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## Corporate Governance in Private Companies in the Kingdom of Saudi Arabia and Its Impact on Institutional Performance Efficiency

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### Abstract

This study examines corporate governance in private companies in the Kingdom of Saudi Arabia and analyzes its role in improving institutional performance efficiency amid the Kingdom's economic and regulatory transformations. Adopting a descriptive–analytical approach, the study synthesizes relevant academic literature and prior research and reviews key governance-related regulatory and institutional orientations in the Saudi context. The analysis indicates that the effective implementation of governance principles—especially transparency, accountability, and the protection of stakeholder rights—tends to strengthen institutional performance efficiency and enhance organizational sustainability. At the same time, the review suggests persistent implementation challenges in private (particularly non-listed) companies, including uneven compliance, limited formalization of governance practices, and constraints related to governance capabilities and internal control maturity. The study recommends strengthening governance awareness in private companies, institutionalizing governance through documented policies and oversight mechanisms, and promoting flexible governance frameworks that can be tailored to company size, ownership concentration, and operational complexity.

**Keywords:** Corporate Governance, Private Companies, Institutional Performance Efficiency, Transparency, Accountability, Saudi Arabia.

## 1. Introduction

Corporate governance has become a central concept in contemporary management and organizational scholarship due to its relevance to performance, accountability, and sustainability. In both academic and practice-oriented domains, governance is increasingly viewed as a set of mechanisms that guide decision-making, constrain managerial opportunism, reduce conflicts of interest, and protect stakeholder rights—thereby supporting performance efficiency and long-term organizational resilience (Tricker, 2019; Solomon, 2020).

The prominence of corporate governance has historically intensified after major financial and corporate failures that exposed weaknesses in oversight, internal control, and disclosure. These developments encouraged international institutions and national regulators to emphasize governance principles and codify expectations related to transparency, accountability, and fairness (Organisation for Economic Co-operation and Development [OECD], 2015).

In Saudi Arabia, the business environment has evolved substantially in recent years, supported by broad institutional reforms and the strategic orientation of Vision 2030. In this context, the private sector is widely recognized as a key partner in economic growth, employment creation, and investment expansion. Accordingly, improving governance in private companies is not only an organizational necessity but also an enabling condition for enhanced competitiveness, improved access to financing, and stronger market credibility.

Despite noticeable progress in governance awareness and regulatory orientation, governance practice in Saudi private companies remains heterogeneous. The degree to which governance principles are institutionalized varies by firm size, ownership structure, managerial maturity, and the extent of exposure to external financing and stakeholder scrutiny. This variability motivates the present study, which analyzes governance in Saudi private companies and clarifies how governance can contribute to institutional performance efficiency.

## 2. Research Problem

Although the importance of corporate governance is increasingly acknowledged in Saudi Arabia, many private companies still face practical challenges in implementing governance principles. These challenges may appear in organizational structure, board effectiveness, internal control design, disclosure routines, and the clarity of accountability lines. In some cases, a gap persists between “formal” governance expectations and actual managerial practice, which can negatively affect performance efficiency and organizational sustainability.

Accordingly, the central research question is:

**To what extent does implementing corporate governance principles contribute to improving institutional performance efficiency in private companies in the Kingdom of Saudi Arabia?**

## 3. Research Questions

1. What is corporate governance in private companies, and why is it significant in the Saudi context?
2. What governance principles are most relevant to private companies?
3. What is the current reality of governance implementation in Saudi private companies?
4. How does governance influence institutional performance efficiency?
5. What challenges most commonly hinder governance implementation in Saudi private companies?

## 4. Research Objectives

This study aims to:

1. Clarify the conceptual framework of corporate governance in private companies.
2. Analyze key governance principles and their practical dimensions.
3. Describe governance implementation patterns in Saudi private companies.

4. Explain the relationship between governance and institutional performance efficiency.
5. Provide actionable recommendations to strengthen governance in private companies.

## 5. Significance of the Study

### 5.1 Scientific significance:

This study contributes to the Arabic scholarly literature on governance in private companies by consolidating key concepts, governance models, and practice-oriented considerations. It also serves as a structured theoretical reference for postgraduate diploma students and early-stage researchers interested in governance, performance, and organizational effectiveness.

### 5.2 Practical significance:

From a managerial perspective, the study clarifies how governance mechanisms can improve decision quality, mitigate organizational risks, and strengthen stakeholder confidence. For policy and institutional stakeholders, it provides insights that can inform the development of governance guidance and flexible governance frameworks suitable for private (particularly non-listed) companies.

## 6. Scope and Limitations

- **Thematic scope:** Corporate governance in private companies and its impact on institutional performance efficiency.
- **Geographical scope:** Kingdom of Saudi Arabia.
- **Temporal scope:** Contemporary orientations and relevant recent literature on governance and performance.

## 7. Key Definitions

- **Corporate governance:** A set of rules, systems, and procedures through which a company is directed, managed, and controlled, aiming to promote transparency, accountability, fairness, and responsible resource utilization (OECD, 2015).

- **Private companies:** Firms owned by individuals or private partners and not listed on the stock exchange.
- **Institutional performance efficiency:** The organization's ability to achieve strategic and operational objectives effectively while optimizing resource utilization and strengthening performance discipline.

## 8. Theoretical Background: Corporate Governance

### 8.1 Concept and rationale:

Corporate governance is broadly understood as an organizational architecture that aligns managerial conduct with stakeholder interests and strategic objectives. It relies on governance instruments such as board oversight, internal controls, disclosure practices, and accountability mechanisms. Importantly, governance is not merely regulatory compliance; it is an enabling system for sustainability, ethical conduct, risk management, and performance improvement (Tricker, 2019; Solomon, 2020).

### 8.2 Evolution of Governance:

Corporate governance emerged as a response to recurrent corporate collapses and financial crises that exposed fundamental deficiencies in oversight, internal controls, and accountability structures. Over time, governance frameworks evolved from a narrow focus on financial supervision and compliance to a broader, more integrated agenda encompassing sustainability, ethical conduct, risk governance, and meaningful stakeholder engagement (OECD, 2015).

### 8.3 Core Principles:

This study highlights four widely recognized principles that underpin effective corporate governance:

1. **Transparency:** The timely and accurate disclosure of material financial and managerial information, enabling informed decision-making and reinforcing stakeholder confidence.
2. **Accountability:** Clearly defined roles and responsibility lines, supported by mechanisms that monitor, evaluate, and, where necessary, correct managerial and

board performance.

3. **Fairness:** Equitable treatment of stakeholders—particularly shareholders—through the protection of minority rights and the prevention of undue influence or preferential treatment.
4. **Responsibility:** Adherence to applicable laws and ethical standards, coupled with due consideration of the organization’s societal and environmental impacts.

#### 8.4 Governance Models:

Corporate governance models vary across jurisdictions in response to different legal traditions, market structures, and ownership patterns. Common typologies include the Anglo-Saxon model, which is largely shareholder-oriented; the Continental European model, which places greater emphasis on stakeholder participation; and Asian variants that often reflect long-term relational governance and concentrated ownership structures. Within this landscape, Saudi Arabia increasingly pursues a balanced governance orientation that draws on international principles while remaining aligned with local institutional realities and cultural contexts.

### 9. Corporate Governance in Saudi Arabia: Contextual Overview

Corporate governance in Saudi Arabia has progressively evolved into a central pillar of the Kingdom’s institutional and economic reform agenda. Initially driven by governance regulations targeting listed companies, the governance landscape has expanded through successive regulatory updates and broader policy emphasis. In this context, corporate governance has become closely associated with enhancing transparency, strengthening accountability, improving investment attractiveness, and reinforcing the credibility and competitiveness of the business environment. As the private sector continues to expand and market competition intensifies, governance is increasingly consequential for organizational legitimacy, access to finance, and strategic resilience.

A major milestone in Saudi Arabia’s governance trajectory was the issuance of the Capital Market Authority’s (CMA) first Corporate Governance Regulations in 2006.

These regulations subsequently developed through continuous revisions—most notably in 2017—reflecting efforts to align governance practices with international standards, particularly in areas related to board independence and board effectiveness. Governance requirements were further broadened and reinforced with the enactment of the New Companies Law (1443H/2022), which contributed to institutionalizing governance more widely across the corporate sector. This evolution has been shaped by the growing need to strengthen transparency and accountability, support the objectives of Saudi Vision 2030, and enhance the business environment to attract domestic and foreign investment, while embedding governance principles across both public and private organizations.

### **Key stages in the development of corporate governance in Saudi Arabia:**

#### **1. Regulatory foundations (pre-2006):**

- Establishment of the Capital Market Authority under the Capital Market Law (1424H/2003) to supervise and regulate the market.
- Increasing recognition of the need for governance concepts to address integrity challenges, corruption risks, and transparency requirements.

#### **2. Launch of the formal regulatory framework (2006):**

- Issuance of the CMA's first Corporate Governance Regulations, establishing a foundational governance reference for listed companies.

#### **3. Development and modernization (2006–2021):**

- Continuous regulatory revisions to strengthen alignment with international governance standards.
- The 2017 update represented a significant step in enhancing board-related provisions, including independence and effectiveness.
- Governance gained greater prominence as part of institutional readiness to advance Vision 2030 and support sustainable development.

#### **4. Mandatory expansion and integration (from 2022 onward):**

- Broader governance institutionalization following the New Companies Law (1443H/2022).

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- Governance has become a key enabling mechanism for Vision 2030 through improving transparency, attracting investment, and strengthening organizational performance across sectors, including the non-profit sector.

### **Importance of corporate governance in Saudi Arabia:**

- **Strengthening trust:** Enhancing confidence among domestic and international investors.
- **Sustainable growth:** Improving corporate performance and supporting adaptability and long-term development.
- **Advancing Vision 2030:** Contributing to economic transformation and comprehensive development objectives.
- **Performance efficiency:** Promoting optimal resource utilization and supporting the effective achievement of strategic goals.

## **10. Corporate Governance in Private Companies: Benefits and Challenges**

### **10.1 Distinctive features of private-company governance:**

Private companies often face governance complexity due to ownership concentration and limited separation between ownership and executive management. These conditions can increase the risk of conflicts of interest, reduce the independence of oversight, and make decision-making more vulnerable to informality and personalization.

### **10.2 Governance benefits:**

When appropriately institutionalized, governance can:

- Improve decision-making efficiency and reduce discretionary bias. -
- Increase investor and lender confidence and strengthen financing readiness. -
- Enhance performance discipline, operational efficiency, and strategic alignment.-
- Support sustainability and continuity beyond individual owners or founders.

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### **10.3 Governance implementation challenges:**

Common obstacles include limited governance awareness, resistance to change, shortage of governance expertise, and the absence of adaptable governance frameworks suitable for the diversity of private companies.

## **11. Governance in Saudi Private Companies: Practice-Oriented Analysis**

### **11.1 Regulatory and institutional environment:**

Saudi Arabia has witnessed notable development in the regulatory environment relevant to governance, including orientations that encourage disclosure, internal control maturity, and risk governance. While some governance regulations are primarily designed for listed firms, their principles can serve as reference standards for private companies, which may adapt them to internal policies and oversight systems.

### **11.2 Reality of governance implementation:**

Governance implementation varies across Saudi private companies. Larger private firms may adopt more formal structures, effective boards, documented policies, and internal control systems. In contrast, many SMEs apply governance informally, relying on personal managerial experience rather than written procedures. This informality can weaken institutionalization and hinder long-term sustainability.

### **11.3 Role of boards of directors:**

Boards play a decisive role in governance effectiveness through strategic oversight, executive monitoring, compliance assurance, and stakeholder protection. However, board effectiveness can be constrained by owner dominance, which may limit independence and reduce the board's oversight capacity.

### **11.4 Disclosure and transparency:**

Disclosure and transparency are central to stakeholder trust. Private companies with bank financing or investment partnerships generally show stronger disclosure routines

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than closed or family-owned firms relying on self-financing. Weak disclosure increases operational and financial risks and may limit growth and expansion opportunities.

### **11.5 Governance and institutional performance efficiency:**

Overall, governance contributes to performance efficiency by improving decision quality, optimizing resource allocation, reducing risk exposure, and strengthening institutional discipline. Clear roles, formalized oversight, and consistent accountability routines enhance the organization's ability to execute strategy and sustain performance, especially within increasingly competitive markets.

## **12. Methodology**

### **12.1 Research Design:**

This study employs a descriptive–analytical research design, which is widely used in management and organizational studies. The design is suitable for examining governance-related phenomena by describing their key features and interpreting their dimensions based on established theory and documented evidence, without manipulating variables or relying on primary field data.

### **12.2 Data Sources and Collection (Secondary Data):**

Consistent with the theoretical–analytical nature of the study, the analysis is grounded in secondary data sources drawn from credible academic and regulatory materials. The data corpus was compiled through a structured review of relevant literature and documents, then subjected to critical examination to develop a robust knowledge base on corporate governance in Saudi private companies. The study relied on four main categories of sources:

#### **1. Academic books and specialized references in governance and management:**

These sources were used to clarify the evolution of corporate governance, its major theoretical foundations, core principles, and implementation mechanisms. They also supported the development of operational definitions for central constructs (e.g., transparency, accountability, stakeholders, and institutional performance),

and helped position governance within related domains such as internal controls, compliance, and governance–risk–compliance (GRC).

- 2. Peer-reviewed journal articles:** Peer-reviewed studies served as a primary basis for constructing the analytical framework. The review prioritized research addressing: (i) the relationship between governance and institutional performance (financial, operational, and reputational dimensions); (ii) governance in private and non-listed firms, including characteristics such as ownership concentration and family governance; and (iii) comparative studies across sectors and countries to differentiate context-general governance mechanisms from context-specific determinants. These studies were used not only to summarize prior findings but also to identify research gaps and refine the study’s problem statement, objectives, and questions.
- 3. Governance-related laws, regulations, and institutional guidelines:** Relevant Saudi legal and regulatory materials were reviewed because they provide normative expectations regarding responsibilities, oversight arrangements, and disclosure requirements. These sources were used to identify minimum governance expectations, clarify the intended roles of boards and executive management, and highlight potential discrepancies between formal compliance and effective implementation. The analysis also recognized that certain guidelines may be primarily designed for listed companies; nevertheless, they were used as reference standards that private firms can adapt in proportion to their structure and complexity.
- 4. Local and international governance and transparency reports:** Reports issued by reputable national and international bodies were used to contextualize governance within broader trends in transparency, integrity, and institutional compliance. These reports provided macro-level indicators, diagnostic insights into governance-related challenges across different environments, and illustrative examples of best practices that informed the study’s recommendations. All sources

were reviewed using explicit appraisal criteria, including credibility, relevance to the Saudi private-sector context, recency, consistency across sources, and practical applicability to private-company governance.

### 12.3 Analytical Strategy:

The study applies Comparative Theoretical Analysis to interpret corporate governance in Saudi private companies. This strategy is appropriate for theoretical research because it enables systematic comparison of governance frameworks and their alignment with specific organizational contexts. The analysis proceeded through three complementary strands:

- 1. Comparative assessment of governance concepts and models:** Major governance perspectives and typologies were compared, including shareholder value versus stakeholder perspectives; Anglo-Saxon, Continental European, and Asian governance models; and the distinction between internal governance mechanisms (boards, committees, internal controls) and external mechanisms (auditing and regulatory oversight). This comparison aimed to identify the governance lens most suitable for Saudi private companies, which frequently exhibit concentrated ownership and a strong owner role.
- 2. Synthesis of governance practice in Saudi private companies based on prior literature:** The study synthesized recurring themes in the literature related to governance implementation in private firms, focusing on commonly reported challenges (e.g., limited board independence, insufficient disclosure, and weak separation between ownership and management). It also examined drivers of variation in governance commitment, such as firm size, ownership structure, organizational culture, and managerial maturity, and interpreted indicators of practice transformation associated with regulatory reforms and shifts in the business environment.
- 3. Linking governance principles to institutional performance outcomes:** A cause–effect logic was applied to link governance principles to performance

efficiency outcomes—for example, transparency improving information quality and decision-making; accountability strengthening role clarity and reducing deviations; fairness lowering disputes and improving stability; and risk governance and compliance enhancing resilience and performance stability. Given that private-company indicators are not always publicly available, the study relied on inference-based reasoning supported by convergent findings in the literature.

#### **12.4 Rationale for Selecting a Theoretical–Analytical Method:**

The theoretical–analytical approach was selected because it aligns with the study’s objectives and the postgraduate diploma level. It enables the construction of a coherent conceptual framework, supports an in-depth synthesis of literature without complex statistical requirements, and facilitates the development of evidence-informed and context-sensitive recommendations. In addition, it provides a strong foundation for future empirical research by allowing subsequent studies to translate the analytical propositions into testable hypotheses and to employ surveys, interviews, or case studies to measure governance impacts more directly.

### **13. Synthesis of Key Insights**

Based on the literature synthesis and theoretical analysis, the study indicates that:

1. Corporate governance is a key driver of institutional performance efficiency in private companies.
2. Transparency and accountability improve decision quality and reduce organizational risks.
3. Many Saudi private companies exhibit uneven governance implementation despite broader governance orientation.
4. Board effectiveness is central, while owner dominance may reduce independence in certain settings.
5. Disclosure practices directly shape stakeholder confidence and sustainability prospects.
6. Strong governance is associated with improved corporate reputation and competitiveness.

## 14. Recommendations

The study recommends:

1. Strengthening governance awareness through targeted training and capacity-building in private companies.
2. Institutionalizing governance via documented governance policies, role clarity, and internal oversight mechanisms.
3. Enhancing board effectiveness and independence to balance ownership and executive power.
4. Improving disclosure routines and transparency, especially regarding financial and managerial information.
5. Promoting flexible governance frameworks tailored to private-company size, ownership concentration, and operational complexity.
6. Adopting international governance best practices while aligning with Saudi institutional and cultural context (OECD, 2015).

## 15. Future Research Directions

1. Empirical studies measuring governance impact on financial performance in Saudi private companies.
2. Comparative research between private and listed companies.
3. Studies focusing on governance in Saudi family-owned companies.
4. Research examining governance–risk management integration in private companies.

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