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The Effectiveness of the Inclusion of Governance as a Part of the Binding Articles of Association

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Abstract

This study investigates the efficacy of introducing governance as binding articles in the Articles of Association (AOA) of family businesses in Saudi Arabia, given the legislative reforms provided by the new Saudi Companies Law of 2022. The research points out that advantages will be brought by such enhanced transparency, accountability, and professional management practices, bringing family businesses up to international standards. Despite challenges such as resistance from family members, implementation complexity, and balancing traditional values with modern governance, the reforms provide substantial advantages. The case study of Saudi stock market companies illustrates the positive impact of phased governance reforms. Recommendations for successful implementation include engaging family members, leveraging external advisors, developing clear governance articles, providing training, and continuous monitoring. In all, these reforms serve as a giant stride toward ensuring that there is a strong, transparent, and sustainable business environment. This guarantees the long-term success and competitiveness of family businesses in Saudi Arabia.

Keywords: Governance, Family Businesses, Saudi Arabia, Articles of Association, Legislative Reforms

Study Terms and their Definitions

1. **Governance:** The system of rules, practices, and processes by which a company is directed and controlled. Effective governance is that which enforces accountability, equity, and transparency in the relation of the company with the stakeholders.
2. **Article of Association:** A document describing the sets of rules and regulations the company would follow. It highlights the objectives of the company and outlines how tasks are to be performed within the organization, including the manner for the selection of directors and other ways of maintaining books of accounts.
3. **Legislatives Reforms**: These refer to changes or updates made to laws and regulations with the view to upgrade the legal framework governing any particular area in question-for instance, corporate governance. In Saudi Arabia, the newly promulgated Companies Law created a prime proprietorship for reforms that enhance governance standards.
4. **Family Businesses:** Businesses that are owned, controlled, and usually managed by more than one member of a family over successive generations. Family businesses often face specific governance issues related to the intermingling of family and business interests.
5. **Transparency:** The condition of being open and forthright in one's communications and information disclosure. In the business context, transparency is a question of providing to stakeholders clear, complete, and timely information on the operations and financial results of the company.
6. **Corporate Accountability:** The accountability of an organization, by means of transparency of the activities carried out and of their results, assuming the liability for the acts committed in accordance with legal standards of conduct and ethical practices that enable a response to demands from different levels.

Introduction

The development of corporate governance practices in Saudi Arabia has involved the inclusion of governance in binding Articles of Association; a success toward greater transparency and accountability in family businesses. The new Saudi Companies Law introduces binding governance principles within the AOA; hence, a turn from previous guidelines-based frameworks.[1] This transition is much needed if Saudi Arabian family businesses are to be subjected to, and propelled to meet, international standards that can make them more sustainable and ethical in the long run. Scholars had earlier pointed out the need of such changes if at all these family businesses were to go beyond the borders of the Kingdom of Saudi Arabia. For instance, Abdulkarim and Budushin, in their thesis, point out that such changes come to institute more professional management practices, which would consequently minimize nepotism and enhance merit-based culture.[2] These reforms seek to institutionalize these practices within the foundational documents of family businesses, hence giving effect to the orientation of such business operations in dealing with the challenges of the modern market environment.

The embedding of governance within the AOA cannot be overemphasized as it forms the turning point for systematic improvements in family business operations. The researchers Aloulou and Alshaeel add that such legislative changes enhance the family businesses' credibility and attractiveness to investors, promoting economic growth.[3] Also, Alkahtani adds that the reforms will ensure better clarification of roles

[1] Albadaly, Nagwa Ibrahim. "Legal Framework of the Family Businesses in the Kingdom of Saudi Arabia." resmilitaris 13, no. 2 (2023): 4888-49

[2] Abdulkarim Masi and Yaqoota Budushin, ‘Family Business Governance’ (Master’s Thesis, King Abdulaziz University 2017).

[3] Aloulou WJ and Alshaeel R, ‘Family Business in Saudi Arabia’ in Family Business in Gulf Cooperation Council Countries (Springer International Publishing 2022) 91-119.

and responsibilities, hence enabling more coordinated decision-making.[4] The upgrades go beyond theoretical scholarly suggestions; they also have practical applications with respect to the daily operations of family businesses. It has beeen established that they reduce many risks associated with informal management practices while increasing transparency of operations. Governance incorporated as binding articles helps to harmonize traditional family values with modern corporate practice and fosters a robust framework. Such frameworks would come along way in ensuring the long-term sustainability and growth of the business. This study investigates such dynamics, challenges, and benefits, with recommendations for effective implementation.

Study Problem

The most relevant problem that this research has sought to solve revolves around how governance, as binding articles within the AOA, can be effectively integrated into family businesses in Saudi Arabia. Despite the introduction of a new Saudi Companies Law, mandating governance principles within the AOA, there are a number of significant obstacles toward integrating such changes into family businesses. As such, according to Albadaly's findings, this transitioning to more formal governance structures often faces resistance on the part of family members accustomed to conducting business in a traditional way.[5] This may prevent the realization of required reforms and, thereafter, full benefits expected from enhanced transparency and accountability.

Apart from that, Aloulou and Alshaeel stress that another critical problem has to do with the level of difficulty in adjusting current practices with the new requirements

[4] Alkahtani, A, ‘Ownership Structure of Family Businesses in Saudi Arabia: Implications for Corporate Governance’ (2021) 11 International Journal of Economics and Finance

[5] Albadaly, Nagwa Ibrahim. "Legal Framework of the Family Businesses in the Kingdom of Saudi Arabia." resmilitaris 13, no. 2 (2023): 4888-49

for governance.[6] For the family business to make such adjustments, they may be incompetent and short on resources. Such disturbance could cause disruptions in operations and increase many costs. In addition, according to Alkahtani, it is difficult to adjust the balance between the traditional values of the family and modern governance practices, as these may cause friction and affect the smooth movement in implementing governance reforms.[7] The existing literature has not assessed in a systematic way how such legislative reforms are efficient, what is the real meaning for the family business. This research will be aimed, correspondingly, at studying the relevance of including governance as binding articles in AOA and formulating practical recommendations to make them work smoothly and effectively. In doing so, it will contribute to a wider discussion of family business governance in Saudi Arabia.

Hypotheses

I. Inclusion of governance as binding articles enhances transparency and accountability in family businesses.

II. Legislative reforms, such as the new Saudi Companies Law, contribute to the sustainability and professionalization of family businesses.

Objectives of the Study

I. To analyze the effectiveness of including governance as binding articles within the Articles of Association of family businesses in Saudi Arabia.

II. To evaluate the impact of the new Saudi Companies Law on family businesses.

[6] Aloulou WJ and Alshaeel R, 'Family Business in Saudi Arabia' in Family Business in Gulf Cooperation Council Countries (Springer International Publishing 2022) 91-119

[7] Alkahtani, A, 'Ownership Structure of Family Businesses in Saudi Arabia: Implications for Corporate Governance' (2021) 11 International Journal of Economics and Finance

III. To provide recommendations for the successful implementation of governance as binding articles in family businesses.

The Importance of the Study

This is a very important study, as it forms a basis for trying to understand how changes in the corporate landscape of governance are forming within Saudi Arabia's family businesses. The paper investigates the incorporation of governance as binding articles within the Articles of Association-a crucial omission in current literature on legislative reforms affecting family firms. The key outcomes of this study may, therefore, serve to help policy makers develop the regulatory frameworks to further advance the family enterprise. It enables family business owners and executives to act based on practical recommendations related to the areas of transparency, accountability, and professionalization since these will result in long-term sustainability and competitiveness. The present study furthers the contribution to the wider corporate governance literature in the light of providing a broad discussion on the governance reforms in Saudi Arabia. These reforms, relative to international standards, bring out best practices in such a manner as to offer a roadmap for emerging markets that face similar challenges. Generally, the findings of this research are expected to facilitate an environment for business that is more resistant to capital having an ethical emphasis.

Limitations of the Study

Notwithstanding the comprehensiveness of the approach taken in this study, a number of limitations need to be acknowledged. First among them is the reliance on secondary data and existing literature, which may not capture very recent developments and perspectives of each family business. The second limitation pertains to generalizing the findings beyond Saudi Arabian contexts to other cultural and regulatory contexts. Available sources might be subject to a biasing effect in that much of the literature reflects an optimistic point of view on governance reforms without adequately addressing practical challenges to businesses. The complexity of implementing governance principles within family-run enterprises might be significant, and this study may not take adequate care of reactions and adaptations of different businesses. These limitations thus hint at the lines along which future research in this area should be undertaken. These include, collecting primary data, comparison across regions, and deeper study of practical barriers to implementation of effective governance.

Theoretical Framework and Previous Studies

Various theoretical framework informs corporate governance of family businesses in Saudi Arabia. Theories such as the agency theory, resource-based view, stewardship theory, and behavioral agency theory align with the present research focus on incorporating governance as binding articles within the AOA. These theories provide a firm foundation on which to base any research into the new Saudi Companies Law and its implications on family businesses. To begin with, Agency Theory postulates friction between principals, who are the owners, and agents, who are the managers, due to a clash of interest.[8] In the context of family businesses, this situation is often exacerbated through personal relationships and undefined roles. Mechanisms and structures of governance, such as monitoring and incentive, therefore align the goals of agents with those of the principals. Al-Faryan showed how governance reforms in Saudi Arabia increased alignment and reduced agency costs and hence improved overall performance of firms.[9] Demanding governance principles through an AOA is a way in which the new act tries to reduce conflicts

[8] Miller, Danny, Isabelle Le Breton-Miller, Alessandro Minichilli, Guido Corbetta, and Daniel Pittino. "When do non-family CEO s outperform in family firms? Agency and behavioural agency perspectives." Journal of Management Studies 51, no. 4 (2014): 547-572.

[9] Al-Faryan, Mamdouh Abdulaziz Saleh. "Corporate governance in Saudi Arabia: An overview of its evolution and recent trends." Risk Governance and Control: Financial Markets & Institutions 10, no. 1 (2020): 23-36.

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and as such make the managers be able to act in the best interest of the family owners. By so doing, it supports the hypothesis that governance reforms improve transparency and accountability

The Resource-Based View is another related theoretical perspective that focuses on the unique resources and capabilities as the main strategic drivers of competitive advantage. Family businesses often have distinct resources, which are trust, social capital, and long-term orientation. Al-Ghamdi and Rhodes suggest that the updated developed governance framework in Saudi Arabia would enable family businesses to make better use of these specific resources and ensures the sustainability of family business growth.[10] Formalized governance practices allow family businesses to better protect their assets and employ them more productively. This further fits the objective of the study on assessing the impact of legislative reforms on family business sustainability.

In contrast, Stewardship Theory provides another perspective— one that is different from agency theory—where family members are stewards who are intrinsically motivated by family legacy and reputation. According to this theory, family members will be more apt to carry out actions that would serve the best interests of the business and its stakeholders.[11] The new Saudi Arabian governance laws imply that family businesses allow the stewardship principles to institute a responsible culture toward the long-term consideration. This supports the hypothesis because in these legislative reforms lies a basis for professionalism at a family firm and hence their durability and sustainability.

[10] Al-Ghamdi, Mohammed, and Mark Rhodes. "Family ownership, corporate governance and performance: Evidence from Saudi Arabia." International Journal of Economics and Finance 7, no. 2 (2015): 78-89.
[11] Löhde, Ann Sophie K., Giovanna Campopiano, and Andrea Calabrò. "Beyond agency and stewardship theory: shareholder–manager relationships and governance structures in family firms." Management Decision 59, no. 2 (2021): 390-405.

Furthermore, the Behavioral Agency Theory places a psychological and social dimension on conventional agency frameworks. [12] In so doing, it recognizes that relationships, emotions, and social norms influence agent behavior. In family business, these factors affect decision-making processes to a great extent. Recent research Boshnak et al. investigated how board gender diversity may impact firm performance during times of crisis.[13] Because Saudi family business boards are more leading through challenges, this study found that gender diversity in Saudi family business boards was better. Thus, the behaviorist approaches support the intention of this study to provide practical recommendations for effective implementation of good governance principles.

Shifting to past studies, extensive attention has been paid to how governance reforms would affects and continues to change family businesses in Saudi Arabia slightly over a year after its ratification. Al-Faryan provides a broad overview of the development process of corporate governance in the country, identifying the milestones traversed in reforms and what they each represented.[14] This study establishes the need to appreciate the chronological record and gradual imposition of governance legislation, identified in the case study on governance history in the Saudi Stock Market. Similarly, Al-Ghamdi and Rhodes discuss how Saudi family businesses are aligning with international governance standards by highlighting the benefits of best practices in application.[15] Their findings further support the objective of the study on the assessment of the impact of legislative reforms on family

[12] Lim, Elizabeth NK, Michael H. Lubatkin, and Robert M. Wiseman. "A family firm variant of the behavioral agency theory." Strategic Entrepreneurship Journal 4, no. 3 (2010): 197-211.
[13] Boshnak, Helmi A., Mohammad Alsharif, and Majed Alharthi. "Corporate governance mechanisms and firm performance in Saudi Arabia before and during the COVID-19 outbreak." Cogent Business & Management 10, no. 1 (2023): 2195990.
[14] Al-Faryan, Mamdouh Abdulaziz Saleh. "Corporate governance in Saudi Arabia: An overview of its evolution and recent trends." Risk Governance and Control: Financial Markets & Institutions 10, no. 1 (2020): 23-36.
[15] Al-Ghamdi, Mohammed, and Mark Rhodes. "Family ownership, corporate governance and performance: Evidence from Saudi Arabia." International Journal of Economics and Finance 7, no. 2 (2015): 78-89.

business, in that such alignment assures transparency and builds confidence among investors. This augurs well with the section on comparative analysis regarding how Saudi Arabia's governance reforms compare to international standards.

The study by Albadaly is more relevant because it addresses the set of challenges and opportunities associated with governance reforms and extends insights into practical implications related to family business.[16] This current study specifically highlights the obstacles within aligning traditional practices towards modern governance needs; hence, it fully supports the focus of the present study in terms of challenges and limitations concerning governance reforms. Aloulou and Alshaeel also believe that governance reforms require the incorporation of family individuals during the implementation process so that there will be minimal or no obstacles to impede their realization.[17]

With the integration of such theories and empirical evidence, this study endeavors to comprehensively assess the impact of governance in the form of binding articles within the AOA, adding to the broader discussion of corporate governance and family business management. The findings from this study will benefit the policymakers and business leaders in Saudi Arabia and serve as useful lessons for other emerging markets that face similar challenges of governance.

Study Methods

Material for this research is qualitative, based on a critical literature review of past research works, corporate reports, articles, and legislative texts. With the systematic analysis of these materials, the research is intended to discover what practical implications the new Saudi Companies Law would bring to family businesses. In

[16] Albadaly, Nagwa Ibrahim. "Legal Framework of the Family Businesses in the Kingdom of Saudi Arabia." resmilitaris 13, no. 2 (2023): 4888-49

[17] Aloulou WJ and Alshaeel R, 'Family Business in Saudi Arabia' in Family Business in Gulf Cooperation Council Countries (Springer International Publishing 2022) 91-119.

fact, a qualitative review would allow deepening the understanding of governance reforms by drawing insights from real-world cases and expert opinions. This will ensure a rich, contextual analysis that highlights both the benefits and challenges that the incorporation of governance as binding articles within the Articles of Association presents. This will also allow the study to give well-rounded, actionable recommendations to family businesses in Saudi Arabia.

Background

The family businesses in Saudi Arabia were significantly altered in terms of governance by the legislative reforms aimed at promoting improvements in corporate transparency and accountability. It is, therefore, necessary to explore the effectiveness of one of such changes— the inclusion of governance as part of the bindings AOA. Al Rawaf and Alfalih indicate that governance influences the sustainability of the family business through appropriate cultural practice regarding women's empowerment. This argument is is reiterated by Aloulou and Alshaeel who addressed the issue of aligning family businesses with international standards as a means of achieving long-term growth and sustainability.[18] These studies among others, therefore, bring into strong focus the need for sound governance frameworks to place family enterprises on a sustainable and competitive footing in the emerging economic environment in Saudi Arabia.

Legislative Reforms in Saudi Arabia

Recent legislative reforms in Saudi Arabia have substantially changed the face of corporate governance. The new Companies Law enacted requires governance principles to be stated within the AOA, even for family businesses. It is in this regard that Alotaibi et al. viewed such reformist steps as being meant for bringing about

[18] Aloulou WJ and Alshaeel R, 'Family Business in Saudi Arabia' in Family Business in Gulf Cooperation Council Countries (Springer International Publishing 2022) 91-119.

transparency and accountability aimed at restoring investors' confidence by aligning local practices with international standards.[19] Similarly, Alsuhaibani et al. note that the new law calls for closer levels of compliance and reporting, which requires that records must be maintained in an accurate and transparent fashion.[20] These legislative developments mark strong commitments by the Saudi government in breeding a healthy and resilient corporate sector characterized by firms that institute best practices in governance.

The legislative reforms also incorporated several key changes aimed at modernizing corporate governance in Saudi Arabia. Among these, one major reform was to define the governance structure of the company by identifying the role and responsibility of the directors and officers through AOA. As Al-Faryan says, this kind of reform is extremely important in reducing the risks related to corporate malfeasance and enhancing market integrity.[21] Added to this, Alotaibi et al. highlights that these reforms encourage the professionalization of management practices by assigning independent directors and setting up audit committees, respectively.[22] It does so in a manner consistent with the recommendations set by the OECD Principles of Corporate Governance for good governance structures and stakeholder involvement. The new Companies Law, therefore, aims at introducing these principles into the AOA. In doing so, it will help in upgrading the standards of governance of family

[19] Alotaibi, Ibrahim Mathker Saleh, Mohammad Omar Mohammad Alhejaili, Doaa Mohamed Ibrahim Badran, and Mahmoud Abdelgawwad Abdelhady. "Reassessing Saudi Arabia’s foreign investment laws: from protectionism to liberalization." International Journal of Law and Management 66, no. 4 (2024): 496-517.

[20] Alsuhaibani, Waleed, Robert Houmes, and Daphne Wang. "The evolution of financial reporting quality for companies listed on the Tadawul Stock Exchange in Saudi Arabia: New emerging markets' evidence." Emerging Markets Review 55 (2023): 101009.

[21] Al-Faryan, Mamdouh Abdulaziz Saleh. "Corporate governance in Saudi Arabia: An overview of its evolution and recent trends." Risk Governance and Control: Financial Markets & Institutions 10, no. 1 (2020): 23-36.

[22] Alotaibi, Ibrahim Mathker Saleh, Mohammad Omar Mohammad Alhejaili, Doaa Mohamed Ibrahim Badran, and Mahmoud Abdelgawwad Abdelhady. "Reassessing Saudi Arabia’s foreign investment laws: from protectionism to liberalization." International Journal of Law and Management 66, no. 4 (2024): 496-517.

businesses to international levels, thereby attracting investors and ensuring sustainability in economic development.

Impact on Family Businesses

The various reforms introduced through the new Saudi Companies Law have a great impact on the governance structure in family businesses, which has become more operational and transparent with accountability. Aloulou and Alshaeel cite a significant fact where it was imperative to include governance principles within the AoA, thus making the management more conjoined and formal.[23] This shift not only enhances oversight but also contributes to the reduction of various risks that might be connected with informal management practices. In a related disposition, Alkahtani states that such reforms have driven family businesses toward the utilization of clear role descriptions and responsibility allocations.[24] As a result, this has streamlined the entire decision-making process in these enterprises. With the inclusion of such governance structures, family businesses could address the challenging dynamics of the contemporary market settings with much ease and ensure sustainability in the long run.

In addition, the new requirements for governance enhanced the professional approach towards managing family businesses. Abdulkarim and Budushin consider that the introduction of independent directors and audit committees is the most significant part of these reforms for further nurturing the culture of meritocracy and ethical conduct of business.[25] In support of this view, Albadaly suggests that the family businesses have now become more attractive to the international investor

[23] Aloulou WJ and Alshaeel R, 'Family Business in Saudi Arabia' in Family Business in Gulf Cooperation Council Countries (Springer International Publishing 2022) 91-119.
[24] Alkahtani, A, 'Ownership Structure of Family Businesses in Saudi Arabia: Implications for Corporate Governance' (2021) 11 International Journal of Economics and Finance
[25] Abdulkarim Masi and Yaqoota Budushin, 'Family Business Governance' (Master's Thesis, King Abdulaziz University 2017).

community through the establishment of their practices in accordance with international standards.[26] Professionalization of management allows improving internal processes and the rise in the credibility and reputation of family business in the international market. Therefore, such reforms act as the catalyst to bring about growth, innovation, and competitiveness in the Saudi family business sector. They also make them resilient and adaptive for future challenges.

Legal Framework and Governance Mechanisms

The newly promulgated Saudi Companies Law lays down a full legal framework that for the first time requires the incorporation of governance principles into the Articles of Association.[27] This will place aburden of responsibility on the firms to clearly articulate the various structures of governance, including the roles and responsibilities of directors and officers. Albadaly explains that this step is towards increasing corporate accountability and, in the process, increasing Saudi Arabian corporate governance levels towards global levels. In making such governance provisions within the AOA, the law creates an assurance that family business firms come into being in an packaged environment where business ethics are encouraged and the chances of corporate malfeasance reduced to a minimum. Al-Ghamdi and Rhodes elaborate, reiterating that such legislation is essential in ensuring investor confidence and in conducting businesses sustainably.[28]

Moreover, the legal framework established by the new Companies Law has prescribed some of the governance mechanisms that are fairly crucial for the

[26] Albadaly, Nagwa Ibrahim. "Legal Framework of the Family Businesses in the Kingdom of Saudi Arabia." resmilitaris 13, no. 2 (2023): 4888-49

[27] Saudi Arabia, Royal Decree No. (M / 132) dated 01/12/1443 Ah dated 23/12/1443 ah, Saudi Companies Law and its Executive Regulations.

[28] Al-Ghamdi, Mohammed, and Mark Rhodes. "Family ownership, corporate governance and performance: Evidence from Saudi Arabia." International Journal of Economics and Finance 7, no. 2 (2015): 78-89.

effective operations of the family businesses. One such mechanism is that of independent directors on the boards, ensuring objectivity in decision-making processes and a reduction in potential conflict of interest. Abdulkarim and Budushin argue that involvement by the independent directors will facilitate a professional management culture that helps in building up the credibility of the companies.[29] Further, the law makes it mandatory for every company to establish an audit committee which shall be responsible for ensuring accuracy in financial reporting and strength in internal controls. Alkahtani has commented that such audit committees bear immense importance in maintaining accuracy and transparency of books of accounts to ensure good corporate governance standards.[30] These governance mechanisms, put into the AOA, are but an adherence to international best practices that have equipped family businesses with the required tools to successfully negotiate regulatory environments that are usually complicated.

Comparative Analysis with International Standards

The New Saudi Companies Law 2022 marks an important step forward to align corporate governance practices with globally accepted standards. Among the most critical legislative reforms, governance principles are now required to be enshrined in the Articles of Association of all firms. Setting these reforms in context requires viewing them against the benchmark of recognized international standards, including the UK Corporate Governance Code and the OECD Principles of Corporate Governance. These comparisons provide a sharp focus on both strengths and potential areas for further improvement in Saudi Arabia's governance framework and show how these reforms will go toward increasing transparency, accountability, and investor confidence.

[29] Abdulkarim Masi and Yaqoota Budushin, 'Family Business Governance' (Master's Thesis, King Abdulaziz University 2017)

[30] Alkahtani, A, 'Ownership Structure of Family Businesses in Saudi Arabia: Implications for Corporate Governance' (2021) 11 International Journal of Economics and Finance

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The UK Corporate Governance Code provides the benchmark for best practice in corporate governance for companies around the world on principles relating to leadership, effectiveness, accountability, remuneration, and relations with shareholders.[31] It states that there should be a clear division of responsibilities at the head of a company-no one person should have unfettered powers of decision. This principle is reflected by the new Saudi Companies Law which states that the governance structure of the family business should be clearly stated in the AOA.[32] To this end, it has clearly stated the various roles and responsibilities that have been committed to the directors and officers, further entrenching this principle in ensuring sound decision-making with reduced conflicts of interest. Second, the effectiveness of the board and its independence emphasized by the UK Code finds its replicate in the Saudi legislation that requires independent directors. According to Albadaly, this helps promote objectivity in decisions taken by boards and therefore leads to a culture of professional management and eliminates all nepotism.[33]

The Organization for Economic Co-operation and Development Principles of Corporate Governance provide an equally comprehensive framework for assessing corporate governance practices. The principles laid down by the OECD support principles for equitable, effective, and transparent markets, respectively; therefore, they safeguard shareholder rights and treat shareholders fairly.[34] The new Saudi Companies Law was put in place to advance the compliance and reporting obligations for companies to keep appropriate and transparent financial books. Alsuhaibani et al. indicate that this is critical in enabling investors to develop a

[31] Council, Financial Reporting, and Great Britain. The UK corporate governance code. 2010.
[32] Saudi Arabia, Royal Decree No. (M / 132) dated 01/12/1443 Ah dated 23/12/1443 ah, Saudi Companies Law and its Executive Regulations.
[33] Albadaly, Nagwa Ibrahim. "Legal Framework of the Family Businesses in the Kingdom of Saudi Arabia." resmilitaris 13, no. 2 (2023): 4888-49
[34] OECD, 'OECD Principles of Corporate Governance' (OECD, 2023) < https://www.oecd.org/corporate/principles-corporate-governance/> accessed November 30 2023.

certain level of confidence in an environment that fosters a culture of transparency within a family business.[35] This means that once Saudi family businesses achieve such global standards, they will be more competitive, attracting foreign investors who contribute to growth and diversification.

The new Saudi Companies Law also introduced the Audit Committee requirement, similar to those under the UK Corporate Governance Code and the OECD principles. These committees would assume important responsibilities: to provide oversight over financial reporting, internal control, and risk management. Abdulkarim and Budushin express it best: "the establishment of audit committees is important in ensuring the veracity of statements and preventing risks related to corporate malfeasance."[36] Similarly, OECD principles emphasize stakeholder participation by suggesting that companies keep constant contact with shareholders and other stakeholders. Such practice that the Saudi legislation encourages, especially in its requirement for periodic disclosure and communication of governance practices. They, thereby, enact accountability and fostering stakeholder confidence.

The new Saudi Companies Law has also received the best from other important international leading frameworks, such as the ICGN Global Governance Principles. The ICGN principles require a governance structure where there is a balance of powers between the board and management, together with effective oversight and strategic guidance.[37] Saudi law requirements toward independent directors and clearly defined governance structures promote a balance in all respects, hence enable

[35] Alsuhaibani, Waleed, Robert Houmes, and Daphne Wang. "The evolution of financial reporting quality for companies listed on the Tadawul Stock Exchange in Saudi Arabia: New emerging markets' evidence." Emerging Markets Review 55 (2023): 101009.

[36] Abdulkarim Masi and Yaqoota Budushin, ‘Family Business Governance’ (Master’s Thesis, King Abdulaziz University 2017)

[37] Huy, Dinh Tran Ngoc, Nguyen Thi Thuy, Pham Minh Dat, Vu Trung Dung, and Pham Tien Manh. "A set of international OECD and ICGN Corporate Governance Standards after financial crisis, Corporate scandals and manipulation-applications for Nigeria and implications for developing countries." Management 24, no. 1 (2020): 56-80.

proper oversight and strategic decisions. Such governance practices would add to the sustainability of family businesses for a longer period either by providing a framework for mitigating conflict or a basis for informed decision-making.

Benefits of Binding Governance Articles

Governance incorporation as binding articles within the AOA has a number of significant benefits to the family business in Saudi Arabia, particularly with regard to enhancing transparency and accountability. Al Rawaf and Alfalih. affirms that mandatory governance principles compel businesses to disclose critical information and maintain accurate financial records and, hence foster an environment of transparency.[38] This kind of transparency creates trust among the stakeholders of investors, employees, and customers, which is so crucial for long-term sustainability. Furthermore, Haghshah and Farraj showed that binding governance articles clearly state the responsibilities within the organization, hence reducing the chances of conflict of interest and accountability.[39] Besides enhancing the internal controls, such an organized approach to governance would contribute to the business's credibility in the perception of prospective investors and associates.

The second most essential benefit of incorporating the articles on governance into the AOA as binding is the professionalization of management practices. Albadaly emphasized that such inclusions of independent directors and the creation of audit committees create a setting where decisions are taken on meritocratic considerations rather than on personal relationships.[40] It is in this respect that professionalization of the board reduces the risk of nepotism and ensures that the best available talent is

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[38] Al Rawaf, Razan Abdullah, and Abdulaziz Abdulmohsen Alfalih. "Family business sustainability: the impact of governance and women’s empowerment in Saudi Arabia." Future Business Journal 10, no. 1 (2024): 46.

[39] Bin Hagshah, Abdulaziz Farraj. "The new Saudi Corporate Governance Framework: a comparative legal study with the UK and Delaware." PhD diss., University of Glasgow, 2022.

[40] Albadaly, Nagwa Ibrahim. "Legal Framework of the Family Businesses in the Kingdom of Saudi Arabia." resmilitaris 13, no. 2 (2023): 4888-49

recruited and retained. The scholar goes ahead to state that such governance practices align family businesses to international standards and hence make them competitive in the global marketplace. Professionalization of management enables strategic decision-making and resource allocation to allow the family businesses to adapt to the changing market conditions. In short, binding governance articles in the AOA create a solid platform that evokes improvements in transparency and accountability and professional management, hence giving sustainable growth and long-term success of family businesses in Saudi Arabia.

Challenges and Limitations

Besides these several advantages, the introduction of governance as binding articles within the AOA for Saudi family businesses has various challenges and limitations. One of the major challenges is the resistance that may arise from family members who have been doing business traditionally in an informal manner. According to Al Rawaf and Alfalih, family members may consider formal structures of governance as bureaucratic and binding; therefore, there is likely to be some level of resistance to such change.[41] Where there is resistance, reforms in governance will not be smoothly implemented. This means they may not have the intended positive effects on transparency and accountability. In addition, it is the structural feature of family dynamics and interpersonal relationships that, complicates the integration of governance principles into practice.[42] Conflicts of power and interest can arise and further prevent effective governance.

Another important limitation concerns issues of difficulty and cost in implementing governance reforms. According to Albadaly, matching existing practice to the new

[41] Al Rawaf, Razan Abdullah, and Abdulaziz Abdulmohsen Alfalih. "Family business sustainability: the impact of governance and women's empowerment in Saudi Arabia." Future Business Journal 10, no. 1 (2024): 46.

[42] Jolly Sahni, Alawiya Alwy, and Meshael Al-Assaf. "Corporate governance in family business: Evidence from Saudi Arabia." International Journal of Economic Research 14, no. 8 (2017): 39-57.

requirements for governance often proves an excessively resource-intensive process involving significant investment of time, specialist effort, and money.[43] Particularly for smaller family businesses, the resources and competencies may not be available to implement such changes; their result would be operational disruptions and added costs. This new framework of governance could be highly problematic because, as explained family business will have to be given "sufficient legal support" in order to operate through such a "legalistic" environment".[44] Further, it is difficult to balance traditional family values with modern governance practices, as a family must achieve its goals in maintaining the legacy while it adopts standards from professional management. Given the challenges and limitations, implementation at every step requires care and a strategic approach in order to prepare for the situation family businesses may face.

Case Study: History of Imposing Governance Over Saudi Stock Market Companies

The history of the imposition of governance regulations over Saudi stock market companies provides a rather interesting case study in the evolution and effectiveness of corporate governance reforms in the Kingdom. This is an especially relevant case study for any attempt to understand the nature of governance in a phased approach- that is, a transition from non-binding guidelines through semi-mandatory regulations to fully mandatory governance standards. The journey of ensuring strong corporate governance in Saudi Arabia began in 2006 with nonbinding guidelines, among others, promulgated through Capital Market Authority Circular No. 1-219-2006. The

[43] Albadaly, Nagwa Ibrahim. "Legal Framework of the Family Businesses in the Kingdom of Saudi Arabia." resmilitaris 13, no. 2 (2023): 4888-49

[44] Alotaibi, Ibrahim Mathker Saleh, Mohammad Omar Mohammad Alhejaili, Doaa Mohamed Ibrahim Badran, and Mahmoud Abdelgawwad Abdelhady. "Reassessing Saudi Arabia's foreign investment laws: from protectionism to liberalization." International Journal of Law and Management 66, no. 4 (2024): 496-517.

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introduction of the Saudi Arabia Corporate Governance code by Royal Decree No. M/30 dated 2/6/1424H meant to raise awareness about issues of corporate governance and to encourage and foster the voluntary adoption of best practices among listed companies.[45] Its focus fell on basic principles of transparency, accountability, and equitable treatment of shareholders. These unbinding guidelines formed a foundational milestone for embedding the good governance culture in Saudi companies.[46] Although voluntary provisions, they proved essential in firing up a discussion on governance-related matters and laying a platform for an introduction of more binding regulations.

The unbinding nature of guidelines on good governance implies that their application could not be imposed on companies. This result in a situation whereby the good governance culture applied or adopted by various companies are inconsistent. Scholars believe that, although some firms promptly adopted the principles shown in the guide, other still had business runs with minimal governance checks.[47] Since it was not a statutory set but only a guide, therefore no legal implications were attached to it, hence it shortened the role of the guidelines. The stage was, nevertheless crucial in laying a basis for later reforms because there was the development of a starting point for players concerning corporate governance principles.

Following the promulgation of unbinding guidelines, the second phase introduced semi-binding regulations. It followed the passing of the Royal Decree No. [M/132] Dated 01/12/1443 AH, which extended more powers to the CMA for enforcing corporate governance requirements. These semi-binding regulations imposed an obligation on a listed company to disclose its governance practices and also apply certain guidelines but with a fair degree of flexibility. According to Alkahtani, this

[45] Royal Decree No. M/30 dated 2/6/1424H
[46] Al-Matari, Yahya Ali, Abdullah Kaid Al-Swidi, and Faudziah Hanim Fadzil. "Corporate governance and performance of Saudi Arabia listed companies." British Journal of Arts and Social Sciences 9, no. 1 (2012): 1-30.
[47] Ibid., p. 14

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phase represented a balancing act between voluntary compliance and coercive enforcement, whereby the firms could get into the governance standards gradually without being immediately penalized for possible non-compliance.[48] The semi-mandatory regulations underlined the board composition, internal controls, and efficiencies of shareholder rights. According to Al-Ghamdi and Rhodes, the development of semi-compulsory disclosure requirements became an important milestone that contributed to further increasing transparency and accountability.[49] It made companies begin to publish annual corporate governance reports and inform them about their observance or non-observance of the guidelines so set. This enhanced transparency was very useful to stakeholders since it helped them have a good view of governance in listed companies, with more investor confidence. The semi-binding nature of the regulation allows the CMA to monitor compliance, provide guidance to companies, thereby making transition smoother, easier towards a more stringent standard of governance.

The last stage of corporate governance reform in Saudi Arabia started when Royal Decree No. (M / 132) dated 01/12/1443 was enacted in 2022, imposing the requirement of full implementation of obligatory governance standards on all listed companies.[50] This royal order provided CMA with extended powers for the purpose of ensuring compliance through auditing and enforcement in case of nil compliance. Full obligatory governance implies that there are comprehensive regulations covering various dimensions of corporate governance. These include board accountability, risk management, and engagement with various categories of

[48] Alkahtani, A, 'Ownership Structure of Family Businesses in Saudi Arabia: Implications for Corporate Governance' (2021) 11 International Journal of Economics and Finance

[49] Al-Ghamdi, Mohammed, and Mark Rhodes. "Family ownership, corporate governance and performance: Evidence from Saudi Arabia." International Journal of Economics and Finance 7, no. 2 (2015): 78-89.

[50] Saudi Arabia, Royal Decree No. (M / 132) dated 01/12/1443 Ah dated 23/12/1443 ah, Saudi Companies Law and its Executive Regulations.

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stakeholders. Such a shift toward fully compulsory governance emphasize the need to align Saudi corporate practices with international standards so that Saudi companies could be more competitive in the global market.[51] The new regulations thus made it compulsory to include independent directors, establish audit committees, and put in place rigorous internal controls. Such measures have a pivotal role in mitigating risks to ensure integrity within financial reporting.

Full mandatory governance has had a significant influence on family businesses.For instance, the inclusion of governance principles within the AOA is mandatory and considerably enhances the business through increased transparency and accountability.[52] Professionalization of management practices is enhanced with the inclusion of independent directors and audit committees that enhance credibility and make family businesses more attractive to investors. This view is supported by Aloulou and Alshaeel, who observed that family businesses complying with these set governance standards stand better chances of facing the challenge of navigating through the modern market environment to achieve their long-term sustainability.[53]

Recommendations for Successful Implementation

Governance in Saudi Arabia, as binding articles within the AOA of family businesses, calls for a strategic and holistic approach to implement this legislation successfully. Recommendations toward addressing the challenges and leveraging the benefits of such legislative reforms will go a long way in ushering in sustainable growth and professional management practices in family enterprises. Such recommendations include , but are not limited to:

[51] Al-Faryan, Mamdouh Abdulaziz Saleh. "Corporate governance in Saudi Arabia: An overview of its evolution and recent trends." Risk Governance and Control: Financial Markets & Institutions 10, no. 1 (2020): 23-36.
[52] MarcoPolis, 'Saudi Arabia Family Business: The Kingdom's Economic Backbone' (MarcoPolis, 2023) <https://marcopolis.net/saudi-arabia-family-business/Page-5.htm> accessed November 30, 2023.
[53] Aloulou WJ and Alshaeel R, 'Family Business in Saudi Arabia' in Family Business in Gulf Cooperation Council Countries (Springer International Publishing 2022) 91-119

I. Engage the family members in governance policy formulation and implementation to elicit interests and commitments from them. In that case, business could deal with probable resistance through developing a sense of responsibility or ownership in family members who may be resistant to new governance policies. Traditional values are combined in this approach with modern governance practices to make sure that the governance framework is effective and sensitive to culture.

II. Engage external advisors and lawyers for consultancy to help implement reforms in governance. Independent advisors and legal experts offer perspectives and provide recommendations on the new governance framework that would be helpful for the family business. Their objectivity ensures that the policies in regard to governance are in compliance with all the requirements, and therefore best practice, that will further ease the transition towards more formal governance structures.

III. Draft clear and comprehensive governance articles outlining the roles, responsibilities, decision-making processes, and mechanisms of accountability. Well-thought-out governance articles are the fundamental document guiding the operation and management of the business. It clearly outlines the roles and responsibilities, thus limiting cases of conflict of interest and ensuring accountability.

Conclusion

In conclusion. this research underlines the transformation that new Saudi Companies Law 2022 has brought in family businesses, particularly with regard to mandatory inclusions of governance as binding articles within Articles of Association. It is observed from the findings that such reforms create greater transparency and accountability, and introduce professional management practices to ultimately bring

Saudi family businesses in line with international standards. Even with such challenges-resistance by family members, implementation complexity, and balancing between traditional values and modern governance—the benefits of such reforms are considerable. These governance principles would ensure that a culture for ethical conduct, clarity in roles, and strategic thinking in decision making foster long-term sustainability and competitiveness. The case study of Saudi stock market companies will prove that gradual governance reforms move upwards. Other prescriptions for implementation success involve incorporating the family members, seeking external advice from outside directors, drafting readable governance articles of association, training, and monitoring on a continuing basis. In short, these reforms mark a significant step toward good and transparent business environment in Saudi Arabia.

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