

The impact of corporate governance on investment confidence

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1. Chapter 1: Introduction

1.1. Introduction

Corporate governance refers to the framework of rules, practices, and institutional mechanisms through which corporations are directed and controlled, with the objective of ensuring accountability, transparency, and the protection of shareholders' and stakeholders' interests. In emerging markets, particularly in the context of Saudi Arabia, effective corporate governance plays a critical role in strengthening investor confidence, mitigating information asymmetry, and reducing agency-related risks. Consequently, examining the relationship between governance practices and investor confidence is essential, as sound governance structures contribute to lowering the cost of capital and enhancing the attractiveness of both domestic and foreign investment.

1.2. The search problem

Corporate governance has emerged as a central theme in contemporary economic and financial literature due to its fundamental role in regulating the relationships between corporations and their stakeholders. It serves as a key mechanism for promoting transparency, disclosure, and accountability, thereby contributing to the protection of investors' rights and the achievement of financial stability. In recent years, the Kingdom of Saudi Arabia and the Gulf Cooperation Council (GCC) countries have placed increasing emphasis on the implementation of corporate governance practices, particularly considering ongoing economic reform programs and comprehensive development strategies. Foremost among these initiatives is Saudi Vision 2030, which aims to enhance the investment climate and attract both domestic and foreign capital.

Despite the notable progress achieved in developing regulatory and legislative frameworks related to corporate governance in Saudi Arabia and the GCC countries—such as the issuance of corporate governance regulations by capital market authorities—investment confidence continues to be influenced by several challenges. These challenges include variations in the level of actual compliance with governance principles across institutions, weaknesses in certain disclosure and transparency practices, and, in some cases, limited independence of boards of directors or insufficient effectiveness of audit committees.

Accordingly, the core problem addressed in this study lies in the ambiguity surrounding the actual impact of corporate governance implementation on the level of investment confidence within the Saudi and Gulf business environment. Questions remain regarding the extent to which current governance practices can reassure investors, reduce investment-related risks, and enhance the sustainability of investments. Moreover, there is a need to empirically assess the relationship between key governance mechanisms such as transparency, disclosure, accountability, and the protection of investors' rights and investors' decision-making behavior and investment trends in local markets.

Therefore, this study seeks to bridge this gap by analyzing the impact of corporate governance on investment confidence. The findings are expected to provide valuable empirical insights that may support policymakers and regulators in refining governance frameworks and strengthening the attractiveness of the investment environment in the Kingdom of Saudi Arabia and the GCC countries.

1.3 Research Problem

1.3.1. At the theoretical level:

- ❖ Contribute to enriching the Arabic scientific literature about governance and investment confidence.
- ❖ Clarifying the relationship between governance mechanisms and the level of investor confidence in the Saudi and Gulf business environment.
- ❖ Provide a theoretical framework on which relevant future studies can be built.

1.3.2. At the applied level:

- ❖ Assisting corporate decision makers and regulators to improve governance practices.
- ❖ Support efforts to enhance the attractiveness of the investment environment in the kingdom of Saudi Arabia.
- ❖ Providing practical recommendations that contribute to raising the level of confidence of local and foreign investors.

1.4 List of References

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