



Midocean University

College of Management

Department of Risk Management

**Relationship between corporate governance and risk management and Their Impact on the
Industrial Sectors in the Kingdom of Saudi Arabia**

Prepared by:

Humod F. Alenazi

Supervised by:

Dr. Alfaisal Abdelhameed

Dr. Fayez Jarrad

Year:2024

Abstract

The fast growth brought about by the emergence of Vision 2030 for the Saudi Arabian industrial sector, locally and nationally, by which a diversified economy is being established to make it less dependent on oil, has presented new opportunities and challenges in some areas of governance and risk management. Corporate governance refers to the system by which companies are directed and controlled. Good corporate governance helps enhance transparency, accountability, and confidence among stakeholders. Governance frameworks also afford protections to shareholder interests, assist in better decision-making, and help in making fewer operational and financial risks. Complementing governance, risk management involves identifying, assessing, and mitigating threats to a company's objectives and sustainability. The linkage of corporate governance and risk management bears strongly on organizational resilience, especially in the competitive industrial sector in Saudi Arabia.

Strong governance structures ensure transparency and lay frameworks for oversight, enhancing a company's risk management capability. On the other hand, active risk management practices support good governance in that they may anticipate and resolve challenges the company could face. Despite the relevance of these practices, only a few studies have explored how corporate governance and risk management interface specifically within Saudi Arabia's industrial landscape. This research proposal aims to ascertain corporate governance's impact on risk management within the Saudi Arabian industrial sector and further establish how such an impact relates to corporate performance.

Literature Review

Although there is considerable literature on corporate governance and risk management separately, more is needed about their jointly interacting effects in practice, particularly in Saudi Arabia. International studies suggest that good corporate governance improves the overall quality of risk management by facilitating formalistic supervision with well-defined accountability. Firms with more independent boards and robust audit committees show better risk control and, at times, enjoy superior financial performance (KUMO). The defining attributes of good governance practices, particularly in the industrial sectors substantially exposed to operational and market risks, include board independence, executive accountability, and stakeholder engagement.

Saudi Arabia pursued massive reforms in governance so that corporate governance could align with international standards. Reforms have led to positive responses in the performance of companies amongst those firms that emphasize governance principles. Saudi Arabia's industrial sector still struggles to adapt to these standards, while the variability in corporate governance practices among firms creates fertile grounds for further research. The efficiency of corporate governance in emergent markets has been proven to reduce financial and operational risks; thus, Saudi firms practicing good governance are bound to enjoy similar benefits (Ghofar et al., 2022). The risk management framework underlines two issues: proactive risk identification and mitigation. This is particularly so for industries with high operation and market volatility. Secondly, most industries have benefited from a structured risk management approach since they are always at risk due to operational perils, which may lead to instability. In Saudi Arabian industrial sectors, the corporate world has embraced risk management practices differently; some

firms have already aligned their governance frameworks to enhance their risk management capabilities.

Apart from these glimpses, the interrelationship between governance reforms and risk management strategies for Saudi Arabia's industrial sector has yet to be explored. The literature gap will be addressed to gain valuable insights into the industry and regulatory bodies in Saudi Arabia.

Methodology

This research will adopt a mixed-method approach that describes the impact of corporate governance on risk management within Saudi Arabia's industrial sector. This study combines quantitative and qualitative data to derive a stand from governance and risk management practice. The combination ensures that numerical trends and correlations are obtained while deeper insights, motivations, and experiences behind those practices are captured. It will be a quantitative test based on collecting and analyzing secondary data from the annual reports of Saudi industrial companies, their corporate governance indices, and the disclosures on risk management (Farhangdoust et al., 2020). Regarding KPIs, pre-defined criteria for board independence, audit committee, and executive accountability will be measured against profitability, operational resilience, and frequency of risk incidents. Regression analysis will test the strength and direction of associations between governance structures and risk outcomes.

A qualitative phase will succeed this through holding focus group discussions with members of the industry, governance officers, and risk managers. It is in this regard that such interviews will delve into real issues and solutions in Saudi industrial companies with respect to governance and related problems with risk management. Qualitative and quantitative results will

provide an adequate view of how corporate governance affects the quality management of risk and, therefore, contingencies in performance for a firm within the sector in question.

Quantitative Component

The quantitative phase will involve data collection and analysis of secondary data emanating from the financial statements, corporate governance indices, and risk management reports for selected industrial companies in Saudi Arabia. This would, therefore, bring under governance-related measures, for instance, board composition and audit committee presence, the measures of the risk management outcomes, such as incident frequency and actual financial losses due to risks over five years (Kwon et al., 2022). Regression analysis is among several statistical techniques that shall be applied to study associations between governance structure measures and risk management performance. This analysis will further explore how these factors affect the main performance metrics of profitability, market share, and operational resilience.

Qualitative Component

Complementing the quantitative component, qualitative data will be solicited through interviews with industry experts, corporate governance officers, and risk managers within Saudi industrial firms. The interviews will cover issues such as governance practices, challenges related to risk management, and the effectiveness of governance structures in terms of risk management (Oudat et al., 2024). It will also look at the experience of companies in adapting to recent governance reforms and seek strategies employed by high-performing firms.

Sample and Data Collection

The study's sample will be industrial companies listed on Saudi Arabia's Stock Exchange, Tadawul. Therefore, various industrial companies will be chosen to ensure the relevance and comparability of governance practices. Five years of data will be collected on publicly available

information from annual reports, corporate governance statements, and risk disclosures (Kastiel & Nili, 2021). Companies offering consistent data during this period will provide reliable information about the relationship between governance and risk management.

Data Analysis and Findings

The current research study will analyze data on the underlying relationship between corporate governance structure and risk management practices to find how underlying elements affect performance outcomes. By quantifying metrics related to board composition, audit committee presence, and frequency of risk incidents, the study is supposed to uncover patterns that may link governance structures with appropriate risk management and improve such performance indicators as profitability and operational resilience (Magnis et al., 2024). More importantly, qualitative perceptions from industry interviews will provide the necessary contextual understanding and further enhance the analysis concerning how governance and risk practices directly implicate decision-making and stability in Saudi industrial firms.

Quantitative Analysis

The study will, therefore, apply a statistical test of the direction and strength of the relationship between governance practices and risk management effectiveness. It can be done through regression analysis that tests whether selected governance elements, like board independence, the presence of audit committees, and executive accountability, have significant effects on the results of risk management (Wang). Further analysis will be directed at assessing the degree to which strong governance correlates with superior performance measures such as profitability and growth with a view to discerning patterns that link effective governance to robust risk management and overall company success.

Thematic Analysis

The approach will be qualitative, whereby the research will attempt to obtain recurring themes and shared insights regarding governance and risk management in Saudi Arabia's industrial sector through the analysis of interview data. That way, quantitative findings would be contextualized by identifying patterns that give deep meaning to governance dynamics and how they impact risk management practices. More specifically, responses from interviews will indicate the industrial views of the effectiveness of recent reforms in governance in terms of best practices and further areas of improvement. In this way, this approach also determines cases when governance structures could mitigate risks successfully and the areas where severe additional governance could contribute to more accurate risk management.

Discussion and Conclusion

It aimed to add to the evolution of an advanced understanding of how corporate governance influences risk management in Saudi Arabia's industrial sector. More so, it identified an authoritative deficiency in the current literature at one's disposal on the subject of an emerging market economy. Preliminary self-conducted research suggests that appropriately designed governance structures facilitate risk management processes by instituting oversight, accountability, and transparency structures (Abu, 2024). Firms with independent boards and audit committees that are more effective will also tend towards better risk control as members of the board and audit committees mitigate different operational and financial risks through their monitoring.

Additionally, clearly defined executive accountabilities may be better at managing risks. This is solely because, with accountability, there is a likelihood of pro-activity toward identifying

and mitigating risks. These findings could lead to the industrial firms and policymakers in Saudi Arabia. Organizations could use such findings to enhance their governance and enterprise risk management frameworks, resulting in increased resilience and improved financial performance. Policymakers can also use such insight into policy formulation since they work out governance standards and regulatory guidelines for best practices across industries. The knowledge of this linkage provided, in turn, helped Saudi industrial firms uphold international standards that could help elevate the level of competitiveness in an increasingly globalizing economy.

Conclusion

The research proposal has made a study that attempted to investigate the relationship between corporate governance and risk management in the Saudi Arabian industrial sector. The combined quantitative analysis and qualitative insights from industry experts will offer extensive views concerning how the governance structure influences risk management and corporate performance. This study contributes to the existing body of knowledge through a dual investigation of governance for and risk management of best practices in governance for sustainability and growth. The findings may be useful for Saudi industrial companies to navigate their path toward the establishment of competitive international standards for longevity in the market.

References

- Abu, S. E. (2024). Audit committee characteristics and firm financial performance of quoted industrial goods firms in Nigeria. *International Journal of Financial, Accounting, and Management*, 5(4), 445-458.
- Farhangdoust, S., Salehi, M., & Molavi, H. (2020). Management stock ownership and corporate debt: evidence from an emerging market. *Management Research Review*, 43(10), 1221-1239.
- Ghofar, A., Muhammad, M., Rasli, A., Narullia, D., & Prestianawati, S. A. (2022). An investigation into factors affecting corporate risk management in ASEAN-4 Countries. *Cogent Business & Management*, 9(1), 2135204.
- Kastiel, K., & Nili, Y. (2021). The corporate governance gap. *Yale LJ*, 131, 782.
- KUMO, U. A. INSTITUTIONAL FACTORS, CORPORATE GOVERNANCE ATTRIBUTES AND SUSTAINABILITY INITIATIVES OF NIGERIAN LISTED FIRMS: THE MODERATING EFFECT OF ENVIRONMENTAL POLICY.
- Kwon, Y., Han, S. H., & Koh, Y. W. (2022). Production suspension, corporate governance, and firm value. *Emerging Markets Finance and Trade*, 58(10), 2711-2735.
- Magnis, C., Papadamou, S., & Iatridis, G. E. (2024). The impact of corporate governance mechanisms on mitigating banks' propensity for risk-taking. *Journal of Banking Regulation*, 25(3), 234-255.
- Oudat, M. S., Ali, B. J., Abdelhay, S., Hazaimah, H. M., Altalay, M. S. R., Marie, A., & El-Bannany, M. (2024). The effect of financial risks on the performance of Islamic and commercial banks in UAE. *Frontiers in Applied Mathematics and Statistics*, 9, 1250227.

Salehi, M., Lari DashtBayaz, M., Hassanpour, S., & Tarighi, H. (2020). The effect of managerial overconfidence on conditional conservatism and natural earnings management. *Journal of Islamic Accounting and Business Research*, 11(3), 708-720.

Wang, H. The impact of corporate governance on green bond issuances.