British Journal of Arts and Social Sciences
ISSN: 2046-9578, Vol.9 No.I (2012)

http://www.bjournal.co.uk/BJASS.aspx

Corporate Governance and Performance of Saudi Arabia Listed Companies

Yahya Ali Al-Matari
Faculty of Accountancy, Universiti Utara Malaysia
matariyahya@yahoo.com

Dr. Abdullah Kaid Al-Swidi
College of Arts & Sciences, Universiti Utara Malaysia
swidi@uum.edu.my, and

Assoc. Prof. Dr. Faudziah Hanim Bt Fadzil
Faculty of Accountancy, Universiti Utara Malaysia
fhanim@uum.edu.my

Abstract:

This study aims to provide a concise view of the background of Saudi Arabia's legal system, important regulations and monitoring policies related to the corporate governance followed by the Saudi government to enhance the attractiveness of the business environment. In so doing, this study attempted to provide an overview on corporate governance in the emerging markets and more specifically in Saudi Arabia. Additionally, this study has shed lights on the main monitoring devices which play a significant role in regulating and developing the Saudi business environment. The focus was on some corporate governance mechanisms that might affect firm performance including board composition (BODCOM), CEO duality (DUAL), board size (BSIZE), audit committee independence (ACIND), audit committee activities (ACMEET) and audit committee size (ACSIZE).

Keywords: Corporate governance, firm performance, emerging countries, Saudi Arabia.

1. Introduction

The topic of corporate governance is assuming growing importance in emerging economies at the same time that financial scandals in the U.S. and other countries (Enron, Arthur Anderson, WorldCom, and Adelphia) have resulted in demands for improved corporate governance practices in developed economies (Millstein, 2003). Research suggests that poor corporate governance causes poor performance and dissatisfaction among stakeholders (O'Regan et.al. 2005).

Over the past several years, the importance of corporate governance has been highlighted by an increasing body of academic research. Studies have shown that good corporate governance practices have led to significant increases in economic value added (EVA) of firms, higher productivity, and lower risk of systemic financial failures for countries.

For emerging market countries, improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, enhance the performance of companies and leads to capital market development. However, weak corporate governance frameworks reduce investor confidence, and can discourage outside investment.

Based on the premises of the agency theory, Jensen and Meckling (1976) and Shleifer and Vishny (1986) pointed out that there is likelihood of principal-agent conflicts when management roles are separated from ownership roles, coupled with the existence of asymmetric information. They assert that this is due to the improper use of corporate assets arising from manager's self interest satisfaction in pursuing projects that are very risky but not prudent with the adverse consequences on the providers of the capital. Therefore, different internal and external mechanisms have been considered via corporate governance to prevent agency conflicts as well as reducing costs associated with such agency.

In general, CG provides a complete foundation to assist stakeholders to exercise their rights, protect their interests and mitigate potential conflicts between them and managers. In recent years, both developed and developing countries have taken initiatives to continuously improve their system of CG to improve the quality of financial reporting, enhance the performance of companies and to recover investors' confidence in financial reports. For example, the USA introduced the Sarbanes Oxley Act (SOX) in 2002 and created the public company accounting oversight board (PCAOB) in 2004 to help improvement CG practice. Malaysia developed the Malaysian code of corporate governance (MCCG) in 1999 and enforced it in 2001. In 2006, Saudi Arabia introduced reforms to enhance the CG of its companies. The objectives of the CG resolution were to enhance the efficiency of market mechanisms, build investor confidence, and to provide a mechanism to help in evaluating the performance of firms.

Corporate governance mechanisms that might affect firm performance include board composition (BODCOM), CEO duality (DUAL), board size (BSIZE), audit committee independence (ACIND), audit committee activities (ACMEET) and audit committee size (ACSIZE).

2. Motvation of the Study

Following the large number of corporate collapses around the world, considerable research on corporate governance is conducted within the developed countries context, such as the United States, the United Kingdom, Australia, Germany and Japan. However, there is a dearth of studies on corporate governance in less developed and emerging countries (Gibson, 2003; Denis and McConnell, 2003; Machold and Vasudevan, 2004; Al-Hussain, 2009).

Therefore, this study will carry out in an emerging market like Saudi Arabia for several interesting reasons. Firstly, most of previous research studies on corporate governance and firm performance issues have been, mainly, limited to those of developed economies or large emerging economies. It seems, then, that small economies such as those of the Arab countries are very much understudied in the literature and more specifically, Saudi Arabia. To date, there has been a lack of studies that investigate: board of directors' composition, authorities and responsibilities; sub-committees; the legal system in Saudi Arabia; and their impacts on companies' practices (Flagi, 2009). Therefore, in this paper the researcher will try to fill this gap by looking at the internal corporate governance (board of directors and audit committees characteristics) and its impact on firm performance.

Secondly, The Saudi Stock Market (SSM) faced an extraordinary crash at the beginning of 2006, which leads CMA to suspend the trading of two firms, Al Sanie and Saad group. These events created a serious question about the effectiveness of different monitoring devices that were presumed to protect investors' interests in Saudi Arabia (Al-Abbas, 2009).

Thirdly, the Corporate Governance Regulation has been issued by Capital Market Authority (CMA) in November 2006, in response to critics of Saudi corporation management after the 2006 crash. However, the Corporate governance in Saudi Arabia is still a nascent concept, the Capital Market Authority (CMA) is still in the process of educating the markets on the benefits of applying good corporate governance and many of the laws and institutions are still relatively new and untested; awareness of the importance of good corporate governance is low, and implementation by companies in its early stages (World Bank, 2009). As a result, the search for mechanisms to enhance corporate governance and improve firm performance has mostly focused on the structure of board of directors and audit committees. Thus, further researchers are required to propose improvement in corporate governance practice.

Moreover, the performance of listed companies also fluctuated over time. While some companies have experienced good performance, others perform badly. In 2010, 20% of the listed companies experienced negative performance as measured by Return on Assets (ROA) and 25% negative performance as measured by Return on Earnings (ROE). Poor companies' performance is believed to be caused by many factors. According to Peng, Buck & Filatotchev (2003), the firm's strategy and its implementation are the factors affecting the company performance. In addition, it is also suggested that the factor among other factors that contributes to the companies' performance is corporate governance (Alsaeed, 2006).

Lastly, Saudi Arabia is the largest economy in the Middle-East and an important country to the world. It is a member of many worldwide organizations including the United Nation (U.N), the International Monetary Fund (IMF), the World Bank (WB), and the World Trade Organization (WTO). Economically, it is the largest oil producer and a founder member of Organization of the Petroleum Exporting Countries (OPEC). Recently, after the global financial meltdown, Saudi Arabia has become a member of the G20 as being one of the top twenty economies in the world.

3. Corporate Governance in Emerging Markets

Corporate governance issues are quite important in emerging markets because these markets do not have features such as long-established financial institution infrastructures to cope with corporate governance issues (McGee, 2010). The term `emerging market' is used to refer to the markets of developing countries that have grown in recent decades. According to Singh (2003), most emerging markets are not active markets for corporate control in the Anglo-Saxon sense; these markets are likely to be even more imperfect and suffer from greater informational deficits than markets in the US and the UK. Emerging markets are different from developed markets in areas such as accounting transparency, liquidity, corruption, volatility, governance, taxes and transaction costs (Bruner et al., 2002).

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

The main reason for emerging economies to consider introducing corporate governance is their need to build investor confidence to attract foreign and local investment and expand trade (Abhayawansa & Johnson 2007). International donor agencies such as the IMF and World Bank as well as organizations such as the OECD indirectly influence developing countries to improve their corporate governance mechanisms and regulatory infrastructure (Athukorala & Reid 2002). The adoption of corporate governance was also stimulated by the belief that the economic crisis that hit the South East Asian stock markets in 1997-1998 was partly due to weak corporate governance in the region (Mobius 2002). This resulted in governance reforms in the emerging markets to restore investor confidence by providing a secure institutional platform on which to build an investment market (Monks & Minow 2004, p.305).

Oman et al. (2003) report that: "In developing countries, the widespread preponderance of smaller firms that do not have listed shares, and of large family-owned, state-owned and/or foreign-owned companies whose shares are also not widely traded locally, is thus an important reason why the potential importance of corporate governance was long ignored.

Singh (2003) believes that emerging markets are unlikely to introduce satisfactory solutions to serious corporate governance issues. Consequently, it is essential for emerging markets to develop their standards of corporate governance, as better corporate governance will help companies in those markets to avoid any potential crises. However, although these markets are still less developed as a whole, some emerging markets (20% of developing countries) are in transition to higher levels of economic development, while pre-transition countries also offer interesting investment opportunities (Bruner et at., 2002). While better corporate governance is good for companies, it necessary for these markets to encourage companies to have good corporate governance practices (Klapper and Love, 2004).

In addition, Singh (2003) states that: "Although there might be shortcomings in corporate governance in many developing countries, leading emerging countries have vibrant product markets, displaying as much intensity of competition as that observed in advanced countries. Further, despite the capital market imperfections, stock markets in these countries have been growing fast and contributing significantly to corporate growth through new primary issues".

4. Corporate Governance in Saudi Arabia

4.1 Background of Saudi Arabia

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

The modern state of Saudi Arabia dates back to 1932 when King AbdulAziz (1880-1953) announced the foundation of the Kingdom of Saudi Arabia, after great efforts to unite the different parts of the Arabian Peninsula under one flag (Al-Angari, 2004; Al-Turaiqi, 2008) and the country has since become one of the most significant in the Middle East. Saudi Arabia is located in the South West of Asia, having an area of about 2,100,000 square kilometers (868,730 square miles), with a population of 24 million; the annual population growth was 3% in 2006 (World Bank, 2009).

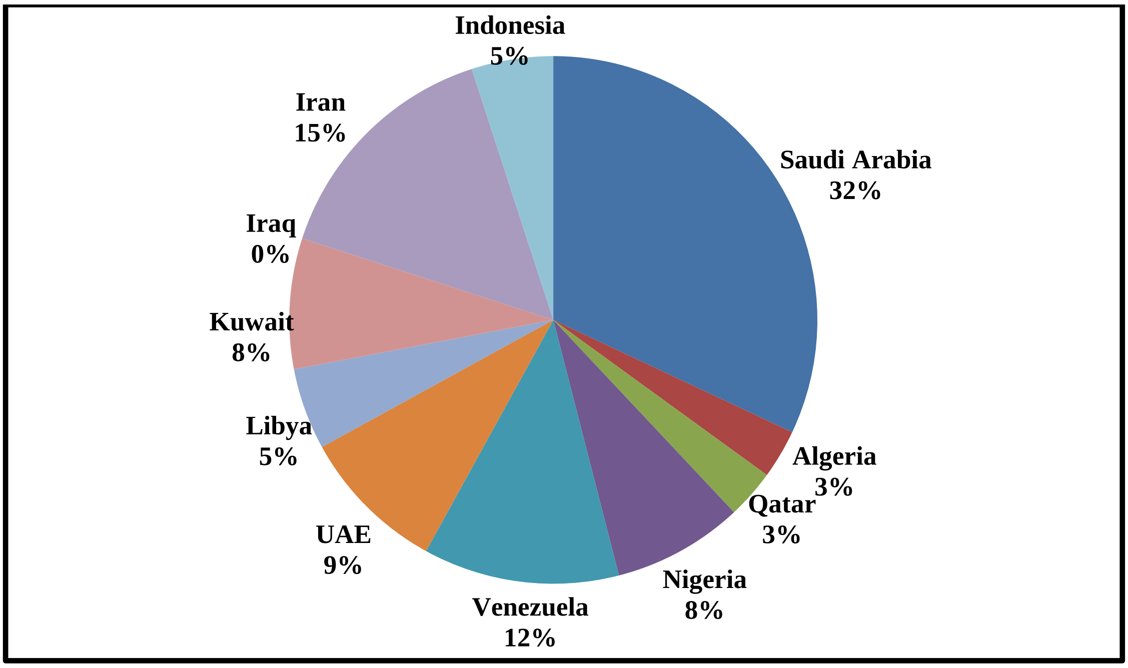
The system of governance in Saudi Arabia is a monarchy, limited to male descendants of King Abdulaziz. It is a centralized system, the King being the head of the Council of Ministers, which is responsible for the management of the internal and external affairs of the Kingdom, in addition to organising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

Saudi Arabia has a special position in the Islamic world because it contains the holiest Moslem sites of Mecca (the direction of prayer for more than one billion Muslims) and Medina (the city of which prophet Mohammed (PBUH) emigrated and where he is buried). Furthermore, it is the land of prophecy and the cradle of Islam, which spread from there to all parts of the earth. Each year about two and a half million Muslims come to these holy lands to take part in the Hajj (pilgrimage).

The Islamic religion has a distinct influence on most aspects of life in Saudi Arabia, and this goes back to the establishment of the Kingdom, when Mohammed Ibn Saud (the political leader) agreed with Sheikh Mohammed Ibn Abdulwahhab (the religious leader) in 1744 to set up a state (the first Saudi State) occupying most of the Arabian peninsula, governed by the House of Al Saud (from which Saudi Arabia takes its name) and adopting Islamic legislation (Al-Rumaihi, 1997; Al-Turaiqi, 2008 ; and Bowen, 2008). Saudi Arabia is a charter member of the Gulf Cooperation Council (GCC), the League of Arab States (LAS), the Organisation of the Islamic Conference (OIC) and the United Nations (UN).

Saudi Arabia is a developing country; its economy depends on oil exports, which are the main source of national income (90-95% of total national income and 35-40% of GDP). It is estimated to hold about one quarter of the world's proven oil reserves and will continue as the largest producer of oil for the foreseeable future (Ministry of Economy and Planning, 2007). It is presently the dominant producer, having produced 32% of OPEC output in 2004 (OPEC, 2005) (See Figure 4.1).

Figure 4.1: Outputs of OPEC Countries in Oct 2004



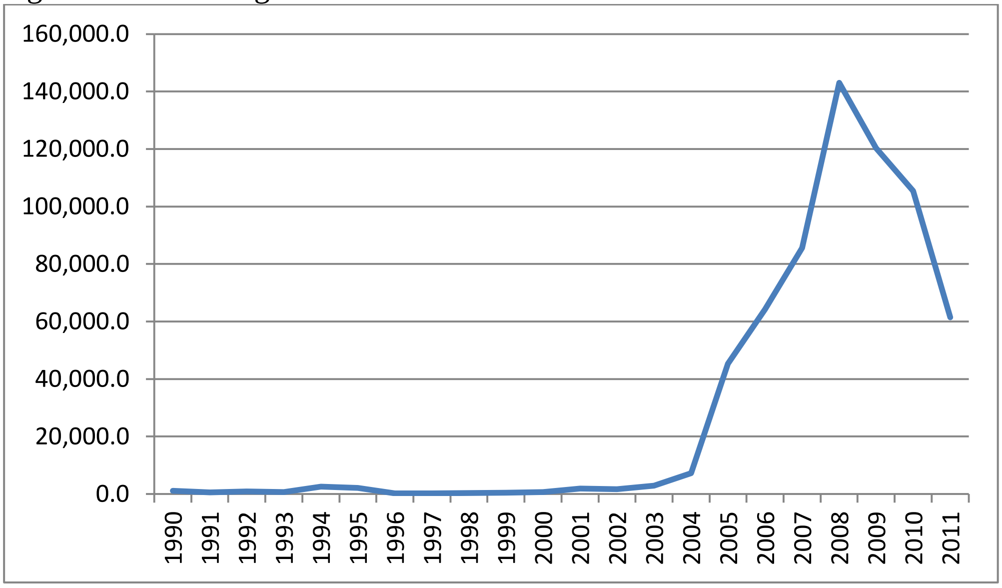
Source: OPEC (2005)
Note: The Figure shows the oil production of OPEC's countries in October 2004.

* Iraqi production was stopping in this time because of the war.

The Figure 4.2 shows the Foreign Direct Investment Inflows from 1990 to 2011. The Figure indicates that the foreign direct investment inflows were very low from 1990 to 2004. From the mid of 2004 the foreign direct investment inflows increased rapidly to nearly 145000 (billion) in the mid of 2008 before dropping to 60000 (billion) in the late of 2011. The decline of the foreign direct investment inflows may be because of weak corporate governance.

Kim (2010) shows that corporate governance encourages investment and stock market development, which is associated with improved macroeconomic growth. The level of corporate governance is crucial in attracting investors because they send the right signal to both domestic and foreign investor in respect of the potential risk of their investment. Corporate governance is also important for foreign investors who may be moving into a new environment and who need to be sure of what the laws says as well as be confident in the effectiveness of the legal system especially in protecting their right, including their property right. Good corporate governance practices are regarded as important in reducing risk for investors, attracting investment capital and improving the performance of companies (Heenetigala & Armstrong, 2011).

Figure 4.2 the Foreign Direct Investment Inflows between 1990 and 2011



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

Although the Saudi stock market is categorised as an emerging market due to its age and relative size, it is ranked first in the developing countries based on market capitalisation in 2005. Table 2.4 Emerging Markets shows these rankings.

Table 4.1 Emerging Markets

Rank	Country	Market Capitalisation	Price to Eaminas Ratio	
		USD million	2004	2005*
1	Saudi Arabia	649.117	24	35
2	Korea	543.950	13	11
3	Russia	458.229	15	18
4	Brazil	446.208	12	10
5	India	393.985	15	17
6	Taiwan	346.984	12	14
7	South Africa	285.105	14	14
8	Mexico	235.973	15	13
9	China	161.912	12	14
10	Malaysia	141.167	15	11

*Estimated

Source: Bakheet Financial Advisors and DataStream (2005).

Saudi Arabia has recently witnessed many reforms, including its political systems, social life and business (ALGhamdi, 2012). For example, after long negotiations, it became a member of the World Trade Organization (WTO) after adopting numerous regulations to its legal system in 2005 (Ministry of Commerce and Industry, 2006). In addition, one of these reforms established the Saudi Arabian General Investment Authority (2000) which aims to enhance the investment environment and attract local and foreign investors by eliminating obstacles and tackling shortcomings (Falgi, 2009).

Overall, the Saudi business environment has recently witnessed gradual development which has contributed to reinforcing Saudi's economy, such as enhancement of regulations including the Saudi Stock Exchange and the accounting and auditing profession. However, many consider the reforms to be very slow and believe it cannot cope with the changes being witnessed in the international business environment (Saudi Journal of Accountancy, 2009).

4.2 The Saudi's Legal System

A country's legal system plays an important role in effecting its regulations and practices. The Saudi Arabian constitution is based on the Holy Quran and the guidelines laid down in the Traditions of the Prophet Mohammed (Sunnah) and other sources associated with Islamic law (Sharīah) which is the code of conduct or religious law. Accordingly, Saudi Arabia is an Islamic state in terms of its legal system and in general terms, and adheres to Islamic regulations (Al-Harkan, 2005).

Saudi Arabia holds a special position among Arabic and Islamic countries since it is the home of the holiest Muslim sites of Mecca (the direction of prayer and pilgrimage for more than one billion Muslims) and Medina, where the Prophet Mohammed emigrated and was buried (Falgi, 2009). All aspects of life in Saudi Arabia are influenced by Islam, including the constitution and social behaviour. In other words, Islam affects business life and operations, placing huge emphasis on high ethical standards, strong belief, and human equality (Moustafa, 1985). Thus, when Saudi Arabia adopts particular standards, such as accounting and auditing standards, or corporate governance practices, it always attempts to alter these standards or practices in accordance with the Saudi environment and Islamic law (Al-Harkan, 2005).

In terms of social behaviour, Saudi Arabia is a tribal society based on Arabic traditions and this maintains a considerable degree of impact over local and national events. Equally, the legitimate Saudi framework has mainly been affected by Islam, upon which the country's constitution is based. Since Saudi Arabia has a strong historical relationship with the US and Britain, the business environment has been greatly influenced by a large number of those countries' legislations in terms of accounting practices, such as company law systems, accounting standards, auditing standards and auditor independence standards (Al- Angari, 2004). Although these regulations are national standards, they were originally borrowed from the US and Britain.

All banks and financial companies are subject to international accounting standards; however, companies listed on the Saudi Stock Market are required to follow and apply the national accounting standards (IFRSs, 2011). King Saud University has played an important role in developing accounting standards by holding a series of symposiums on accounting development methods in Saudi Arabia, in order to reach appropriate recommendations for resolving any obstacles that could hinder the development of accounting standards. Moreover, it established an Academic Board in order to develop accountancy thoughts, exchange of ideas and academic productions, consultation and to carry out research.

Overall, the aspect of the Saudi legal system that relates to the business environment is a mixture of rules and regulations from American, British and other countries' legislations, controlled and influenced by an Islamic framework (ALGhamdi, 2012). In other words, derived or borrowed regulations have to be in accordance with Islamic regulations and the character of the Saudi environment.

4.3 Monitoring Bodies in Saudi Arabia

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

4.3.1 The Ministry of Commerce and Industry (MCI)

The Ministry of Commerce and Industry, which was known as the Ministry of Commerce before its integration with the Ministry of Industry, is considered as the main body monitoring Saudi companies. Regulating, supervising and registering are some of the most important responsibilities of the Ministry of Commerce and Industry to ensure that Saudi companies comply with national regulations. Moreover, the Ministry indirectly performs a supervisory role to many monitoring devices such as the Saudi Capital Market Authority, the Saudi Stock Exchange, and the Saudi Organization for Certified Public Accountants**.**

4.3.2 The Capital Market Authority (CMA)

The Capital Market Authority is newly founded in Saudi Arabia and reports directly to the Prime Minister. It began as an unofficial organization in 1950s and proceeded to perform successfully until the Saudi government founded its basic regulations in the Eighties (CMA,

2007). However, it did not officially come into existence until 2004 when it obtained full independence with a direct link to the Prime Minister. The role of the CMA is to regulate and develop Saudi companies by providing appropriate rules and regulations that contribute to increasing investment and enhancing transparency and disclosure standards, and furthermore to protect investors and dealers from illegal activities in the market (CMA, 2007).

Since the Capital Market Authority has a legal and financial aspect and administrative autonomy, it is managed by a board that includes five members appointed by the Prime Minister. Moreover, these members are not allowed to engage in any commercial activities or have special interests in any profitable projects. Corporate governance practice is one of the most important regulations to have been issued by the board of the Capital Market Authority in 2006, beginning as a recommended regulation and became a compulsory regulation in 2010.

The Saudi Capital Market authority is the agency in charge of issuing regulations and instructions and ensuring that all regulations and instructions are implemented properly. To accomplish these objectives, the duties of the CMA can be summarised as follows:

- To develop and regulate the Saudi Stock Market (Tadawul) and enhance appropriate standards and transactions.
- To create greater security by protecting investors and the public from unfair and unsound practices which include fraud and manipulation, or which violate Saudi Law.
- To increase the efficiency of the market and transparency in transactions of securities.
- To reduce the risks of transactions by developing suitable measures and standards.
- To monitor the commitment of Saudi listed companies to required disclosure of information.
- To monitor all activities and transactions on the Saudi Market.
- To enhance and monitor the issuance of securities and under-trading transactions.

Overall, the Saudi Capital Market plays a pivotal role in developing and regulating the Saudi Stock Exchange by issuing the necessary regulations and instructions to enable companies to improve their performance. Moreover, protecting investors is one of the most important priorities for the Authority and leads to the creation of stability and security in the Saudi market. However, a large number of investors view that the role of this device was negative particularly in financial crises that occurred recently in Saudi market and this raised the question of its power in protecting investors and constraining illegal activates.

4.3.3 The Saudi Stock Exchange (Tadawul)

Tadawul is an Arabic term that refers to exchange of stocks in the market. The Saudi Stock Exchange (Tadawul) is deemed to be a necessary prerequisite for the accomplishment of a significant growth rate in the Saudi economy and it needs to be well-established and wellorganized in order to play its required pivotal role. The Stock Exchange (Tadawul) is currently a self-regulated authority and is governed by a board which includes nine members nominated by the Saudi Capital Authority and appointed by the Prime Minister. The board comprises members who are representative of different governmental organizations such as the Ministry of Finance, the Ministry of Commerce and Industry and the Saudi Arabian Monetary Agency. Moreover, the board also consists of two members from listed companies and four representatives of licensed brokerage firms (Saudi Stock Exchange Law, 2009).

Saudi listed companies commenced their operations in the mid-1930s when the Arab Automobile Company was the first joint stock company on the Saudi Stock Exchange (Saudi Stock Exchange Law, 2009). In 1975 the rapid growth of Saudi's economy coincided with an increase in oil price and Saudisation (buying shares from foreign investors) of a part of foreign banks' capital contributed to an increase in the number of large companies and joint stock banks. At that time, although there was a perceptible improvement the Saudi Market remained informal and unorganized. During the 1980s, the Saudi government launched trading regulations, together with the required systems.

In 1984, they attempted to regulate the market by forming a committee that included the Ministry of Commerce and the Saudi Arabian Monetary Agency. This committee was a government body charged with regulating and controlling market activities until the Capital Market Authority emerged in 2004 with the responsibility of issuing the required regulations and rules.

Over the last few years, privatization has increased rapidly in the Saudi market because of the Saudi government's announcement of a scheme to privatize many of its vital economic sectors which led to a large number of private and family companies going public. Thus, Saudi listed companies increased dramatically from 81 companies in 2005 to 144 in 2010 (Saudi Stock Exchange Law, 2009). Nowadays, there are 144 more listed companies distributed among different industries in the Saudi market with various percentages of ownership.

The Saudi market has become more attractive to many foreign investors since it has become more stable and secure. The Stock Market is considered to be the sole entity authorized to conduct trading in securities in the Kingdom. Thus, the Stock Market has many duties and objectives as follows:

- To increase and ensure fair and efficient activities in the market.
- To ensure market integrity, quality, and fairness
- To support investor education and awareness efforts
- To develop and enhance excellence of service for customers including brokers, issuers, investors, vendors, etc.
- To improve the exchange's capabilities and competencies.
- To issue and enforce professional standards for brokers and their agents

Table (2.2): Share Market Indicators for last 10 years

End of period	Number of Companies	Number of Shares Traded	Value of Shares Traded	Market Value Shares	Number of Transactions	General Index
2001	64	692	83.602	275	605.035	2.430.11
2002	68	1,736	133.787	281	1.033.669	2.518.08
2003	70	5.566	596.51	590	3.763.403	4.437.58
2004	73	10.298	1.773.858	1.149	13.319.523	8.206.23
2005	77	12.281	4.138.695	2.438	46.607.951	16.712.64
2006	86	68.515*	5.261.851	1.226	96.095.920	7.933.29
2007	111	57.829	2.557.712	1.946	65.665.500	11.038.66
2008	117	58.727	1.962.945	925	52.135.929	4.802.99
2009	144	56,685	1.264.012	1.196	36,458,326	6.121.76

Source: Saudi Arabian Monetary Agency

4.3.4 The Saudi Organization for Certified Public Accountants (SOCPA)

The Saudi Organization for Certified Public Accountants (SOCPA) is a professional organization set up in 1991 under the supervision of the Ministry of Commerce**.** It is managed by a number of members and is responsible for promoting and enhancing the accounting and auditing profession's practices and all matters that may reinforce the development of the profession and upgrade its status (SOCPA, 2006). Generally, SOCPA plays a pivotal role in developing the accounting and auditing profession in many ways as follows:

- Reviewing and developing accounting and auditing standards.
- Monitoring the performance of certified public accountants to ensure compliance with CPA regulations and standards.
- Preparing and establishing SOCPA fellowship examination rules and managing CPE courses.

- Undertaking research regarding the accounting and auditing profession and other related subjects.

- Holding and managing accounting conferences and attracting professional expertise and academics.

- Encouraging accounting researchers to carry out studies in the accounting and auditing profession by funding or reward incentives.

- Publishing accounting and auditing standards and hot topics by releasing journals and books.

4.4 Important Regulations and Laws in Saudi Arabia

Saudi companies' obligations are restricted to what appears in regulations that cover the business of companies and which may have some relation with corporate governance, such as the Companies Act (1965), the Capital Market Law (2004) and the corporate governance code 2006 issued by the CMA. This section highlights the major aspects of corporate governance in Saudi business in the light of applicable regulations.

4.4.1 Companies Law (1965) and Company Structure

The Companies Law is considered to be the most important regulation and the first organised attempt to regulate Saudi companies. It was derived from the British Companies Law. This law was issued by Royal Decree in 1965 as a basic system at that time for all Saudi companies which were required to comply with its instructions and rules. Although the law has been modified in order to keep up with the rapid development in Saudi companies, many consider it to be quite ancient and believe it does not fulfil modern requirements (Al-ghamdi and Alangri, 2005).

On the other hand, company structure plays a key role in determining the legal shape and organisational system of a company. Generally, each company in its foundation stage sets out a number of simple regulations such as the appointment of directors to the board, termination, and the rights of shareholders. However, company structure should be in accordance with the Saudi Companies Law.

4.4.2 Accounting and Auditing Standards

Saudi Arabia issued national accounting and auditing standards in 1986 that were originally derived from American standards. Although the banking sector and financial companies apply international accounting standards, most Saudi listed companies adopt Saudi national accounting standards (IFRSs, 2010). As mentioned earlier, the Accounting Standards Committee of the Saudi Organization for Certified Public Accountants (SOCPA) is responsible for developing and reviewing accounting and auditing standards in Saudi Arabia.

Recently, there has been an attempt by SOCPA to converge the national standards with international financial reporting standards (IFRSs). As a result, most banks and financial companies have begun to apply international financial reporting standards. The last report issued by SOCPA contends that “ongoing efforts to identify hindrances to the convergence process, as well as in identifying opportunities to further enable the implementation of IFRSs” SOCPA, 2010, P:7). However, SOCPA may face some obstacles that constrain the application, although there has been no real statement by SOCPA to identify the potential hindrances.

Overall, national accounting standards play a pivotal role in the Saudi environment in developing disclosure and financial transaction treatments. National accounting standards consist of 23 standards such as disclosure requirements, revenues standard, inventory standard, etc. In addition, national auditing standards play a key role in increasing the competence of external auditors and enhancing audit quality. These standards also consist of 17 standards that are often associated with auditor competence, independence, audit plan, audit report etc.

4.4.3 Shareholders' Rights

The company Law gives shareholders who hold twenty shares or more the right to attend the company's AGM, which concerns itself with all issues related to the company, and must take place at least once per year. The Law affirms to shareholders all their rights related to their shares, so they have the right to obtain their proportion of the company's distributed profits, and to obtain their proportion upon the company's dissolution; in addition, they have the right to participate in conversations about the company and vote on the decisions, to dispose of shares and to look into the company archives.

Moreover, Article 109 of the Company Law states that shareholders who hold at least 5% of the company's capital have the right to ask the Companies Settlement Authority to inspect the company if they have any doubt about the behaviour of the board of directors or the external auditors.

4.4.4 The Company's Internal Control

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

1. To highlight the importance of supporting (and boosting) the role of companies' internal controls and the enlightenment of shareholders about their responsible role in monitoring their companies' performance to reach their targets.

2. To ensure the sufficiency of information which appears in the company financial statements in order to enable investors to value a company's performance and to assist them to make the right decisions about company's status and thus to protect their investments.

4.4.5 The Corporate Governance Code

For long time corporate governance mechanisms were ignored as a matter of significance for Saudi Arabia. This remained the case until 2005 when the Saudi Capital Market Authority drew attention to the problems regarding companies’ performance. Moreover, the 2006 market crisis in Saudi Arabia indicated serious issues and revealed significant weaknesses in financial reporting, namely a lack of transparency, disclosure, and accountability (Saudi Journal of Accountancy, 2006).

As a consequence, corporate governance has received substantial support from the Saudi government and academics. Nowadays, however, corporate governance is becoming a pivotal subject in the Saudi business environment, and the debate on the enhancement of the corporate governance system is of significant interest. In Saudi Arabia, corporate governance mechanisms have included essential rules and standards such as the rights of shareholders, disclosure, transparency, and board composition, which regulate the management of joint stock companies listed on the Exchange. This ensures compliance with the best practices that protect the rights of the shareholders and stakeholders.

The prime laws governing the legal framework which affects the notion of corporate governance in Saudi Arabia can be divided into three groups: Firstly, the company law system, which was derived from British Companies Law, as regulator of the Saudi market, which regulates joint stock companies; Secondly, the Saudi Organization for Certified Public Accountants and the Saudi Capital Market Authority.

Corporate governance was established by the Board of Capital Market Authority in 2006 and amended in 2010 in order to regulate and develop the Saudi capital market and increase the credibility and transparency of financial reporting. Despite the fact that the most Code was a guideline and did not become a mandatory regulation until the beginning of 2010, Saudi listed companies were required to disclose, in the annual report, the provisions that had been implemented and those which had not been implemented and to explain the reasons for noncompliance.

The Code includes five main parts: The first part is preliminary provisions and explains and defines some terms associated with regulation such as ‘independent member’, ‘non-executive’ and ‘shareholders’. The second part highlights the rights of shareholders and the General Assembly. The third part reveals the disclosure and transparency related to a company’s policy such as the board’s report. The fourth part introduces the board of director’s functions and responsibilities. The final part includes publication and coming into force and involves implementation (the Code of Corporate Governance, 2006).

Among corporate governance regulations, the board of directors and its committees are both considered as the first line of defence against incompetent management. Thus, this study attempts to investigate the role of the board of directors and its committees as the core of corporate governance mechanisms. The following section will demonstrate the role of the board of directors and sub-committees according to the Saudi Code of Corporate Governance.

4.4.5.1 Board of directors:

4.4.5.1.1 Functions of the Board

According to the Code, the board of directors should carry out many functions as follows: approving the strategic scheme and the main aim of the firm and supervising their implementation, this includes: comprehensive strategy, plans, policies, capital structure, financial objectives, annual budget, performance, risks, organizational and functional structure, settling any possible cases of conflict, ensuring the integrity of financial transactions, reviewing the effectiveness of internal control systems and monitoring. Moreover, it ensures the implementation of regulations, such as full disclosure and corporate governance.

4.4.5.1.2 Responsibilities of the Board

The board of directors represents the shareholders, so the ultimate responsibility for the firm rests with the board of directors, even if a company sets up committees or delegates some of its powers to a third party such committees. The Code of corporate governance attempts to explain the main responsibilities of the board of directors; however, the company system plays an important role in determining the board’s responsibilities toward shareholders and others investors. Generally, the board of directors is responsible for the integrity of financial reporting and the company’s performance.

4.4.5.1.3 Formation of the board

Formation of the board of directors is subject to the following criteria:

1- The board of directors should contain at least three members and no more than eleven members.

2- The majority of the board of directors (one-third) should be non-executive.

3- It is not allowed for the position of the Chairman of the board of directors to be conjoined with any executive position such as Chief Executive Officer (CEO).

4- One-third of the members should be fully independent.

5- A member of the board of directors should not act as a member of the board of directors of more than five joint stock companies at the same time.

Moreover, the code introduces some articles related to termination of membership regarding members. Moreover, the Code only focuses on the importance of board meetings without specifying the annual number of meetings.

4.4.5.2 Board committees

A suitable number of committees should be formed in accordance with the company's requirements and circumstances in order to help the board of directors to perform its duties in an effective manner. Recently, the Code of corporate governance has mandated the formation of an audit committee and nomination and remuneration committee. These committees are subject to certain criteria as follows:

4.4.5.2.1 Audit Committee

According to the Code, the board of directors should form an audit committee which includes at least three non-executive members, with at least one of them having expertise in financial and accounting affairs. This committee has several important roles: to supervise and review the firm's internal and external audit procedure, control system, accounting policy, the integrity of financial reporting, disclosure, monitoring management, the recommendation of auditor selection and to remedy conflicts between management and external auditor.

A few years ago, because no other committees such as remuneration and nomination committees and executive committees existed in firms, the audit committee was the only committee delegated by the board of directors to perform certain duties (Al-Moataz, 2003).

This meant that it had to perform a large number of functions which led to an impairment of its performance of those functions. In 2007, SOCPA formed a committee to evaluate the role of audit committees in Saudi Arabia and concluded that there was a lack of clarity regarding the functions and duties of audit committees and that their members were not aware of the purpose of such committees (Falgi, 2009).

As part of its efforts to develop the accounting and auditing profession, in 2003 SOCPA created a committee to evaluate audit committees in listed companies and made the following major findings (SOCPA, 2007c):

1. There is a lack of clarity concerning the tasks and field of action of audit committees;

2. Some board members and committee members are unaware of the audit committee's purpose;

3. The concept of the independence of members of the audit committee is not well known;

4. The professional and academic qualifications of some committees members are insufficient;

5. There is a lack of sufficient control mechanisms to monitor committee practices. However, the SOCPA's committee provided a project on the basis of which to organise the performance of audit committees in listed companies.

Recognizing the importance of audit committees as a major tool to increase confidence in financial statements the Minister of Commerce issued a resolution in January 1994 (Saudi Ministry of Commerce 1994), mandating all public companies to establish audit committees. The resolution for the establishment of audit committee in S.A. comprised guidance to control the selection of their members. These guidelines are:

1) The member should be a shareholder of at least 20 shares and the number of the members should be odd and not less than three;

2) The member should not be a member of the executive board of directors or handle a technical, managerial or consultancy work;

3) The member should have a good command of financial and accounting practices and standards, preferably having appropriate qualifications in this field; and

4) The member should not have a direct or indirect interest in the transactions and contracts of the company.

Ultimately the general assembly of shareholders (the annual general meeting) of the company has responsibility for the selection of the members of the audit committee. The audit committee has the responsibility for nominating the external auditor to carry out the external audit and for receiving reports from the auditor. The audit committee should nominate five audit firms from those licensed to carry out such work in Saudi Arabia. The nominated audit firms are then asked to submit proposals and on the basis of these, the audit committee recommends one or more than one firm where appropriate.

This recommendation will then be taken by the directors to the general assembly, which has the ultimate responsibility for appointing the external auditor, determining the audit fee and the tenure of office. Subject to the requirements in the resolution, if only one audit firm is appointed, then the audit committee does not recommence the nomination process until three years after the audit firm commenced the audit. When more than one audit firm is appointed, the nomination process does not recommence until five years after the audit firms commenced their audit (Saudi Ministry of Commerce, 1994).

In Saudi banks, the matter is further slightly complicated as there are two regulatory bodies that exercise control, namely, the Ministry of Commerce and the Saudi Arabian Monetary Agency (Al-Moataz 2003). In 1994, Saudi Arabian Monetary Agency (SAMA) issued rules for banks in Saudi Arabia for organising audit committees (Saudi Arabian Monetary Agency 1994).

In the Saudi Arabian Monetary Agency's rules (1994) regarding audit committees, the board of directors should appoint one of its members as a chairman of the audit committee for a minimum of three years and his independence from the executive and the management is of utmost importance for his effectiveness. In addition, the chairman of an audit committee is the one who ultimately determines its effectiveness and success, because he normally sets its tone, agenda and style. For this reason, the selection of the chairman of the audit committee must conform to the following criteria:

1. He should not be the chairman of the board.

2. He should not be related to the other members of the board or have any financial relationship with them.

3. He should not have any relationship with the senior management of the bank.

Membership of audit committees should range between three and five members and the majority of the members are required to attend each meeting.

An audit committee may include qualified members from the board, ex-board members and outsiders. However, the committee must be composed mostly of outsiders who are not board members, senior managers, officers, employees, major customers or agents of the bank or its affiliates. The number of meetings an audit committee should hold is determined by the size and nature of the bank and the scope of the committee's activities. For a committee with normal activities, there should be at least four meetings each year. This should include an annual meeting with the board of directors. The frequency of the committee's meetings with external auditors will depend on its needs and the requests from them. The meetings with external auditors should not be in the minimum requirements of four meetings in a year (Saudi Arabian Monetary Agency 1994: 3-4).

It can be seen from the previous rules that the requirements for the audit committees and its membership and other responsibilities that are mentioned in the SAMA rules are significantly different from the resolution of Ministry of Commerce 1994, which did not explain in detail how these committees would be established. It should be noted that Al-Twaijry et al (2002) held some interviews in 1998 with academics and external and internal auditors to examine the role of audit committees in the Saudi Arabian corporate sector. The interviewees expressed concerns about the terms of reference of audit committees and the scope of work undertaken. The independence and expertise of audit committee members were called into question. The interviewees were of the opinion that there was a clear need for the Ministry of Commerce to issue further regulations in order to improve the effectiveness of audit committees in Saudi corporations. However, the members of audit committees have not participated in these interviews.

In 2002, the Internal Audit Committee (IAC), which was one of the SOCPA committees, reviewed the SMC best practices and recommendations aimed to enhance audit committee effectiveness in the light of the criticisms for such best practices and recommendations and in the light of the recent developments in a number of countries in general and the US in particular (Saudi Organization of Certified Public Accountants 2003). On 11 March 2003, this committee announced its first draft of the new best practices and recommendations to improve the effectiveness of audit committees in public companies.

Unlike the SMC best practices and recommendations regarding audit committees, the new best practices and recommendations are very clear and comprehensive. The most important best practices and recommendations in this first draft were as follows.

• All public companies are required to establish audit committees;

• The audit committee should have at least four members all of whom must be independent directors;

• The audit committee should meet at least four times per year;

• The chairperson of the audit committee must not be a member of the board of directors;

• The audit committee should have at least one expert who has at least bachelor degree in accounting or finance; and

• The audit committee should have a formal charter.

The IAC sent this first draft to academics, external auditors, internal auditors and other interested parties to comment on these new best practices and recommendations. However, up to this point, no changes have been made on the first draft and it is not clear if such best practices and recommendations will be adopted by the SSEC or SMC or not.

In summary, the audit committee framework in Saudi Arabia is a combination of statute and codes of best practice and guidelines as such framework lacks any listing rules by the SSEC regarding the establishment or the structures of audit committees.

4.4.5.2.2 Nomination and Remuneration Committee

Although this committee was initially not a mandatory committee, most Saudi listed companies took the initiative to set one up. By 2010, Saudi listed companies were mandated to establish a nomination and remuneration committee responsible for: providing recommendations to the board concerning the appointment of members to the board and reviewing and ensuring the requirements of appropriate skills for membership of the board including qualifications, experience, and independence and, finally, to establish clear policies regarding indemnities and remunerations of board members and top executives.

This committee could play a vital role in developing the structure of the board of directors and enhance the board’s performance in Saudi listed companies by drawing up clear policies in the future. However, the Saudi legislator has ignored the legal formation of this committee, such as its independence, which may lead to impairing its role in developing and enhancing board structure. Moreover, the CEO may take a part of its role by using his power in decisions, making the committee useless.

4.5 Previous Research on Corporate Governance in Saudi Arabia

A limited number of research publications in respect of corporate governance in Saudi Arabia have been found by the researcher as this topic does not seem to have attracted much researcher interest. While these studies have examined corporate governance from the perceptions views, the roles and responsibilities of the boards of directors, the role of audit committees and the effect of corporate governance mechanisms on earnings management, none of them cover the corporate board practices in Saudi Arabia and to the best of the researcher knowledge there is no study so far has investigated the relationship between board of directors, audit committee characteristics and their effect on firm performance. Therefore, this study in Saudi Arabia will reduce the dearth of literature on corporate governance in emerging countries and more specifically in Saudi Arabia.

This subsection highlights the results of the little research that has looked at corporate governance in Saudi Arabia. One of the main and primary studies to have considered corporate governance in Saudi Arabia was Al-Harkan (2005) which investigated the perceptions of four stakeholder groups namely: financial managers and internal auditors; academics; external auditors; and government officials about corporate governance in Saudi Arabia. The findings indicate that most large Saudi companies especially in the bank, communication, and industry sectors apply corporate governance systems and that they benefit from these systems. It also found it beneficial in adopting the two main recommendations made by the Cadbury Report: that a board of directors should consist of at least three nonexecutive directors, two of whom should be independent; and the separation of chairman and CEO roles. The results show that the main factors influencing the process of appointing nonexecutive directors in Saudi companies are relevant business skills and experience and professional qualifications. With regard to the factors that inhibit the practice of good corporate governance the study identified two major factors being the lack of systems and procedures that govern company activates and the lack of emphasis on values and key principles. The study also suggests that there is a need for better disclosure and transparency by Saudi companies.

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

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

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

Asehaly (2006) investigated earnings management in publicly traded Saudi companies and found evidence for such behavior which differed according to the sector concerned. This study aims to provide more insight into the ongoing debate related to the effectiveness of corporate governance in developing countries by investigating the relationship between the corporate governance mechanism and earnings management in Saudi Arabia.

The study by Al-Abbas (2009) examines the association between corporate governance mechanisms and earnings management in the Saudi business environment, utilizing a sample of Saudi joint stock companies for 2005, 2006 and 2007. The results of the study provide no evidence that corporate governance factors mitigate against earnings management in the Saudi environment. However, auditing firm’s size negatively relates to abnormal accruals, which indicates that auditing firm’s size is an important factor with regard to the extent of earnings management. The results highlight the need to enhance the legitimacy of corporate governance in Saudi corporations. In addition, it provides insights into the audit quality role to mitigate against earnings management which, in turn, ought to be considered by audit committees in their decisions of selecting audit firms.

Alghamdi (2012) examined the relationship between earnings management and internal/external corporate governance characteristics, mainly boards of directors, audit committees, audit quality factors, and ownership structure. The expectation of beneficial external and internal corporate governance practices constraining opportunistic earnings management activities was, to a large extent, found to be inaccurate in Saudi Arabia. All internal corporate governance variables apart from outside director, board size and board meetings examined in this research have no significant effect on earnings management.

The study by Falgi (2009) investigated corporate governance in Saudi Arabia by examining the perceptions of different stakeholder groups. The study examined the understanding of corporate governance, the current practice, the corporate governance framework and the impact of the social, cultural and economic aspects on the situation on corporate governance in Saudi Arabia. The study used semi-structured interviews and a questionnaire survey with wide groups of stakeholders and an accountability perspective is adopted to interpret the results. The findings suggest that corporate governance in Saudi Arabia is in its early stages and is characterised by a lack of accountability, a weak legal framework and poor protection of shareholders. The influence of the social, cultural and economic factors is evident and boards of directors are dominated by major shareholders; thus good corporate governance practices have many challenges.

5. Literature Review and Hypotheses Development

5.1 Board of Directors

The board of directors is a significant mechanism to improve corporate governance in both market-based and bank-based systems (Andres et al., 2005). It is essential for every company to have a well-functioning and effective board of directors (Solomon, 2007), and boards of directors should have clearly defined roles, duties, and responsibilities (Mallin, 2004).

The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met".

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

helping to manage risk; and holding management accountable for their actions. The following sections will focus on different aspects related to the board of directors.

5.1.1 Board Composition

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

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

According to Jensen and Meckling (1976), boards dominated by outsiders or NEDs may help to mitigate the agency problem by monitoring and controlling the opportunistic behavior of management. The results of previous studies that investigated the relationship between board composition and firm performance are inconsistent. Dehaena et al. (2001), Omar (2003) and Rhoades et al. (2000) found that NED has a positive relationship with financial performance. For example, Krivogorsky (2006), Lefort and Urzúa (2008) and Limpaphayom and Connelly (2006) also found positive relationship between board composition (the proportion of independent directors on the board) and firm performance. Hasnah (2009) showed that NED is significantly related to firm performance that is measured by ROA.

On the other hand, Coles et al. (2001) demonstrated that there is a negative impact of outside directors on firm performance. Erickson et al. (2005) also found a negative relationship between greater board independence and firm value. However, Bhagat and Black (2002) and De Andres et al. (2005) found no significant relationship between the composition of the board and the value of the firm.

Based on above discussion and in the light of the agency theory, the following hypothesis can be empirically tested.

H_{1a}: There is a positive relationship between the proportion of non-executive directors and firm performance.

5.1.2 CEO Duality

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

To protect shareholders rights, agency theory suggests that the roles of CEO and chairman should be split (Williamson, 1985). The OECD Principles of Corporate Governance (2004) recognise this and state that: "Separation of the two posts may be regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management". Jensen and Meckling (1976) argued that when an individual is holding two top positions there is tendency on the path of such individual to adopt personal interests' strategies that could be detrimental to the firm as a whole.

Sharing the same thought, Mallette (1992) argued that in the combined roles, the chairman of the board has to make decisions potentially leading to the conflict of interest. Moreover, in the combined roles, the CEO can set the board's agenda and can influence (if not control) the selection of directors for the board. They concluded in their paper that CEO duality can challenge a board's ability to monitor executives.

However, empirical analyses of the impact of duality on various corporate performance measures have yielded conflicting results. Ahmadu, Aminu and Taker (2005), Bhagat & Bolton (2008), Coles et al. (2001), Feng, Ghoshand and Sirmans (2005), Judge, Naoumova and Koutzevol (2003), Kyereboah - Colemn and Biekpe (2005) and Mustafa (2006) found negative significant relationship between CEO duality and firm performance. In contrast, Carapeto, Lasfer and Machera (2005), Schmid and Zimmermann (2007) and Wan and Ong (2005) found no significant difference in the performance of companies with or without role duality.

Thus, it is reasonable to test the following hypothesis:

H_{1b}: There is a negative relationship between the CEO duality and firm performance.

5.1.3 Board Size

Some studies have looked at the size of the board of directors in order to suggest an appropriate size for the board. These studies generally indicate that a small board of directors seems to act much better and to be more effective than a large one. Using a sample of 452 large American companies, Yermack (1996) found that a small board of directors is better for companies. Ahmed et al. (2006) also discovered the same result. Furthermore, Eisenberg et al. (1998) investigated the effect of board size on mid-size and small companies, and found that smaller boards were best. Similarly, Huther (1997) found that companies were negatively affected by large boards of directors. Small boards may thus be better whereas large boards may result in ineffectiveness and lead to the domination by the CEO of the board (Jensen, 1993). A recent study conducted on 450 non-financial companies in 10 OECD countries had results similar to those of previous studies; large board size appears to be worse than a small board, and given the variation in board composition and functions within the sample, large boards may suffer from a lack of coordination, flexibility and communication, which may outstrip the benefits of having large boards (Andres et al., 2005).

Jensen (1993) confirmed that the small board size is more correlated with the quality of monitoring. Lipton and Lorsch (1992) also stated that board might become less effective at monitoring management when its size increases. They recommended that board membership should be between eight and nine persons, and any additional benefits that can be gained from the increased monitoring by additional membership will offset the costs linked with slow decision making.

While, Ahmadu et al. (2005), Chan and Li (2008), De Andres et al. (2005) and Mustafa (2006) found that larger boards are associated with poorer performance, Beiner et al. (2004), Bhagat and Black (2002) and Limpaphayom and Connelly (2006) found no significant association between board size and firm performance.

To re-examine this relationship, the following hypothesis is proposed for empirical testing:

H_{1c}: There is a negative association between board size and firm performance.

5.2 Audit Committee

The audit committee plays an important role as a board subcommittee. The Smith Report (2003) explains its role thus: "While all directors have a duty to act in the interests of the company, the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control."

An analysis of the corporate governance codes of twenty European countries by Collier and Zaman (2005) showed that their codes assign a set of functions which should be fulfilled by an audit committee as follows: a) oversight of external audit; b) oversight of internal audit; c) involvement in external auditor selection or dismissal; d) oversight of risk and internal control reporting by the board; and e) oversight of financial reporting quality.

The audit committee functions as a representative of the full board to provide personal contact and communication between the board, external auditors, internal auditors, the finance director and the operating executives (Song and Windram, 2004). Song and Widram (2004) describe one of the audit committee's functions as acting as a final safeguard to approving the financial statements prior to their release to shareholders and other stakeholders.

Haron et al. (2005) from a principal -agent perspective claim that the audit committee is expected to protect the interests of the principals and ensure that the agents carry out their roles in accordance with their contracts. They enumerate three roles for the audit committee: to ensure that management does not override established prudent financial practices and procedures; to assist the board of directors in discharging its responsibilities for financial reporting and internal controls; and to provide an impartial channel for complaints concerning the management and direction of the company.

Furthermore, Kala (2001) sees the audit committee's role as assisting the board of directors in overseeing and ensuring the adequate functioning of the internal control mechanisms, monitoring and focusing on the review of financial risk and other aspects of risk management.

5.2.1 Independence of Audit Committee and Firm Performance

The empirical result on the relationship between audit committee independence and firm performance is ambiguous. Chan and Li (2008) found that independence of audit committee (i.e., to have at least 50 per cent of expert-independent directors serve on audit committee) positively impacts the firm performance as measured by (Tobin's Q). Similarly, Ilona, (2008) showed that there is a positive relationship between audit committee independence and firm performance as measured by ROA. Moreover, Erickson et al. (2005) asserted that independent directors can reduce agency problems. Based on the argument provided by Erickson et al. (2005) that directors’ independence can reduce agency problem, it can similarly argued that independent audit committee can also reduce the agency problems. In other words a positive relationship between audit committee independence and firm performance is expected and justified.

Based on above discussion and in the light of the agency theory, the following hypothesis can be empirically tested.

H_{2a}: There is a positive relationship between the independence of the audit committee members and firm performance.

5.2.2 Audit committee meeting and Firm Performance

The numbers of audit committee meeting is considered to be an important attribute for their monitoring effectiveness (Lin, Li, & Yang, 2006). Anderson et al. (2004) noted that audit committee monitors the internal control and provides reliable information to the shareholders. Therefore, audit committee strengthens the internal auditing function and oversees management's assessment of business risk (Hsu, 2007).

The number of audit committee meetings is considered as a proxy for audit committee activity (Xie et al., 2003). Therefore, the audit committee that meets more frequently with the internal auditors are better informed about auditing and accounting issues. When an important auditing or accounting issue arises, the audit committee can direct the proper level of internal audit function to address the problem promptly. Therefore, an audit committee that meets frequently can reduce the possibility of financial fraud (Abbott et al., 2004; Raghunandan et al., 1998). Inactive audit committees with fewer number of meetings is unlikely to supervise management effectively (Menon & Williams, 1994). Beasley et al. (2000) found that fraudulent firms with earning misstatements have fewer audit committee meetings than non-fraud firms. Active audit committee with more meetings have more time to oversee financial reporting process, identify management risk and monitor internal controls. As a result, firm performance increases with audit committee activity.

More importantly, there have been very few studies that examined the effect of audit committee meeting on firm performance. For example, Hsu (2007) found that there is a positive relationship between audit committee meeting and firm performance.

Therefore, this study aims to investigate the effect of the audit committee meeting on firm performance by introducing the following hypothesis:

H_{2b}: There is a positive relationship between the frequencies of audit committee meeting and firm performance.

5.2.3 Audit Committee Size and Firm Performance

Size of the audit committee is another characteristic considered to be relevant to the effective discharge of its duties (Cadbury Committee, 1992). A minimum of three audit committee directors has been proposed by a number of corporate governance reports (BRC, 1999; New York Stock Exchange, 2002; CMA, 2006). It is argued that a larger committee has greater organizational status and authority (Kalbers & Fogarty, 1993; Braiotta, 2000) and a wider knowledge base (Karamanou & Vafeas, 2005). However, an audit committee can suffer from process losses and diffusion of responsibility if it becomes too large (Karamanou & Vafeas, 2005).

These arguments give rise to the following hypothesis:

H_{2c}: There is a positive relationship between the size of audit committee and firm performance.

6. Conclusion and Recommendation

The study attempted to provide an overview on corporate governance in emerging countries and more specifically in Saudi Arabia. The current study contributes to knowledge by providing a general understanding how corporate governance is considered in emerging markets and, particular, in a major market in the Middle East, that of Saudi Arabia. The present study also enhanced an understanding of the boards of directors and audit committees in Saudi companies especially in relation to their: composition; roles and responsibilities; meetings; size.

Over two years have passed since the issue of the Saudi corporate governance code by the CMA, and future research should investigate companies' compliance with the code and the obstacles facing their compliance. Furthermore, audit committees in Saudi companies, as one of the aspects of corporate governance, are considered as inefficient in fulfilling their roles and suffer from lack of independent and qualified members (WB, 2009).

In terms of the development of corporate governance, this study has attempted to provide information regarding regulation and to present Saudi studies which have paid attention to the development. Their findings indicate that corporate governance in Saudi Arabia is in its early phase and suffers from a lack of accountability, a weak legal framework and poor protection of shareholders.

In addition, audit committees and boards of directors play an ineffective role in corporate governance. Moreover, audit committees in Saudi companies, as one of the aspects of corporate governance, are considered as inefficient in fulfilling their roles and suffer from lack of independent and qualified members. Therefore, monitoring devices cannot effectively play a key role unless they are given more independence and authority.

These appear to be the few studies about corporate governance in Saudi Arabia. In addition, most of these studies were conducted before the significant and dramatic change in the Saudi stock market and also before the issuance of the corporate governance code. As a result, more research is needed, in different areas of corporate governance, to fill the huge gap in the literature about corporate governance in Saudi Arabia.

References

Abbott, L.J., Parker, S., & Peters, G. F. (2004). Audit committee characteristics and restatements. Auditing: *A Journal of Practice & Theory*, 23(1), 69-87.

Abhayawansa, S & Johnson, R 2007, 'Corporate Governance Reforms in Developing Countries: Accountability versus Performance', in R Johnson (ed.), Reading in Auditing Volume 2, John Wiley & Sons Australia, Ltd, Milton,Qld, pp. 84-98.

Ahmadu, S, Aminu, M. & Taker, G. (2005). Corporate governance mechanisms and firm financial performance in Nigeria. *African economic research consortium Research*, 149.

Ahmed, K., Hossain, M. and Adams, M., (2006). "The Effects of Board Composition and Board Size on the Informativeness of Annual Accounting Earnings". *Corporate Governance: An International Review*, 14 (5): 418-431.

Al-Abbas, M. A. (2009). Corporate governance and earnings management: An empirical study of the Saudi market. *The Journal of American Academy of Business*, Cambridge. 15 (01).

Al-Ajlan, W., (2005). Corporate Governance in Saudi Arabia: the Roles and Responsibilities of the Board of Directors in the Banking Industry. Unpublished PhD Thesis, University of Nottingham.

Al-Angari, H., (2004). Auditing In the Kingdom of Saudi Arabia. Jeddah: Sarawat.

ALGhamdi, S. (2012). Investigation into Earnings Management Practices and the Role of Corporate Governance and External Audit in Emerging Markets: Empirical Evidence from Saudi Listed Companies. A thesis submitted to Durham University in fulfilment of the requirements for the degree of Doctor of Philosophy. Durham University.

Al-ghamdi, S., and Al-angari, H., (2005). The Impacts of Implementing Quality Review Program on Audit Firms in the Kingdom of Saudi Arabia: An Empirical Study. *Journal of King Abdul-Aziz: Economics and Administration*, Vol.19, No.2.Pp.48-77.

Al-Harkan, A., (2005). An Investigation into the Emerging Corprate Governance Framework in Saudi Arabia. Unpublished PhD Thesis, Loughborough University.

Al-Hussain, A. H. (2009). Corporate governance structure efficiency and bank performance in Saudi Arabia. DBA Dissertation. University of Phoenix.

Al-Moataz, E., (2003). The Effectiveness of Audit Committees With in Saudi Corporations. Unpublished PhD Thesis, Loughborough University.

Al-Rumaihi, J., (1997). Setting Accounting Standards in a Non-Western Environment with Special Reference to Saudi Arabia. Unpublished PhD Thesis, University of Dundee.

Alsaeed, K. (2006). The association between firm-specific characteristics and disclosure (The case of Saudi Arabia). *Managerial Auditing Journal*, 21(5).

Al-Turaiqi, A., (2008). The Political System of Saudi Arabia. London: Ghainaa Publication.

Al-Twaijry, A., Brierley, J. and Gwilliam, D., (2002). "An Examination of the Role of Audit Committees in the Saudi Arabian Corporate Sector". Corporate Governance An International Review, 10: 288-297.

Anderson, R., Mansi, S., & Reeb, D. (2004). Board characteristics, accounting report integrity, and the cost of debt. *Journal of Accounting and Economics*, 37(3), 315-342.

Andres, P., Azofra, V. and Lopez, F., (2005). "Corporate Boards in OECD Countries: Size, Composition, Functioning and Effectiveness". *Corporate Governance: An International Review*, 197-210.

Asehlay, M. (2006) Earnings management is Saudi firms, *Journal of public management*, 46, 3, 513-545.

Athukorala, SL & Reid, B 2002, Diagnostic Study of Accounting and Auditing Practices in selected Developing Member Countries, Asian Development Bank, Philippines.

Beasley, M., Carcello, J., Hermanson, D., & Lapides, P. (2000). Fraudulent financial reporting: *Consideration of industry traits and corporate governance mechanisms. Accounting Horizons*, 14(4), 441-454.

Beiner,S. Drobetz,W., Schmid, F. & Zimmermann, H. (2004). Is board size an independent corporate governance mechanism? Kyklos, 57(3), 327-356.

Bhagat, S. and Bolton, B. (2008). Corporate governance and firm performance, Journal of Corporate Finance, 14, 257–273.

Bhagat, S., & Black, B. (2002). The non-correlation between board independence and long-term firm performance. Journal of Corporation Law, 27(2), 231-274.

Blake, A., (1999). Dynamic directors: Aligning Board Structure for Business Success. Macmillan.

Blue Ribbon Committee (BRC). 1999. Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. New York, NY: New York Stock Exchange.

Bowen, W., (2008). "The History of Saudi Arabia". Greenwood Publication Group.

Braiotta, L. (2000). The Audit Committee Handbook. (3rd Edition). New York: John Wiley & Sons Inc.

Bruner, R., Conroy, R., Estrada, J., Kritzman, M. and Li, W., (2002). "Introduction to `Valuation in Emerging Markets". Emerging Markets Review, 3 (4): 310-324.

Cadbury Committee, (1992). The Financial Aspects of Corporate Governance, Gee (A Division of Professional Publishing Ltd), London.

Capital Market Authority (2006). The code of corporate governance in the Kingdom of Saudi Arabia Retrieved November 30, 2006, from http://www.cma.org.sa/cma_cms/upload_sec_content/dwfile277/governance_151 12006.pdf.

Carapeto, M., Lasfer, M., & Machera, K. (2005). Does duality destroy value? Working paper, From http://papers.ssrn.com/sol3/papers.cfmabstract_id=686707.

Chan, K. C., & Li, J. (2008). Audit Committee and Firm Value: Evidence on Outside Top Executives as Expert Independent Directors. Corporate Governance: An International Review, 16(1), 16-31.

Coles, J., McWilliams, V., & Sen, N. (2001). An examination of the relationship of governance mechanisms to performance. Journal of Management, 27(1), 23 -50.

Collier, P. and Zaman, M., (2005). "Convergence in European Corporate Governance: the Audit Committee Concept". Corporate Governance: An International Review, 13 (6): 753-768.

Davidson, N., Pilger, T. and Szakmary, A., (1998). "Golden Parachutes, Board and Committee Composition, and Shareholder Wealth". Financial Review, 17-32.

De Andres, P. Azofra, V. & Lopez, F. (2005). Corporate boards in OECD countries: Size, composition, functioning and effectiveness. International Review, 13(2), 197-210.

Dehaene, A., De Vuyst, V. and Ooghe, H. (2001). Corporate Performance and Board Structure in Belgian Companies. Long Range Planning, 34(3), 383-398.

Denis, D. K. and J. J. McConnell (2003), International Corporate Governance, Journal of Financial and Quantitative Analysis, 38 (1): 1-36.

Eisenberg, T., Sundgren, S. and Wells, M., (1998). "Larger Board Size and Decreasing Firm Value in Small Firms". Journal of Financial Economics, 48 (1): 35-54.

Erickson, J., Park, Y., Reising, J., & Shin, H. (2005). Board composition and firm value under concentrated ownership: the Canadian evidence. Pacific-Basin Finance Journal, 13(4), 387-410.

Falgi, I.K., (2009). Corporate Governance in Saudi Arabia: A Stakeholder Perspective. Unpublished PhD.UK. University of Dundee.

Fama, E., & Jensen, M. (1983). Separation of ownership and control. Journal of Law and Economics, 301-325.

Feng, Z., Ghosh, C., & Sirmans, C. (2005). How important is the board of directors to REIT Performance? Journal of Real Estate Portfolio Management, 11(3), 281-293.

Fundamental Governance System., (1992). The Royal Decree No. A/90. Kingdom of Saudi Arabia. Riyadh.

Gibson, M. S. (2003), Is Corporate Governance Ineffective in Emerging Markets? Journal of Financial and Quantitative Analysis, 38 (1): 231-250.

Haron, H., Jantan, M. and Pheng, E., (2005). "Audit Committee Compliance with Kuala Lumpur Stock Exchange Listing Requirements". International Journal of Auditing, 9 (3): 187-200.

Hasnah, K. (2009). The impact of corporate governance and board performance on the perfprmance of public listed companies in Malaysia. Ph.D Dissertation, University Sains Malaysia.

Heenetigala, K. & Armstrong A. (2011). The Impact of Corporate Governance on firm performance in an unstable economic and political environment: Evidence from Sri Lanka. *3rd Conference on Financial Markets and Corporate Governance*.

Hsu, H. (2007). Boards of directors and audit committees in initial public offerings. DBA Dissertation. Nova Southeastern University.

Huther, J., (1997). "An Empirical Test of the Effect of Board Size on Firm Efficiency". Economics Letters, 54 (3): 259-264.

IFRSs. (2011). Available at: http://www.ifrs.org/Use+around+the+world/Use+around+the+world.htm

Ilona, D. (2008). Board quality and firm performance. Master Dissertation, University Utara Malaysia.

Jensen, M. (1993). The modern industrial revolution, exit, and the failure of internal control systems. Journal Finance, 48, 831, 835-847.

Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305-360.

Judge, W., Naoumova, I., & Koutzevol, N. (2003). Corporate governance and firm performance in Russia: An empirical study. Journal of World Business, 38(4), 385-396.

Kala, A., (2001). Corporate Governance: A Practical Approach. Singapore. Butterworth Asia.

Kalbers, L. P., and T. J. Fogarty, 1993, Audit committee effectiveness: An empirical investigation of the contribution of power, Auditing: A Journal of Practice and Theory, 12, 24–49.

Karamanou, I., and N. Vafeas, 2005, The association between corporate boards, audit committees, and management earnings forecasts: an empirical analysis, Journal of Accounting Research, 43, 453–486.

Kim, H. (2010). Does Corporate Governance or Transparency Affect Foreign Direct Investment? International Journal of Human and Social Sciences, 5 (13).

Klapper, L. and Love, I., (2004). "Corporate Governance, Investor Protection, and Performance in Emerging Markets". Journal of Corporate Finance, 10 (5): 703-728.

Klein, A., (1998). "Firm Performance and Board Committee Structure". The Journal of Law and Economics, 275-299.

Krivogorsky, V. (2006). Ownership, board structure, and performance in continental Europe. International Journal of Accounting, 41(2), 176-197.

Kyereboah - Coleman, A., & Biekpe, N. (2005). The relationship between board size, board composition CEO duality and firm performance experience from Ghana. Working paper, http://www.essa.org.za/download/2005Conference/Kyereboah-Coleman.pdf.

Limpaphayom, J. & Connelly, P. (2006). Board characteristics and firm performance: evidence from the life insurance industry in Thailand. Journal of Economics, 16(2), 101-124.

Lin, J.W., Li, J.F., & Yang. J.S. (2006). The effect of audit committee performance on earnings quality. Managerial Auditing Journal, 2 (9), 921-933.

Lipton, M., & Lorsch, J. (1992). A modest proposal for improved corporate governance. Business Lawyer, 48, 59-59.

Machold, S. and A. K. Vasudevan (2004), Corporate Governance Models in Emerging Markets: The Case of India, International Journal of Business Governance and Ethics, 1 (1): 56-77, Inderscience Publishers.

Mallette, P. (1992). Effects of Board Composition and Stock Ownership on the Adoption of Poison Pills. Academy of Management, 35, 1010–1035.

Mallin, C., (2004). Corporate Governance. Oxford: Oxford University Press.

McGee, R.W. (2010). Corporate Governance in Developing Economies. First version Springer Science& Business Media.

Menon, K., & Williams, J. (1994). The use of audit committees for monitoring. Journal of Accounting and Public Policy, 13(2), 121-139.

Millstein, Ira M. (2003) "The Role of Boards and Stakeholders in Corporate", Sullivan, John D., Jean Rogers, Catherine Kuchta-Helbling and Aleksander Shkolnikov (Ed.), In Search of Good Directors: A Guide to Build Corporate Governance in the 21st Century, Center for International Private Enterprise (CIPE), Washington, pp. 33 - 44.

Ministry of Commerce and Industry., (2006). Available at: http//commerce. gov. sa/active/wto. asp. In 15.12.2006.

Ministry of Commerce and Industry., (2007a). Available at: http//commerce. gov. sa/services. In 10.01.2007.

Ministry of Commerce and Industry., (2007b). Available at: http//commerceg. ov.s a/crircular/defultIO-I. asp. In 10.01.2007.

Ministry of Commerce and Industry., (2007c). Available at: http//commerce. gov. sa/crircular/10-40. asp. In 10.01.2007.

Ministry of Economy and Planning., (2007). Available at: http: //mep. gov. sa/index. jsp? event--switchlanguage&code=en. In 02.01.2007.

Ministry of Foreign Affairs., (2007). Available at: http//mofa. gov. sa/detail. asp? insectionid=251 &innewsitemid=46466. In 12.02.2007.

Mobius, JM 2002, 'Issues in Global Corporate Governance', in Lc Keon (ed.), Corporate Governance: An Asia-Pacific Critique, Sweet & Maxwell Asia Hongkong.

Monks, RAG & Minow, N 2004, Corporate Governance, Blackwell Publishing, MA.

Moustafa, M. (2006). Corporate governance and firm performance: Evidence from Egypt. Working paper.

Moustafa, M. E. (1985). Framework for the Role of Accounting in the Economic Development in Saudi Arabia. In Zimmerman, V. K. (ed.). The Recent Accounting and Economic Developments in theMiddle East. Urbana-Champaign IL. University of Illinois, Centre of International Education and Research in Accounting: 197-211.

New York Stock Exchange Corporate Accountability and Listing Standards Committee, 2002, Report (NYSE, New York).

OECD., (2004). OECD Principles of Corporate governance. Paris: Organisation for Economic Co-operation and Development.

Oman, C., Buiter, W. H. and Fries, S. M., (2003). Corporate Governance in Developing, Transition and Emerging-Market Economies. Organisation for Economic Co-operation and Development, Development Centre.

Omar, O. (2003). Board of directors and financial performance of the Malaysian blockholding companies. DBA Dissertation. University Sains Malaysia.

OPEC., (2005). Annual Statistical Bulletin. Organization of the Petroleum Exporting Countries. Austria: Uberreuter Print und Digimedia.

Peng, M. W., Buck, T., & Filatotchev, I. (2003). Do outside directors and new managers help improve firm performance? An exploratory study in Russian privatization. Journal of World Business, 38y 348-360.

Pye, A., (2001). "Corporate Boards, Investors and Their Relationships: accounts of accountability and corporate governing in action". Corporate Governance: An International Review, 9 (3): 186-195.

Raghunandan, K.R., Rama, D.V., & Scarbrough, D.P. (1998). Accounting and auditing knowledge level of Canadian audit committee: Some empirical evidence. Journal of International Accounting, Auditing and Taxation, 7(2), 181-94

Rhoades, D.L., Rechner, P. L. & Sundaramurthy, C. (2000). Board Composition and Financial Performance: A Meta Analysis of the Influence of Outside Directors. Journal of Managerial Issues, 12(1), 76-91

Sarbanes-Oxley Act, 2002, An Act to Protect Investors by Improving the Accuracy and Reliability of Corporate Disclosures Made Pursuant to the Securities Laws, and for Other Purposes. USA, http://news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf.

Saudi Accountancy Journal. (2006). SOCPA. No.48. (January) Available at: http://www.tadawul.com.sa/

Saudi Accountancy Journal. (2009). SOCPA. No.59. (March) Available at: http://www.tadawul.com.sa/

Saudi Arabian Monetary Agency., (2009).) Available at http://www.sama.gov.sa/sites/SAMAEN/Pages/Home.aspx

Saudi Organization for Certified Public Accountants (SOCPA), 2003, Improving audit committee effectiveness. www.socpa.org.sa. Access date: 17/05/2003

Saudi Organization for Certified Public Accountants (SOCPA), 2003, Improving audit committee effectiveness. www.socpa.org.sa. Access date: 17/05/2003

Schmid, M., & Zimmermann, H. (2007). Should chairman and CEO be separated? leadership structure and firm perform Switzerland. Working paper, from http://papers.ssrn.com/sol3/papers.cfmabstract_id=696381.

Shleifer, A., & Vishny, R. (1986). Large stockholders and corporate control. Journal of Political Economy, 94(3), 461-488.

Singh, A. and Zammit, A., (2006). "Corporate Governance, Crony Capitalism and Economic Crises: Should the US Business Model Replace the Asian Way of Doing Business?" Corporate Governance:A n International Review, 14 (4): 220-233.

Singh, A., (2003). Corporate Governance, Corporate Finance and Stock Markets in Emerging Countries. Cambridge: ESRC Centre for Business Research University of Cambridge.

Smith Committee (2003). Audit Committees-Combined Code Guidance. Financial Reporting Council.

SOCPA., (2007c). Available at: http// socpao. rg.s a. In 23.02.2007.

Solomon, J., (2007) Corporate Governance and Accountability. Chichester: Hoboken, NJ, Wiley.

Song, J. and Windram, B., (2004). "Benchmarking Audit Committee Effectiveness in Financial Reporting". International Journal ofAuditing, 8 (3): 195-205.

Tadawul. (2009). Trading Statistics. Retrieved January 3, 2009, from http://www.tadawul.com.sa/static/pages/en/SOP/SOP_01_2008.pd

The Capital Market Authority., (2007). Available at: http//cma.o rg.s a/sma_en/subpagaes. px?s ecsemo=117&serno=117&mi r ro i d=217. In 04.02.2007.

The Capital Market Law., (2004). The Royal Decree No. M/30. Kingdom of Saudi Arabia.

Van der Zahn, M. and Tower, G. (2004). Audit committee features and earnings management: further evidence from Singapore. International Journal of Business Governance and Ethics, 1(2/3), 233-257.

Walker, D., (2005). "Resoring Trust after Recent Accountability Failures". In: O'Brien, J. (ed). Governing the Corporation: John Wiley & Sons Ltd, 21-46.

Wan, D., & Ong, C. (2005). Board structure, process and performance: Evidence from public-listed companies in Singapore. An International Review, 13(2), 277-290.

Williamson, O. (1988). Corporate Finance and Corporate Governance. Journal of Finance, Vol. 43, No. 3. Pp: 567-591.

World Bank., (2009). Available at: http:/ /siteresorcesw. orldbank. org. at 27.03.2009.

Xie, B., Davidson, W.N., & DaDalt, P. J. (2003). Earnings management and corporate governance: The role of the board and the audit committee. Journal of Corporate Finance, 9, 295-316.

Yermack, D. (1996). Higher Market Valuation of Companies with Small Board of Directors. Journal of Financial Economics, 40, 185-211.