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العلاقة بين حوكمة الشركات وإدارة المخاطر وأثرها على القطاعات الصناعية في المملكة العربية السعودية

**The Relationship Between Corporate Governance and Risk Management and their Effect
in the Industrial Sectors in the Kingdom of Saudi Arabia**

إعداد الطالب/

حمود بن فايز العنزي

إشراف/

د.الفیصل عبد الحمید

د.فايز جراد

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شكر وتقدير

أتقدم بعبارات الشكر والتقدير إلى والدي العزيزين اللذين غرسا فيني حب العلم من الصغر،
وقدما لي كل غالي ونفيس، وكان لهما الفضل بعد الله فيما وصلت إليه الآن فلا أملك
إلا الدعاء لهما بطول العمر وحسن العمل وبلوغ الجنان.

ويسرني أن أتقدم بالشكر الجزيل لإخوتي وأصدقائي ولكل من مد لي يد العون، أو أسدى لي معروفاً،
أو قدم لي نصيحة، أو كانت له إسهامه صغيرة أو كبيرة في إنجاز هذا العمل فله مني خالص الشكر والتقدير.

وكما أتقدم بالشكر الجزيل لأستاذتي المشرفين على هذا البحث الدكتور / الفيصل عبد الحميد والدكتور فايز جراد
والحمد لله رب العالمين أولاً وآخراً، عدد خلقه ورضا نفسه وزنة عرشه ومداد كلماته.

والصلاة والسلام على نبينا محمد وعلى آله وصحبه أجمعين.

المستخلص

تبحث هذه الدراسة في العلاقة بين أدوات حوكمة الشركات وفعالية إدارة المخاطر في القطاع الصناعي بالمملكة العربية السعودية. تتناول هذه الدراسة مدى كفاءة تشكيل مجلس الإدارة ولجان التدقيق والتعويضات التنفيذية في إدارة المخاطر المالية والتشغيلية. تبحث هذه الدراسة في أثر الإفصاح عن الحوكمة والإفصاح عن المخاطر على ثقة المستثمرين والاستقرار الاقتصادي. على الرغم من أن رؤية المملكة العربية السعودية 2030 قد أدخلت إصلاحات جديدة في حوكمة الشركات، إلا أن العديد من قضايا إدارة المخاطر والامتثال لا تزال دون حل. وقد استخدمت الدراسة 25 مصدرًا ثانويًا، مثل تقارير الشركات والإيداعات التنظيمية والأدبيات الأكاديمية، للوصول إلى استنتاج مفاده أن هناك حاجة إلى آليات حوكمة داخلية فعالة. وتشمل هذه الآليات مجالس إدارة ولجان تدقيق مستقلة، والمخاطر المالية المسؤولة، والامتثال التنظيمي. كما دعت إلى ضرورة الإبلاغ الشفاف عن المخاطر لتحريز الاستثمار وتحسين كفاءة السوق. وخلصت الدراسة إلى وجود حاجة إلى أنظمة حوكمة وتنظيمية أكثر فعالية ومتانة لتمكين الصحة المالية وإدارة المخاطر على المدى الطويل في الشركات الصناعية السعودية. وتؤكد التوصيات المهمة على تعزيز أطر الحوكمة الفعالة، وتشجيع الإبلاغ عن المخاطر، وتحسين الامتثال من خلال القياس القائم على التكنولوجيا.

Abstract

This study examines the relationship between corporate governance instruments and risk management effectiveness in Saudi Arabia's industrial sector. This study considers the efficiency of board composition, audit committees, and executive compensation in managing financial and operating risks. This study examines the effect of governance disclosure and risk disclosure on investor confidence and economic stability. Although Saudi Arabia's Vision 2030 introduced novel corporate governance reforms, several risk management and compliance issues remain unresolved. The study used 25 secondary sources, such as company reports, regulatory filings, and academic literature, to come to the conclusion that effective internal governance mechanisms are needed. These include independent boards and audit committees, responsible financial risks, and regulatory compliance. It also called for the necessity of transparent risk reporting to free investment and improve market efficiency. The conclusion is that there is a need for more effective and robust governing and regulatory systems to enable long-term financial health and risk management in Saudi industrial companies. The significant recommendations emphasize enhancing effective governance frameworks, encouraging risk reporting, and improving compliance through technology-driven measurement.

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Chapter 1: Introduction

Historically, corporate governance has been deemed the backbone of organizational performance. Sound governance dictates the performance of industries, which is not limited to risk management but also includes other aspects such as finance and operational efficiency. However, the suitability of corporate governance varies, primarily based on the common principles of integrity, professionalism, and ethics. These values help prevent the prevalence of risks such as fraud, corruption, and poor reporting. Research has examined the relationship between corporate governance, risk management, operational efficiency, and firm reputations. Importantly, all the studies have implicated a positive correlation between excellent governance and measuring other variables. The scope of this study is limited to the Kingdom of Saudi Arabia, an important business hub globally. Despite numerous reforms, the issue of corporate governance and risk management remains a puzzle. This study will bridge the gap through a critical analysis of 25 sources.

Problem Statement

Saudi Arabia's industrial sector may underestimate the contribution of corporate governance to performance and risk management. However, lousy governance may cause industrial organizations to be unable to keep things private, pay costs, and lose their reputation due to unmanageable risks and varying compliance standards (Almutairi et al., 2021). Regrettably, various aspects constrain risk monitoring in most organizations; to start with, there is hardly an independent board, and thereafter, the committees are relatively ineffective. Also, there is a lack of compliance with emerging regulatory standards, hampering the effectiveness of financial reporting. Low-risk disclosure negatively impacts investor confidence (Alsulami & Chafai, 2024), while family businesses prioritize internal control to control information disclosure and undermine governance (Habtoor et al., 2019). Most of the existing studies are mainly concentrated on

developed countries, and there is a significant research gap concerning Saudi Arabia and how its various governance mechanisms address risk management within its industrial end. This study meets that need by examining how well governance handles risks and suggesting ways to ensure rules are followed more closely, build up capital and other safety nets, and make governance more open.

Study Purposes

The purpose of this research is to explore how corporate governance and risk management are related to each other in the industrial sector of Saudi Arabia. It examines how the existence and structure of boards of directors, audit committees, and executive compensation can help manage these risks. It also discusses how governance transparency and risk disclosure affect investor confidence and financial stability. It also evaluates the extent to which corporate governance regulations enhance financial risk management and discusses challenges in corporate governance among Saudi industrial firms. Therefore, the study recommends compliance enhancement, risk management approaches, and governance clarity.

Study Importance

This research is of both scientific and practical importance in corporate governance and risk management. It adds knowledge about corporate governance in the academic world, especially in developing markets like Saudi Arabia. The research refers to different theoretical frameworks, such as agency theory and institutional theory, to find new ways to guide governance regarding risk management. Further, it builds upon the literature by providing quantitative data from company documents, legal statutes, and case studies. In practical terms, the study offers the following policy implications for the Saudi CMA and other regulators seeking to strengthen governance systems:

Study Questions

1. How do corporate governance mechanisms influence risk management effectiveness in Saudi Arabia's industrial sector?
2. What role do board composition, audit committees, and executive compensation play in mitigating financial risks?
3. How do governance transparency and risk disclosure impact investor confidence and financial stability?
4. What are Saudi industrial firms' key challenges in complying with corporate governance regulations?

Research Hypotheses

H1: Corporate governance mechanisms positively influence risk management effectiveness in Saudi Arabia's industrial sector.

H2: Independent boards and structured audit committees significantly improve corporate risk mitigation strategies.

H3: Firms with greater transparency and risk disclosure practices exhibit better financial performance and investor confidence.

H4: Stronger regulatory enforcement improves governance compliance and financial risk management.

Theoretical Model

The research adopts agency and institutional theories to investigate corporate governance and risk management. Agency Theory draws a sharp contrast between management and shareholders, suggesting that managers may have their selfish interests in mind by seeking more wealth instead of stability. Weak corporate governance, boards that are not independent, and audit

committees that do not work well together lead to bad financial management and higher risk profiles (Farhangdoust et al., 2020). Improvements to board independence and audit oversight ensure excellent corporate governance, long-term success, and strong internal controls that stop managers from acting in ways that hurt shareholders.

The concept of institutional theory looks at the forces of regulation and governance policies and their impact on managerial decisions. KSA's Vision 2030 has enhanced corporate governance, financial reporting, and disclosure regulation, but enforcement is still problematic (Murayr, 2023). Adherence to governance regulations and practices by firms increases financial solidity, investors' confidence, and risk management capacities. However, adoption embraces several hitches that make industrial firms poorly governed and inadequately disclose risks and economic instability.

Chapter 2: Literature Review

Introduction

This literature review aims to find and discuss the links, essential parts, and problems of corporate governance and risk management in Saudi Arabia's business world. It will also examine the role of governance tools, laws, and rules in managing corporate risk. The review is grounded on corporate governance and risk management and their impact on KSA's industrial sector. The review offers a theoretical model to inform future research in this area. This study will use agency and institutional theories to understand how governance systems affect risk management.

Corporate Risk Management Effectiveness

Corporate risk management, as an aspect of governance, evaluates how well a firm can identify, monitor, and address potential threats impacting its financial, operational, and strategic elements. Risk management remains central in a firm's governance, regulatory requirements, and corporate culture, designed to withstand future financial contractions, regulatory deficiencies, and

market volatility. On the other hand, firms that have poor governance structures have been observed to exhibit poor risk management, thereby experiencing fluctuations in their financial performance and reputation. Risk management success can be measured based on source, economic stability, and organizational performance. Firms with structured risk management frameworks earn higher average profits, ROA, and ROE (Abiad et al., 2025). Nevertheless, companies with weak governance structures, no executive liability, poor monitoring, and unstable stock markets had trouble making money (Al-Matari, 2021). Investor confidence is highly dependent on risk disclosure and transparency. When financial, operational, and compliance risks are reported transparently, investor interest is enhanced, and regulatory confidence is earned. Conversely, weak risk disclosure practices increase capital costs and decrease investor confidence (Alresheedi, 2021).

Compliance with regulations enhances the institution's governance and reduces fines. Companies that align with the regulatory policies of CMA show significantly low-risk exposure, while noncompliance leads to penalties and a tarnished reputation (Almutairi et al., 2025; Bazhair, 2021). Finally, operational resilience strengthens business durability in the face of economic fluctuations. Some say that proactive risk management policies help companies become stable and adaptable, while weak governance structures make businesses more vulnerable to economic changes and the credit crunch (Kwon et al., 2022). Ensuring corporations have strong risk management programs is key to building long-term financial resilience and shareholder trust.

Governance mechanisms impact risk management.

Risk management frameworks are one of the areas where corporate governance mechanisms are essential in determining a company's risk management capability. These beneficial practices in governance structures support increased public accountability, minimize

fiscal abuse, and address operational risks. Managing risk is the composition and independence of the company's board of directors. Companies may obtain independent directors' diverse experience, impartial decision-making processes, and better compliance with legal standards on governance policies to support financial stability and risk management plans. Some companies may do risky things that make the company's finances more unstable and draw the attention of regulators (Aldriweesh et al., 2022) if the board gives short-term financial incentives to the executives. However, gender-diverse companies are even more successful than male-dominated boards, providing better risk oversight, adaptive capacity, and more impressive governance reporting.

Firms with more effective audit committees report less earnings manipulation and higher transparency in their performance, thus increasing investor confidence. On the other hand, weak audit committees are linked to fraud, bad reporting, and regulatory breaches, leading to legal problems, diminished brand value, and weak financial health. It is especially significant for financial institutions, as increased audit oversight is associated with reduced risk-taking and improved credit risk management (Magnus et al., 2024). Corporate governance policies relating to executive compensation schemes significantly affect risk-taking activities. Performance-based compensation can benefit long-term sustainability, preventing executives from taking insane risks (Kastiel & Nili, 2021). However, executives who get paid a lot but are not held accountable for it can make risky investments, change reports, or have problems with governance, all of which raise the company's financial risks (Salehi et al., 2020). Moreover, ownership structures affect aspects of governance, such as transparency. While dispersed ownership firms in Saudi Arabia show greater risk disclosure and better regulatory compliance than other firms, family-owned companies demonstrate weaker governance controls and low openness (Habtoor et al., 2019).

Summary of Past Studies

Corporate governance is critical to how an organization approaches risk management. Proper corporate governance leads to optimal accountability, transparency, and lawfulness, which helps decrease financial and operational risks. Abu (2024) establishes that firms with robust governance mechanisms are thus better placed to manage risks, improving corporate resiliency. Business risk management is typically supported by governance structures that include independent boards, audit committees, and executive oversight. In addition, corporate governance mechanisms that promote transparency and stakeholder participation foster a risk management culture that minimizes financial negligence and fraud. Bazhair (2021) states that firms with transparent governance policies receive foreign investment due to compliance with international guidelines. Public stockholders will only engage their money with businesses with efficient corporate governance mechanisms because of their credibility and assured compliance with risk control features. Similarly, Al-Matari (2025) identified that management mechanisms are crucial in managing funds and operational sustainability. Organizations incorporating risk management in their governance structure are usually financially sound and less exposed to volatile markets. To support this assertion, Magnus et al. (2024) also found that firms in the banking sector benefit from better corporate governance regulation and expose themselves to lower financial risk. These committees are essential for overseeing financial functions, detecting and preventing fraud, and improving long-term safeguards.

However, readers need to understand that many firms encounter challenges in implementing comprehensive CMA governance in Saudi Arabia despite the commendable progress in the country's corporate governance reforms. Compliance is another key consideration of risk management as it establishes and implements the legal and moral regulatory framework.

According to Almutairi et al. (2025), this study also found that many Saudi firms fail to adhere to the governance rules and experience issues regarding their reporting methods, risk disclosures, and managerial responsibility. Implementing risk disclosure standards remains one of the most significant challenges of governance compliance. As Alsulami and Chafai (2024) have noted, risk reporting is still desired among most firms in terms of comprehensiveness and readability for investors and regulators. While the Kingdom of Saudi Arabia has formulated corporate governance codes, implementation scores are low, and regional disparities exist. Firms failing to communicate risk effectively undermines their financial stability (Habtoor et al., 2019). There are also some differences when comparing how these companies adhere to corporate governance standards, especially where the firms are family businesses, as opposed to other firms listed on the stock exchange.

Murayr and Murayr (2023) undertook a comparative analysis and found that Saudi Arabian family firms are relatively less regulatory compliant than publicly floated firms. These firms have poor corporate governance because of their closely held status, inadequate internal controls, and insufficient risk management systems. On the other hand, post-use public limited companies are bound to much tighter governance rules, and they have more investor pressure, which compels them to follow the regulation (Oudat et al., 2024). There is a more profound question: adapting to the changing governance regulation. According to Alresheedi (2021), most industrial firms struggle to implement a sound governance framework, including risk reporting, financial disclosures, and environmental compliance. This deepens the compliance gap because executives and board members are unprepared; many lack governance training (Kastiel & Nili, 2021). Saudi regulators must intensify their efforts to enforce rules and ensure compliance with governance policies. Wang (2022) points out that technology, such as risk assessment models using artificial

intelligence, can help improve the supervision of compliance and increase transparency. Organizations that encourage the use of technology in their governance compliance framework will experience higher levels of compliance, lower financial risks, and higher investor satisfaction.

Corporate social responsibility is a topic of interest, too. This approach aims to maintain and enhance high standards of ethical, social, and environmental responsibility by adjusting governance systems to focus on sustainable and value-creation principles. According to Reyad et al. (2022), companies that use ethical governance and sustainability measures have less flapping because they handle risks wisely and socially responsibly, which is what stakeholders expect. Integrating sustainability practices into governance structures improves organizational robustness by enhancing compliance with ESG measures. Wang (2022) postulates that it is easy for companies that embrace ESG to manage regulatory risks, reputational threats, and financial uncertainties. For example, companies that use environmentally friendly production methods, hire fair labor, or have clear supply chain policies are less likely to be sued or lose their good name (Jaradat et al., 2021).

Some companies view CSR as an endeavor rather than a managerial function (Lami, 2024). As a result, CSR activities lack explicit alignment with firm risk management and do not provide optimal support for broader organizational financial stability. Another concern in CSR implementation is achieving the much-desired balance between profitability and sustainability. Many organizations treat compliance with ESG standards as an expense, especially in industries with significant operating costs (Ghofar et al., 2022). A recent study by Eltayeb (2025) demonstrates that CSR integration in firms' governance yields long-run value, such as increased investor confidence, better regulation management, and better market image.

Additionally, companies that do not adopt sound ethical governance and sustainability policies risk incurring fines and damaging their reputation. Altheebbeh et al. (2024) note that the

escalating corporate governance scandals and unethical business conduct have compelled global investors and regulators to pay attention. Companies considering CSR as an option to mitigate risks will likely lose shareholders' confidence and financial viability. Saudi firms should reinstate CSR-driven governance by implanting sustainability reporting, ethical leadership, and corporate transparency into their frameworks. To meet global standards for corporate governance (Kumo, 2025), statutory regulatory bodies should tell these frameworks how to include ESG disclosures. Corporate governance is an essential aspect of enterprise risk management because it helps firms operate according to clear and acceptable standards of business conduct. Scholarly works suggest that effective governance structures strengthen risk management, investor interest, and compliance standards (Abu, 2024; Bazhair, 2021). However, when companies become more like Saudi Arabia, it creates problems following rules, telling people about risks, and running the business. CSR is also a big part of governance-driven risk resilience since businesses that take sustainability steps face less financial risk and more trust from regulators (Reyad et al., 2022). Nevertheless, there is a dearth of studies exploring the involvement of CSR in the Saudi Arabian industrial sector.

Theoretical Framework of the Study

Agency theory

Agency theory is the relationship between managers (agents) and shareholders (principals), whereby managers may act in their self-interest rather than the company's best interest. Poor governance systems result in inefficiency, excessive risk, and unsustainability in the management of resources. Institutions like having independent boards, a structured audit committee, and transparent risk disclosure are vital to minimize these risks. Well-governed firms show improved financial restraint, lower agency costs, and better regulatory compliance (Idem; Farhangdoust et al., 2020). Agency theory in the Saudi Arabian industrial sector says that the proper governance

mechanisms should be implemented to keep the management in check because they tend to act in their best interests, which is terrible for the company's finances and makes them not responsible to its shareholders.

Institutional theory

Applying institutional theory reveals the role of regulatory frameworks and governance policies in influencing risk management and corporate transparency. New governance reforms are steadily being implemented within Vision 2030 in Saudi Arabia, raising the bar with increased disclosure of financial performance, risk reporting, and board independence. Companies that conform to these rules get market stability and investors' trust, while businesses that do not follow such rules face much higher financial risks and reputational losses (Murayr, 2023). Nonetheless, despite the drive for corporate governance reforms, there are still some problems in enforcement and some firms' nonadherence to the set corporate governance practices. Paying close attention to enforcement, compliance, and awareness of corporate governance to enhance performance is critical for long-term financial success and risk management in Saudi Arabia's industry.

Chapter 3: Research Methodology

Introduction

This chapter focuses on the research methodology to establish the connection between corporate governance mechanisms and risk management within the industrial sector in Saudi Arabia. This study uses a descriptive and analytical method based on secondary research. It pulls data from 25 sources, such as academic papers, reports, and case studies. It will look at financial statements, reports on governance structures, and legal documents to see how corporate governance mechanisms affect the organization's risk management and ability to stay in business.

It assists in organizing and categorizing the data to present patterns of risk factors that may prove crucial in the management of industrial firms.

Research Design

This study employs analytical and descriptive methods and relies on secondary data to investigate governance structures and their ability to address risks. This paper applies a descriptive research approach to analyze how firms within the KSA industrial sector manage their corporate governance and what they will gain through taking counterpart risks. A descriptive design examines the governance policies declared, information disclosed, and compliance frameworks. On the other hand, an analytical design makes it easier to see how the governance structure affects how people respond to financial risk. We explore the governance models from at least three industrial firms to identify their success and challenges, making the study comparative.

Population of the Study

The study's target population consists of industrial firms located in Saudi Arabia, focusing on the firms that have their shares listed on the Saudi Stock Exchange, also known as Tadawul. These are orthodox listed firms governed by the corporate governance rules prescribed by the Saudi Capital Market Authority (CMA). Therefore, they provide a perfect ground for assessing the impact of governance policies on managing risk. The research also employs data from financial institutions, government departments, and independent regulatory authorities, which sheds light on corporate risk management, economic resilience, and adherence to global governance guidelines. The study focuses on industrial firms to determine how different types of governance affect risk management in fields more likely to face operational, financial, and regulatory risks.

Sample Characteristics

The sample for this study involves twenty secondary data sources, which provide rich information on corporate governance and risk management in Saudi Arabia's industrial sector. These include annual reports of firms, reports on corporate governance issued by regulatory agencies, case studies on corporate governance, scholarly papers, and white papers. To do this, the research adopts corporate disclosures, regulatory policies, and independent studies to examine the state of governance's effectiveness thoroughly. We carefully review risk management, regulatory requirements and compliance, and governance frameworks using this wide range of data.

Sample Size Determination

The 25 secondary data sources chosen were chosen based on how relevant, reliable, and easy to access they were for gathering much information about corporate governance and risk management in Saudi Arabia's industrial sector. These sources were selected based on their emphasis on key elements such as governance structures, financial performance, and legal compliance. This approach narrowed the focus to official/sanctioning regulatory reports, scholarly/academic articles, and credible corporate documents as data sources. Examining government and educational views of regulation and risk management has made for a well-rounded sample for understanding the effectiveness of governing bodies in various industries.

Data Collection Procedures

This study shall focus on collecting secondary data through corporate and regulatory documents, research papers, and case studies. The study gathered information from annual reports, secondary databases, and institutional documents to understand governance, risk, and compliance comprehensively. Public sources include annual and post-annual reports of companies, regulatory filings at the Saudi Capital Market Authority (CMA), benchmarking data and reports on the

effectiveness of governance mechanisms, and academic articles. The literature review will be conducted in online databases, including JSTOR, Google Scholar, Scopus, and Saudi Arabia regulatory databases, to ensure that only scholarly, relevant, and impactful studies are used. The study used thematic coding to evaluate governance effectiveness, risk management, and compliance.

Study Determinants

This research examines corporate governance in Saudi Arabian industrial firms governed by the Saudi Capital Market Authority, or CMA. Saudi Arabia has implemented various reforms through its Vision 2030 corporate governance and risk management project, making it relevant for this study. The scope looks at the independence of the board of directors, audit committees, executive remuneration policies, governance disclosure, and risk reporting as influencing investors' confidence and risk management. This study aims to look at the post-Vision 2030 governance drivers for 2019–2025 and see how well they work to make Saudi Arabia's industrial firms more stable and compliant.

Method of Analysis

The content analysis is based on secondary corporate governance and risk management data. It also includes benchmarking, whereby the various firms compare their innovations to establish the best practices. It also facilitates thematic coding, where data is grouped according to higher governance themes like boards, risks, and compliance. Trend analysis also examines policy reforms in governance and their efficiency in financial risk management. Thereafter, using statistical data, research papers, and case studies of industries in Saudi Arabia, the research translates quantitative data to analyze the role of governance in the country.

Chapter 4: Practical Study

Data Analysis

In this case, the section relies on annual reports and accounts, regulatory filings, case studies, and articles to determine the level of corporate governance, risk disclosure, and regulation in Saudi Arabia's industrial sector. The survey also observed that 60 percent of Saudi industrial companies follow CMA regulation requirements but in a limited magnitude. However, 40% of such firms had governance problems, such as no independent boards, weakly performing audit committees, or weak risk disclosures (Almutairi et al., 2021). Gaps are why financial risk remains high, investor sentiment is low, and enforcement sanctions are severe for non-adherence.

Literature indicates that only 70% of Saudi companies disclose risk information accurately and transparently. In comparison, the remaining 30% do not produce tangible risk disclosure reports, resulting in high capital costs and unpredictability of financial information (Alsulami & Chafai, 2024). It also points out the disparity between publicly listed companies and family-owned businesses with lower compliance levels. At the same time, the former are more compliant despite facing similar legal issues (Murayr, 2023). They also establish that firms with independent boards and strong audit committees experience 20% lower fluctuation in the financial value and high investor confidence (Farhangdoust et al., 2020). However, it has emerged that 25% of industrial companies are still not in accord with the structures for reporting their corporate governance, which results in legal sanctions and reputational loss (Bazhair, 2021). However, Saudi firms need better governance structures and even higher levels of compliance than the 85% usually observed in developed markets.

Research Findings

There is evidence in the analysis to support all four proposed hypotheses (H1, H2, H3, and H4). The Saudi Arabian industrial sector is exceptionally safe thanks to considerable improvements in corporate governance, risk management disclosure, and rules enforcement. These helps keep the country's finances in excellent shape and its risk management procedures strong.

In hypothesis 1 (H1), there is a strong link between corporate governance and risk management performance. Companies with excellent corporate governance have lower financial risk and better compliance levels. The findings suggest that sound governance systems reduce financial risk by 15-35% compared to poor governance systems (Almutairi et al., 2025). According to the overall compliance of Saudi Arabia, CMA has recorded 60% of industrial firms fully implementing its governance regulation. This can assist them to perform better financially, mitigate operational risks, and enhance market standing. However, 40% still had relatively poor corporate governance practices, leading to high regulatory fines and investor confidence. However, this must be accompanied by enhancing the corporate governance framework to increase financial stability within the industry and mitigate the risks associated with this sector.

Hypothesis 2 (H2): Independent boards and structured audit committees mitigate fraud risk and enhance the reliability of financial reporting and compliance with the regulations. One study reveals that firms that adopt at least 50% independent board directors are 25% less likely to engage in earnings manipulation and, in the process, will have a 20% improvement in investor confidence, according to Farhangdoust et al. (2020). Saudi Arabia research shows that companies with audit committees have 30% less fraud and improved financial reporting. However, 25% of firms have no independent audit committees, implying a higher financial risk and regulatory scrutiny for the

25%. Economic sustainability and risk management require board independence and audit oversight.

In hypothesis 3 (H3), transparency and firm risk disclosure positively impact financial performance and investor confidence. Cross-sectional studies show that companies that disclose their governance information enjoy a stock premium of 18 percent and are 22 percent more likely to attract foreign investment (Alsulami & Chafai, 2024). This has led to higher capital costs and higher levels of financial risk across industrial firms, as demonstrated below: In Saudi Arabia, thirty percent of industrial firms do not give clear risk disclosure reports. Companies that adopt governance transparency enjoy lower borrowing costs, increased market presence, and enhanced corporate image. The state-federal relationship's involvement will also be critical to risk reporting and the willingness to embrace transparency standards globally to strengthen financial systems and investor confidence.

In hypothesis 4 (H4), regulatory enforcement is crucial to governance compliance and financial risk mitigation. Primary evidence reveals that nations with higher regulatory compliance have 28% fewer reports of corporate governance violations and 35% better investor protection (Bazhair, 2021). While KSA firms have a CMA governance compliance rate of 60 percent, 25 percent do not meet mandatory reporting requirements, incurring more penalties and reputational loss (Magnis et al., 2024). Higher fines for noncompliance and increased regulatory scrutiny are crucial for achieving higher compliance and reducing risks associated with the existing loopholes. Adopting compliance measurement and risk management using analytics and big data will also extend governance improvements and financial security in Saudi Arabia.

Research Recommendations

The study makes numerous recommendations. First, there must be more independence on the board and in audit committees. This is important because, as Rehman et al. (2022) pointed out, companies with independent directors and well-functioning audit committees have 30% lower fraud rates. The government should ensure that rigid rules make it mandatory for all industrial companies to have independent audit committees. Regulatory enforcement needs to be increased; the Saudi CMA has recently implemented penalties for noncompliance and compliance scorecards to encourage compliance. All industrial firms must implement CIPS 5 because weak disclosure increases capital costs and decreases investor confidence (Alsulami & Chafai, 2024). Family businesses, accounting for 60% of companies in the sector, should be involved in appointing independent directors and implementing proper risk management frameworks. Automated compliance monitoring and blockchain-based governance reporting solutions can increase transparency and minimize fraud and financial misreporting.

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