firms that are obliged to promote board independence have a much greater gain in innovation compared to those that are not. The research found that having more independent directors greatly improves innovation efficiency.

b) Board size

According to Gouiaa (2018), the number of board members has a significant impact on the ability of directors to oversee executives and monitor the accounting and financial functions. There is a positive relation between risk taking, the effectiveness of the directors' control and the board's size due to the division of workload and other factors (Javed et al., 2024). Al Hares et al. (2019) concluded that from the efficiency point of view, neo-institutional theory holds that small sized boards are more effective in overseeing executives and enhancing shareholders' interests. However, it is generally viewed that if the board size is too small, the oversight of the executive's team will be low. This can result in managers' using a free hand in receiving high earnings and using any opportunity to realize their own interests. Consequently, a larger board can result in good oversight of the management team and this in turn enhances the quality of corporate decisions. Similarly, Yasser et al. (2017) find a positive association between board size and firm performance in Pakistan. Cooray and Senaratne (2020) emphasized that the size of a board can be an indicator of sound management and experience that can enhance the quality of information disclosure, and several scholars back this opinion. Kyere and Ausloos (2020) noted that corporations that have a sizeable board are likely to have effective control that can enhance corporation performance.

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c) Separation of position

Ntim et al. (2013) indicated that a dual CEO refers to one person holding the positions of the CEO and Chairman of the board of directors at the same time. The Chairman is accountable for controlling and managing the board (control function) while the CEO is accountable for the daily management of the corporation. The CEO exercises an important role in the strategic path and improvement of the company's performance. Using their discretionary powers, a CEO can exert a positive impact on the financial performance of the company. This dual structure also provides a single focal point, consistent stability, and better communication between executives and directors. However, it is worth noting that a strong CEO may make riskier decisions. While CEO duality in targeted industries can mitigate overinvestment, it may also weaken the board's oversight function due to the CEO's control over meetings, potentially leading to exacerbated underinvestment (Nuanpradit, 2024). In sum, duality of the CEO may result in both positive and negative effects on the company's financial performance (Deliotte, 2016). Habbash and Hussainey (2019) noted that segregating the two roles might support board accountability and independence and could positively affect the disclosure quality. Kyere and Ausloos (2020) stated that the main concern about CEO duality is that the managerial dominance of the board can lead to questionable control over the meeting agenda. Thus, in companies that lack strong oversight of the corporate governance mechanism, they can pursue their own self-interests. A recent study by Oussii and Klibi (2024) shows that CEO duality may lead to less tax avoidance due to board scrutiny, or more tax avoidance due to opportunistic conduct and power entrenchment. The study also indicates that CEO duality does not significantly increase tax aggression, suggesting that dual CEOs do not significantly impact business tax evasion techniques.

d) Audit committee independence

Habbash et al. (2019) noted that an audit committee is one of the basic pillars of any governance system associated with the board of directors. This committee holds an effective monitoring and oversight function and can assure the integrity of financial reporting. De Villiers and Dimes (2020) documented that an audit committee has an important function in enhancing corporate disclosures through their concentration on internal control mechanisms. However, Carrott (2016) and Endrikat et al. (2020) noted that the existence of an audit committee does not necessarily indicate that it operates effectively, and it may hold an indirect instead of a direct function with respect to corporate disclosures. Audit committee independence promotes tax responsibility disclosure in corporate governance indicating a positive relationship between the two factors (Anwar et al., 2024). Likewise, Al-Janadi et al. (2013) declared that an audit committee has a major role in guaranteeing good quality financial reporting, evaluating internal control mechanisms, and overseeing the relationship between external auditor and top management. Gouiaa (2018) indicated that the audit/risk management committee has a distinct function, operates to ensure that shareholders' interests and other stakeholders are protected by ensuring effective risk control and transparent financial reporting.

e) Board expertise diversity

Experienced board members are critical to good corporate governance. Reguera-Alvarado and Bravo (2017) asserted that governors with a long-term position on a director's board accumulate greater experience and expertise. Masud et al. (2019) suggested that having outside experts and specialists on the board reduces potential conflicts while allowing the company to benefit from expert consultations. As more comprehensive and independent experts are available, the external directors can closely control the company's operations and encourage strategic decision-making for the company. Financial literacy of the directors can improve the performance of the company (Khan and Kamal, 2024; Vorobyeva, 2014).

f) Audit committee expertise

Habbash and Hussainey (2019) asserted that no significant correlation exists between the size of the audit committee and the quality of risk disclosure. They also argued that audit committees with many professional members enhance the quality of reports. Salawu et al. (2017) reported that audit committees are regarded as contributing to the auditing process since they are established to assist in improving audit quality. The audit committee's primary duties are to oversee the financial reporting and keep tabs on management tendencies to manipulate earnings and other accounting malpractices. Salawu et al. (2017) and Khan and Kamal (2024) added that the experience of the audit committee is an important element to perform its functions and protect the interests of shareholders. It also requires that all members of the audit committee have sufficient knowledge and experience in order to be aware of the challenges of audit practices. Raweh et al. (2021) concluded that the quality and timeliness of financial reporting is more influenced by audit committee members who have high expertise on financial matters.

g) Ownership structure

Hashim and Devi (2008) differentiated structures among managerial ownership, family ownership and institutional ownership. According to their study, in a structure of managerial ownership, the role of independent directors seems to be significant for the enhancement of the board's controlling function. Hashim and Devi (2008) argue that the role played by the external board of directors is less serious for corporations with a higher rate of inside ownership. When it comes to leverage, ownership structure has a favorable influence on small and medium-sized businesses but a negative one on big organizations (Mertzanis et al., 2023).

Bartholomeusz and Tanewski (2006) indicated that family ownership structures show low rates of independent board members and a clear mixing of roles between the CEO and Chairman. Hashim and Devi (2008) concluded that in countries like the United States, family corporations have very good protection for shareholders compared to family corporations in developing countries that exercise poor shareholder protection. Chung et al. (2005) contend that having substantial ownership shares hinders the selling of shares at the current price; consequently, the institutional shareholders are motivated to control corporations with high free cash flow. It should however be noted that institutional investors vary in their investment horizon and corresponding engagement (Deliotte, 2016).

h) Remuneration committee independence

When it comes to corporate governance for both actual and accrual-based profits in the context of Middle Eastern and North African (MENA) nations, a "remuneration committee" is a crucial board characteristic (Almarayeh et al., 2024). Gordon (2021) pointed out that the independent board members have the sufficient capacity to elect the members of the remuneration committee. The appointed committee members need to realize that independence skills are inevitable. The board generates the job description for the committee members and specifies their roles and responsibilities. Remuneration can be used to equate the interests of the shareholders with that of the management team. A board compensation policy requiring directors and the CEO to own stock has a positive effect on a company's technical efficiency. Granting stock options to the CEO and management can provide useful incentives for long-term value creation. Research shows that CEO stock ownership and other performance-related compensation also influences CEOs' behavior to seek external advice that results in better financial performance. According to CMA (2017), the board is responsible to establish a committee to be named the "remuneration committee." Members of the committee shall not be executive directors, provided that there shall be at least one independent director among them. A remuneration committee is comprised of independent, outside directors with no interlocking committee memberships with committees of other companies.

i) Nomination committee independence

A nomination committee is defined as those that elect individuals to occupy directors' positions in a company board. The nomination committee is required to evaluate and recommend the best candidates for the directors' board of a corporation. The members of a nomination committee and their number is decided by each company separately. Normally, the board chairman, the board deputy chairman and the CEO occupy positions on the nomination committee. According to Diligent (2018), a nomination committee reviews and amends the policies and procedures of company's corporate governance practices.

j) Board gender diversity

Abdullah and Ismail (2016) and Wahid (2018) explained that board gender diversity has become more significant among founders of policies, shareholders, regulators, scholars, corporations, and the public at large. This trend is due to the role played by female directors on a corporation's board that is slowly progressing. Based on the findings of some studies, board gender diversity might enhance the reliability and transparency of financial reports. Ammer and Ahmad-Zaluki (2017) and Ginesti et al. (2018) propose that the appointment of female directors on the board supports the progress of corporate governance mechanisms that results in the improvement of corporate reporting practices. Fan et al. (2019) noted that a number of researchers proposed that women are more concerned with ethics and morals compared to males. Also, the studies found that females are more advanced in their attitude, behavior, decision making and controlling abilities. While gender diversity promotes tax responsibility disclosure (Anwar et al., 2024), Almarayeh et al., (2024) found that it has no effect on both actual and accrual-based profits in the context of MENA countries.

k) Board meetings

One of the important attributes of good governance is board meetings. A number of scholars believe that the potency and frequency of board meetings is an important indicator of the committee's effectiveness that has a positive relationship with firm performance (Singhania & Panda 2024). Board meetings are an important characteristic of the oversight role of the board of directors as meetings are held to negotiate outstanding issues in the corporation and possible solutions (Al-Daoud et al., 2016).

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Coles et al. (2008) suggest that the goal of the controlling role is to mitigate agency problems and hold executives responsible for their behaviors. This can be attained through periodic meetings and activities carried out by the board of directors to oversee and negotiate all operational matters. The company secretary must, on the director's request call for a meeting. It is advisable that at least one meeting per year is held in person at the registered office of the company.

l) Audit committee size

Kipkoech and Rono (2016) observe that the larger the team size, the more the members are stressed and expected to follow others' views even when those views are not properly justified. Xie et al. (2003) believe that the success of the audit committee is determined by the audit committee size. Sharma et al. (2009) found a positive relation between the higher risk of financial inaccuracy and audit committee size, institutional and managerial shareholdings, financial expertise and board independence. Similarly, committee size was found to have a positive influence on tax responsibility disclosure (Anwar et al., 2024). It is said that the size of the audit committee and number of meetings can potentially have a positive effect on corporation performance.

m) Audit committee meetings

Ashari and Krismiaji (2020) opine that meetings are a mechanism to negotiate and find solutions for the complicated issues and challenges that confront the companies. The higher the frequency of meetings, the greater the possibility of solving the problems is. The meeting frequency of an audit committee is a measure of the committee's effectiveness. Therefore, Bedard and Gendron (2010) argue that the more meetings are performed, the better it is for achieving the corporate goals.

2.3 Research gap

Corporate governance in Saudi Arabia is entering a new stage of development with regard to the mechanisms and characteristics of governance. Although Saudi Arabia has engaged substantial effort to develop and improve corporate governance practices, only a few studies have been conducted on corporate governance issues for the companies listed on the Saudi Stock Exchange and most of the literature reviewed focused mainly on corporate governance performance (Al Ahmary, 2018; Al-Faryan, 2020; Al-Janadi, 2013; Al-Zahrani, 2013b; Habbash et al., 2019; Hill et al., 2015; Meteb, 2015) and corporate governance regulations (Naif and Ali, 2019). The researchers found only a few recent studies (Alnor, 2024; Endrikat et al., 2020; De Villiers and Dimes, 2020; Mallat, 2022) that addressed the determinants or characteristics of effective corporate governance practices within Saudi Arabia, especially after the recent amendments of regulations in 2017 by CMA, but none of them obtained the relative importance of these characteristics through the collection and analysis of quantitative data.

Notably, prioritization enables company management to pay attention to the most significant characteristics first before considering the less important ones. The AHP methodology in corporate governance often involves subjective and ambiguous topics, demanding strong assessment, reasoning, and judgment skills from governance agents (Botelho, 2022). The application of the AHP helps prioritize the characteristics and bridge this research gap.

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3. Methodology

In this study, the AHP methodology (Saaty, 1980) was applied as a structured and systematic multicriteria decision making method. The AHP has been widely applied in different domains such as ethical performance assessment in stock exchange corporations (Hanine et al., 2021). Its widespread recognition as an effective decision-making tool justifies its suitability to the current study. Additionally, the AHP accommodates subjective judgments through the Consistency Ratio (CR) to facilitate consistency, which makes it feasible to prioritize the corporate governance (CG) characteristics. For the current study, the AHP model comprises three hierarchical levels: the goal, which is to prioritize the CG characteristics; the criteria, which are the ten selected CG attributes; and the alternatives, which represent the companies listed in Saudi Stock Exchange. A survey questionnaire was designed to collect data following the format needed by the AHP in order to perform a pairwise comparison. Finally, these matrices were aggregated geometrically to form a single matrix that constitutes collective judgments (Krishnan et al., 2020). Priority weights and CR to satisfy the reliability of the judgments were calculated using the SuperDecisions software with CR less than 0.10 considered acceptable (Saaty, 1980).

For this study, the target population comprised experts in corporate governance practices in Saudi joint stock listed companies. Survey respondents were identified and selected by means of a purposive judgmental sampling method. This was the right approach as the AHP takes into account the specialized knowledge and experience of respondents. In this regard, a smaller, highly knowledgeable sample is normally accepted over a large sample size. The selection of experts focused on ensuring representativeness because the experts were selected on the basis of professional roles, qualifications, and direct involvement in corporate governance practices. A total of 32 survey questionnaires were distributed but only 26 completed questionnaires were returned. This sample size meets the accepted practice in AHP studies, where many studies consider 15 to 30 experts acceptable for robust analysis. Another strength of the findings is the diversity in the backgrounds of the respondents. Since the AHP requires a maximum of 10 factors for meaningful comparisons and obtaining relative priorities (Saaty, 2008), the researchers had to reduce the number of characteristics from 13 to 10.

4. Findings and discussion

4.1 Prioritization of characteristics

The selection of ten characteristics was based on the most frequently cited characteristics by scholars that represent good corporate governance practices. The selection of these characteristics aligns with the findings of Alnor (2024) and De Villiers and Dimes (2020), who identified similar factors as critical for effective corporate governance practices. Figure 1 shows the selected 10 characteristics and their abbreviations. Respondents were asked to compare each pair of the ten CG characteristics in terms of their relative importance to effective corporate governance practices. For these comparisons, Saaty’s nine-point scale from 1 (the weights are equal, it makes no difference which is chosen) to 9 (extremely important) was used. The responses were subsequently compiled into pairwise comparison matrices for each respondent.

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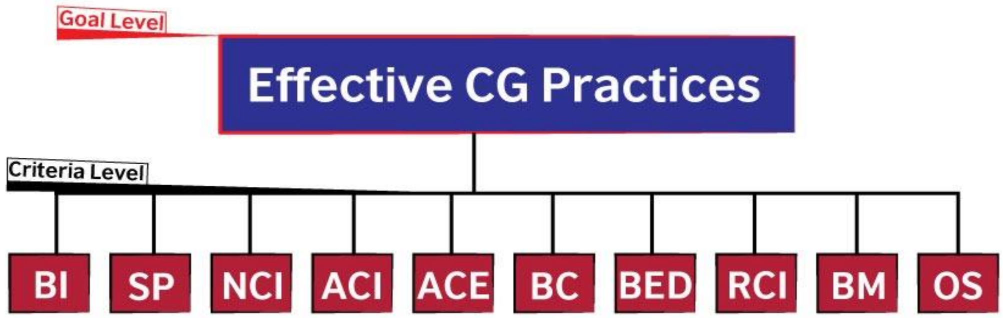

Figure 1 Selected corporate governance characteristics
BI: Board Independence, SP: Separation of Position, NCI: Nominal Committee Independence, ACI: Audit Committee Independence, ACE: Audit Committee Expertise, BC: Board Composition, BED: Board Expertise Diversity, RCI: Remuneration Committee Independence, BM: Board Meetings, OS: Ownership Structure.

4.2 Computation of geometric means for the respondents' judgements

After collecting the pairwise comparison matrices from the individual respondents, a geometric mean average pairwise comparison matrix was formed (Krishnan et al., 2020).

4.3 Computation of characteristics' average weights

The calculated geometric means in the previous step were transferred from an Excel sheet to the SuperDecisions software to calculate the average weights of the characteristics. The average weights obtained provide the priorities of the characteristics. The priorities denote the level of importance of the characteristics for the Saudi Stock Exchange listed companies. In this step, the inconsistency ratio was also calculated by the software. If the obtained inconsistency ratio is less than (0.10), the result is accepted. Table 1 represents the PCM which contains the geometric means for all respondents' judgements.

Table 1
PCM: Geometric means for all respondents' judgements

Characteristics	ACI	BED	BM	SP	RCI	NCI	OS	BI	ACE	BC
ACI	1.00	2.12	1.63	0.98	3.15	1.30	2.84	0.46	1.40	1.75
BED		1.00	2.59	0.48	2.01	0.61	3.36	0.28	0.63	0.93
BM			1.00	0.37	0.66	0.52	1.45	0.21	0.67	0.55
SP				1.00	3.31	1.39	3.48	0.59	1.99	1.49
RCI					1.00	0.45	1.39	0.21	0.57	0.79
NCI						1.00	4.20	0.41	1.45	1.33
OS							1.00	0.15	0.27	0.48
BI								1.00	4.19	3.61
ACE									1.00	0.97
BC										1.00

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4.4 Ranking of corporate governance characteristics

The researchers entered the geometric mean values in the comparison section of the software and the average weights of the characteristics were immediately calculated to indicate the ranking of the characteristics. A screenshot of this analysis is shown in Figure 2. The characteristics appear on the left side, the priority weights are shown on the right side, and the Consistency Ratio is shown on the top of the priority sub-window. The CR is 0.02542 which is less than 0.1, and therefore indicates that the amount of inconsistency is within the acceptable limit.

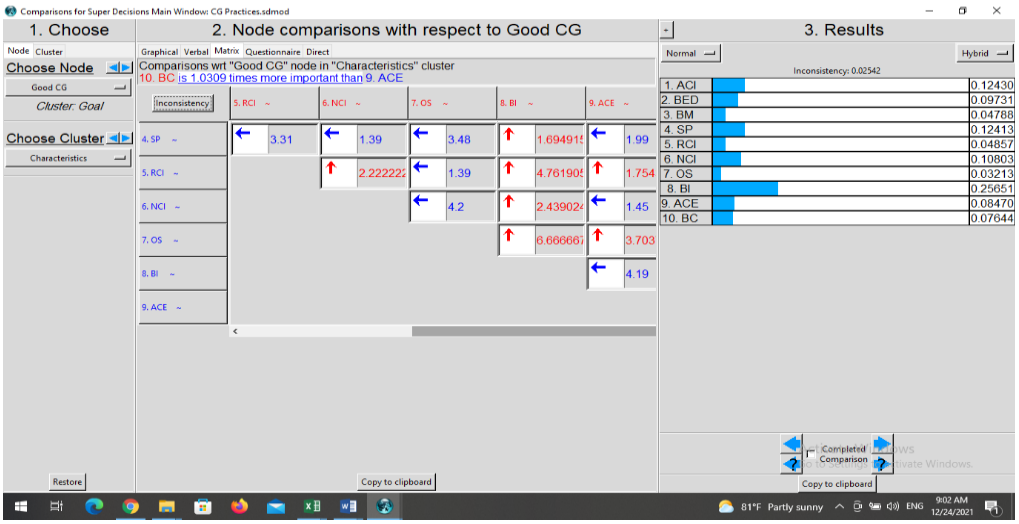

Figure 2 Screenshot for the PCM and results

Table 2 lists the relative importance of corporate governance characteristics as judged by all the respondents together.

Table 2
Corporate governance characteristics and their priorities

No.	Corporate Governance Characteristics	Priority Weights	Rank
1	Audit Committee Independence	0.1243	2
2	Board Expertise Diversity	0.097	5
3	Board Meetings	0.048	9
4	Separation of position	0.1241	3
5	Remuneration Committee Independence	0.049	8
6	Nomination Committee Independence	0.108	4
7	Ownership Structure	0.032	10
8	Board Independence	0.257	1
9	Audit Committee Expertise	0.084	6
10	Board Composition	0.076	7
Consistency Ratio: 0.02542			

Board independence attained the highest weight of 0.257, indicating that board independence is the most important corporate governance characteristic. The least important is the ownership structure with a weight of 0.032. Audit committee independence is slightly more important than separation of position. It is clear that most of the respondents gave great attention to board independence, audit committee independence and separation of position in enhancing corporate governance practices in Saudi joint stock listed companies while lesser importance was placed on remuneration committee independence, board meetings and ownership structure. The ranks of the characteristics are shown in the right most column of Table 2.The findings of Habbash et al. (2019) and others (Shukla et al., 2020; Chatjuthamard et al., 2023), which emphasized the importance of board independence and audit committee independence in promoting corporate governance practice were reflected in the high priority found in this study. However, lower rank order of ownership structure is contrary to the findings of Mertzanis et al. (2023) who indicated that ownership structure has a stronger positive effect on small and medium sized enterprises, but a negative influence for large enterprises.

4.5 Effect of demography of the respondents on the ranking of characteristics

The ranking of the characteristics shown in the previous section was calculated considering all the respondents together. This section presents the ranking of the ten characteristics based upon three selected demographic variables, namely nationality, qualifications, and specialization of the respondents. The purpose of computing this ranking of the characteristics is to determine whether any significant difference exists among various levels of the same demographic variable. After the ranking for various levels of the above-mentioned three demographic variables was computed, Spearman's rank correlation coefficients were computed for every pair of levels of the variable. Table 3 shows the ranks and rank correlation coefficients.

Table 3
Ranks of the characteristics with respect to demographics variables

Characteristics	**Nationality**		**Qualification**						**Specialization**					
	Saudi	Non-Saudi	C	B	C	M	B	M	BF	LA	BF	AU	LA	AU
ACI	2	3	4	3	4	2	3	2	4	2	4	4	2	4
BED	4	7	6	5	6	7	5	7	7	3	7	7	3	7
BM	6	9	9	8	9	9	8	9	9	5	9	8	5	8
SP	3	2	3	2	3	3	2	3	2	4	2	2	4	2
RCI	9	8	8	9	8	8	9	8	8	9	8	9	9	9
NCI	5	4	2	4	2	4	4	4	3	7	3	3	7	3
OS	10	10	10	10	10	10	10	10	10	10	10	10	10	10
BI	1	1	1	1	1	1	1	1	1	1	1	1	1	1
ACE	7	5	5	6	5	6	6	6	5	6	5	5	6	5
BC	8	6	7	7	7	5	7	5	6	8	6	6	8	6
RCC →	0.82		0.94		0.92		0.93		0.62		0.99		0.67	

Legend: RCC: Rank Correlation Coefficients, C: Certificate, B: Bachelors, M: Masters, BF: Business & Finance, LA: Legal Affairs, AU: Auditing

The common observation is that the rank correlation coefficients are all statistically significant. Therefore, the ranks generated for certain groups of respondents corroborate with the ranks generated for other groups. This shows that overall ranks of the ten characteristics assigned by all the respondents are stable. These results are consistent with Andriichuk et al. (2024), who found that demographic factors such as educational qualifications and specialization influence the prioritization of criteria in an AHP pairwise comparison.

5. Managerial implications

For corporate leaders, executives, and policymakers, the study's findings have several implications. Resources can be allocated strategically by prioritizing efforts to enhance characteristics identified as critical, particularly board independence, audit committee independence, separation of position, nominal committee independence, and diversity in board expertise. Additionally, corporate policies and governance frameworks can be refined to align with the prioritized characteristics, fostering a governance structure that resonates with international best practices. Moreover, the findings of the present study enable the implementation of mechanisms for continuous monitoring and evaluation of corporate governance practices, adapting strategies as needed to address evolving challenges and opportunities in the business environment. By heeding these implications, Saudi firms can navigate the evolving landscape of corporate governance, fostering sustainable growth and contributing to the realization of broader economic development goals outlined in Saudi Vision 2030.

6. Conclusion

In conclusion, this study provides valuable insights into the ranking of corporate governance characteristics that are essential for effective practices within Saudi joint stock companies. Drawing on data primarily sourced from experts with diverse specializations, the research underscores the pivotal role of corporate governance in shaping a firm's performance and fulfilling shareholders' objectives. From an initial pool of 13 characteristics identified in the literature, prioritization focused on ten key factors deemed crucial for enhancing corporate governance effectiveness. The findings emphasize the critical importance of prioritizing certain characteristics for Saudi firms to optimize their corporate governance practices. Specifically, board independence, audit committee independence, separation of position, nominal committee independence, and diversity in board expertise emerge as the top five characteristics requiring heightened attention. Recognizing the significance of these factors is paramount for Saudi companies aiming to elevate their corporate governance practices and align with broader corporate objectives.

Despite these insights, the study acknowledges several limitations, notably the relatively low participation of Saudi respondents due to the dominance of non-Saudi citizens in the employee base of Saudi firms. Additionally, the analysis focused on independence among characteristics, neglecting potential interdependencies. To address this, future research could employ the Analytic Network Process (ANP) for a more nuanced exploration of characteristic priorities.

To advance the understanding of corporate governance in the Saudi business context, future research endeavors may involve a more diverse group of Saudi respondents, ensuring a comprehensive representation of the workforce in Saudi firms; explore the application of the ANP to capture and analyze the potential interdependencies among corporate governance characteristics, providing a more comprehensive and realistic understanding of their influence on each other. Finally, comparative analyses with international standards and practices to benchmark Saudi corporate governance practices against global norms, identifying areas for improvement and adaptation could be conducted.

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