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**Effect of Corporate Governance on Increasing Foreign Direct
Investment
in Saudi Arabia**

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Abstract

This research paper provides a deep understanding of the impact of corporate governance in increasing foreign direct investment in the Kingdom of Saudi Arabia. This is by investigating how various aspects of corporate governance such as ownership structure, accountability, transparency as well as board composition affect the decisions of foreign investors. In addition, the study examines the relationship between these factors to increase investor confidence to invest in the Saudi market. Moreover, the role of Saudi Vision 2030 to increase economic diversification will be discussed in advance to reach the relationship between corporate governance and foreign direct investments. The research will include a lot of questions and hypotheses to cover the topic from different perspectives adequately as shown below to reach how corporate governance practices can improve the foreign direct investment in Saudi Arabia.

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Introduction

The era of globalization determines utilizing opportunities to enhance the economy well, so foreign direct investment is shown to be an effective tool for economic growth. The Kingdom of Saudi Arabia in advance seeks towards utilizing foreign direct investment to diversify the Saudi economy and increase the development opportunities. However, convincing foreign investors to invest in a new market needs to create a good environment full of trust and confidence which is suitably made by corporate governance. This is by finding that effective corporate governance can enhance a transparent, responsible and accountable framework for businesses and reduce risks. Furthermore, the Saudi Vision 2030 seeks social reforms to increase foreign direct investment. The following lines will provide deep insights into the effect of corporate governance on increasing foreign direct investment in Saudi Arabia.

Foreign direct investment (FDI) is a crucial driver to increase the economic growth to job creation, technology transfer and diversification of the productive base. The global economy including the Saudi economy becomes aware of the great importance of foreign direct investment in the context of globalization. The study examines the impact of corporate governance on increasing foreign direct investment (FDI) in the Kingdom of Saudi Arabia. It aims to answer a main fundamental question concerning the role of corporate governance in attracting FDI to the Kingdom. The significance of conducting this study is to contribute to understand the relationship between corporate governance and FDI in the context of Saudi Arabian context which has an effective impact in the

undergoing significant transformations under the vision 2030. The study will in advance support the policymakers and stakeholders by providing some suitable recommendations to promote foreign direct investment (FDI).

The study is based on some theories that link corporate governance to FDI such as agency theory and transaction cost theory. The aim of utilizing these theories in particular manner as they can suggest the effective corporate governance framework to attract investment environment by reducing investment risks and increase trust in local companies. There are several studies have discussed the same topic. Previous studies have shown a positive relationship between corporate governance and FDI attraction in different countries. However, the findings of these studies may vary depending on the specific economic and institutional context. However, the current study aims to contribute to the existing knowledge by focusing on the case of the Kingdom of Saudi Arabia. This is by measuring the level of corporate governance among publicity listed in the Saudi market. These supports identifying the relationship between corporate governance indicators and the level of FDI in Saudi Arabian companies. The study also aims to identify factors that influence foreign direct investment and corporate governance as well as providing some recommendations for improving the corporate governance.

The study adopts a quantitative approach to gather detailed information with statistical information. This is by collecting data from various sources such as financial databases and survey results. The data will be analyzed adequately and fairly using some statistical methods. The study consists of several chapters. The first chapter will provide a general introduction to the study. The subsequent chapters will delve into the theoretical

framework, literature review, methodology, results, discussion and recommendation as well as conclusion to summarize the collected data in brief. There will be coherence to answer the question of the research adequately.

The problem of the study

Despite having a great alignment between the Saudi Vision 2030 and foreign investment, the Kingdom faces some challenges regarding attracting suitable foreign direct investment. That leads the research paper to tackle the following problem to identify the appropriate requirements for creating an attractive environment for foreign investment:

- To what extent do corrupt corporate governance practices in the Kingdom of Saudi Arabia hinder or enhance foreign direct investment?

The importance of the study

The study is important for the following reasons:

- 1 – Providing clarification to increase the foreign direct investment
- 2 – Strengthening the corporate governance practices to enhance the investor confidence
- 3 – Being an effective tool for supporting Vision 2030 by aligning the corporate governance practices with foreign investors' needs to witness an economic transformation

The research objectives

This research paper aims to measure the effect of corporate governance on increasing foreign direct investment in the Kingdom of Saudi Arabia through tackling the following points:

- 1 – investigate the effect of ownership management n foreign direct investment in the Kingdom of Saudi Arabia
- 2 – Measure the effect of board composition on FDI decisions
- 3 – identify the role of executive compensation structures in increasing foreign direct investment to align the interests between management and shareholders
- 4 – Provide deep understanding of the relationship between the corporate governance and foreign direct investment in Saudi Arabia
- 5 – Recommend adequate practices that can enhance corporate governance in Saudi Arabia to attract foreign investors
- 6 – Participate in increasing the success of Vision 2030 by highlighting the strong impact between corporate governance to increase the foreign direct investment to achieve the vision.

The research questions

1 – Does the suitable ownership structure increase the foreign direct investment in Saudi Arabia?

2 – How does the independence of board members impact the perception of accountability by foreign investors?

3 - How do long term plans affect the level of confidence by foreign investors?

4 – To what extent does the strong corporate governance impact the foreign investors?

5 – What are the recommendations for improving the corporate governance to increase foreign investors?

6 – How does the foreign direct investment align with the Saudi Vision 2030?

Hypotheses of the study

H 1: The strong ownership structure plays a vital role in increasing the foreign direct investment in Saudi Arabia

H 2: The independence of board members is aligned with increasing foreign direct investment

H 3: Having long term plans is associated with increasing the level of confidence of foreign investors

H 4: The strong corporate governance including having encompassing ownership structure, board composition and executive compensation can attract foreign direct investment in Saudi Arabia

H 5: Addressing weaknesses and improving the corporate governance framework in Saudi Arabia paves the way to flourish the foreign investment in the Kingdom of Saudi Arabia adequately.

H 6: There is a great relationship between increasing foreign direct investment and achieving the Saudi Vision 2030.

Theoretical framework

The study will conduct an effective theoretical framework based on the following theories. The first theory is the agency theory which differs between ownership and control in corporations. It determines the great effective impact of successful corporate governance mechanisms to be aligned with the shareholders to mitigate agency problems¹. The second theory is stakeholder theory which suggests corporate governance as a main way for balancing between the interests of stakeholders including shareholders, employees, suppliers, customers and community. This in advance recommends reaching an effective

¹ Kopp, C. M. (2024, September 30). *What is agency theory?* Investopedia. <https://www.investopedia.com/terms/a/agencytheory.asp>

ethical and more sustainable environment². The third theory is the institutional theory which emphasizes the role of institutions in shaping corporate behavior. These theories are utilized to identify the effective corporate governance well until increasing the foreign direct investments as well as increasing the confidence of investors³. This in advance draws suitable and comprehensive understanding of the factors that affect corporate governance and foreign direct investment in the Kingdom of Saudi Arabia adequately.

The Kingdom of Saudi Arabia exerts great efforts to increase the economic growth in the recent years which is mainly driven by foreign direct investment. To attract the foreign investors, businesses exert great efforts to foster a conducive business environment such as making use of strong corporate governance practices. The study aims to provide descriptive analysis of the current state of corporate governance in the Kingdom of Saudi Arabia and its relationship with foreign direct investment inflows. The following lines will include detailed information about the topic by gathering various data from the previous studies to understand how corporate governance affect the foreign direct investment. The Saudi vision will be examined as well in order to clarify the relationship between it and attracting the foreign direct investment. The previous studies has been chosen carefully to promote the economic growth and development as they help in concerting a general understanding of the topic from different perspectives.

² McAbee, J. (2022, June 1). *Understanding stakeholder theory*. Blog Wrike. <https://www.wrike.com/blog/understanding-stakeholder-theory/>

³ Aksom, H., & Tymchenko, I. (2020). How institutional theories explain and fail to explain organizations. *Journal of Organizational Change Management*, 33(7), 1223–1252. <https://doi.org/10.1108/jocm-05-2019-0130>

Literature review

1 - The impact of the suitable of ownership structure on increasing feign direct investment (FDI)

A suitable ownership structure can support increasing foreign direct investment. First, it plays a vital role in reducing risks by controlling the businesses and offering a suitable framework for full control over decision-making. In addition, the effective structure of ownership helps increase transparency and accountability by building trust and encouraging foreign investors to enter the market. In addition, it can increase flexibility by matching expertise to attract foreign investors with specific needs. Transferring knowledge with collaboration can lead to knowledge transfer by sharing the best practices and managing skills with local partners to enhance the overall business environment⁴.

That leads the Kingdom of Saudi Arabia to create suitable ownership structures by working hard to align the ownership structures with international standards to make Saudi companies be aligned with international standards to be more attractive to foreign investors seeking global partnerships and market access. The Kingdom also sets long-term plans to allow foreign ownership in the Kingdom of Saudi Arabia like technology and manufacturing until achieving Saudi Vision 2030. Moreover, the Saudi government exerts great efforts for reforming the foreign investment regulations to facilitate foreign

⁴ Hadi Salehi Esfahani, Elizabeth Asiedum (2001), Ownership Structure In Foreign Direct Investment Projects, Review of Economics and Statistics 83(4):647-662, DOI:10.2139/ssrn.152570

ownership⁵. To sum up, the suitable ownership structure provides adequate control, transparency and flexibility to attract foreign direct investment in Saudi Arabia.

2 – The impact of the independence of board members in increasing foreign direct investment

The independence of board members plays a vital role in attracting foreign investors' perception of the accountability of the company for many reasons. First, it can reduce conflicts of interest by having an adequate framework for making objective decisions. This is by increasing the long-term health of the company as well as the value of the shareholders which in advance paves the way to foster trust with foreign investors⁶. In addition, it can enhance security and oversight. That is by giving a great power to increase a more transparent and accountable framework for foreign investors by following suitable ethical conduct. Moreover, the strong corporate governance practices including having an effective independent framework of board members can increase the global standard alignment which makes them more attractive to foreign investors⁷.

The Kingdom of Saudi Arabia works hard to utilize this opportunity by setting and implementing regulations that aim to strengthen board independence. This in advance leads the Capital Market Authority (CMA) to require listing companies with at least two or one-

⁵ Amine Mati, Sidra Rehman, (2023), Saudi Arabia's Economy Grows as it Diversifies, international monetary fund blog, <https://www.imf.org/en/News/Articles/2023/09/28/cf-saudi-arabias-economy-grows-as-it-diversifies>

⁶ Ahmad Hakimi Tajuddin, Shabiha Akter, Rasidah Mohd-Rashid and Waqas Mehmood, (2023), The influence of board size and board independence on triple bottom line reporting, The current issue and full text archive of this journal is available on Emerald, <https://www.emerald.com/insight/1985-9899.htm>

⁷ Bakr Al-Gamrh, Redhwan Al-dhamari, Akanksha Jalan, Asghar Afshar Jahanshahi, (2020), The impact of board independence and foreign ownership on financial and social performance of firms, Journal of Applied Accounting Research 21(2):201-229, DOI:10.1108/JAAR-09-2018-0147

third of independence to signify a move towards a more independent board structure. In other words, the Kingdom of Saudi Arabia steps to promote board independence to increase accountability and properly exercise their oversight role.

3 - Having long term plans is associated with increasing the level of confidence of foreign investors

Long-term plans play a vital role in attracting foreign investors as they reduce risks and demonstrate stability and predictability in a country's economic and political environment. This in advance reduces the risk of sudden changes which paves the way to reach long-term economic growth as well as making investment more attractive. In addition, transparency and trust can create a healthy business environment for increasing success and development. That means long-term plans create an effective future for foreign investment by boosting economic growth and development⁸.

The Kingdom of Saudi Arabia has in advance adopted ambitious programs with long-term plans for improving economic diversification and decreasing the dependence on the oil industry. These programs look to reduce risks to increase financial stability and have a diversified economy for a more effective future. In addition, the Saudi government seeks to reach strong growth potential by finding Saudi Vision 2030 focuses on developing new sectors such as tourism, technology and renewable energy to create new opportunities for foreign investors. Moreover, transparency and trust become a part of the Saudi vision and

⁸ countries participating in the freedom of investment process, (2009), Building Trust and Confidence in International Investment, OECD, <https://www.oecd.org/daf/inv/investment-policy/42446942.pdf>

plans to reform the framework and create a welcoming environment for foreign businesses⁹.

4 – The relationship between corporate governance and foreign direct investment

There is a strong and positive relationship between corporate governance and foreign direct investment. This is by finding the strong corporate governance practices make a country be more attractive to foreign investors by increasing the level of transparency and accountability. This is by creating clear disclosure practices and independent oversight assuring that investments are being managed responsibly to reduce fraud and mismanagement well. This in advance paves the way to fulfill any gaps by finding foreign investors become informed with all decisions with all means of transparency¹⁰.

In addition, it increases minority by finding the good governance ensures the rights of investors until making foreign investors become more confident that their interests are considered¹¹. The second importance is concerned with finding corporate governance can reduce investment risks so foreign investors become be more interested in investing in countries that follow corporate governance plans. In other words, effective governance

⁹ Go-Globe staffm (2024), Saudi Arabia Vision 2030 — Goals and Objectives, Go-Globe, <https://www.go-globe.com/saudi-arabia-vision-2030-goals-and-objectives/>

¹⁰ Joshi S, kansil R., (2023), linkage between corporate governance, foreign direct investment and economic growth – empirical evidence from India, https://link.springer.com/chapter/10.1007/978-981-99-3401-0_4

¹¹ Ernest Tslie Agbokah, David Boohene, Emmanuel Marfo, Joseph Asante Darkwah, (2022), Corporate Governance and Foreign Direct Investment in Sub- Saharan Africa, DOI: 10.6084/m9.figshare.22647655

structures reduce the risk of managers which reduces harm investor returns. Companies with good governance are able to access capital at lower costs as investors perceive them as less risky. The third impact is concerned with having overall improved investment climate by making the institutions become stronger with a well-established framework. This leads to improve the long-term performance with sustainable returns on their interests and enhance reputation to open new doors to new markets and partnerships¹².

To sum up, the good corporate governance practices can create a more effective and attractive environment for foreign investors by increasing the level of trust, reducing risks and fostering a stable and healthy business climate which paves the way to make investment opportunities become more profitable.

That leads the Kingdom of Saudi Arabia and its companies to adopt corporate governance practices to enhance the foreign direct investment. The corporate governance in Saudi Arabia has a great focus by applying transparency, accountability and protecting shareholder rights. The companies' law has run all the businesses operating in Saudi Arabia adequately. The Capital Market Authority (CMA) regulations include mandatory for companies listed on the Saudi stock exchange (Tadawul). The Ministry of Commerce (MOC) also seeks towards giving voluntary guidelines for non-listed companies along with providing a framework for good practices.

¹² K. Batu Tunay, Serhat Yüke, (2017), The relationship between corporate governance and foreign ownership of the banks in developing countries, Vol. 62. Núm. 5. Páginas 1627-1642, DOI: 10.1016/j.cya.2017.05.007

The Saudi environment also encourages applying the corporate governance as the Islamic principles are aligned with it. Shariah principles of fairness, accountability and transparency also fit the corporate governance principles. Board structure and disclosure requirements are completely aligned with the financial transparency. That leads the current trends be directed towards increasing the security by making investors have more transparency and accountability. Regulators are placing a greater emphasis on enforcing corporate governance. That leads the business in the Kingdom of Saudi Arabia meets the international standards until making the country be attractive for the foreign investors¹³.

5 – Ways to improve the corporate governance principles

There are different ways can pave the way to flourish foreign direct investment by improving the corporate governance framework. First, it is important to strengthen the regulatory framework by increasing standardization, enforcement mechanisms and independence of directors. Standardization means unifying the regulations for listed and non-listed companies under the CMA to create a clearer and more consistent framework. The improvement of regulations must focus on minority shareholder rights to focus on combatting *wasta* which has a long cultural history in the Kingdom of Saudi Arabia. Enforcement mechanisms develop stronger enforcement mechanisms to increase companies' efficiency with more independent oversight perspectives by following suitable

¹³ Hend Alregab, (2021), The role of corporate governance in attracting foreign investment: An empirical investigation of Saudi-listed firms in light of vision 2030, <https://doi.org/10.1002/ijfe.2420>

regulations and effective penalties¹⁴. The independence of directors can be also effective in reducing conflicts and promoting objective decision-making¹⁵.

In addition, there should be more transparency and disclosure framework by providing detailed reporting, increasing auditing standards and implementing whistleblower protection. Utilizing the independent media to provide greater corporate practices and improve the data accessibility to increase investor education before making investment decisions. That is by making companies provide suitable financial reporting including information on environmental, social and governance practices. The standards should be strengthened to ensure the accuracy and reliability of financial statements along with implementing whistleblower protection mechanisms to encourage employees to report any illegal activities or unethical practices without fear which increases the level of transparency in advance¹⁶.

Moreover, promoting the culture of accountability has to be aligned with shareholder activism by supporting the development of it for enhancing its governance practices with executive compensation to have long-term performance metrics rather than short-term gains to decrease the risky behavior. Sustainability can be enhanced with corporate governance frameworks to increase the level of responsibility for business practices. Promoting a culture of long-term growth provides great is also recommended by

¹⁴ Michael Volkov ,(2013), Five Steps to Improve Corporate Governance, volkov law blog, <https://blog.volkovlaw.com/2013/01/five-steps-to-improve-corporate-governance/>

¹⁵ AI and the LinkedIn community, (2024), What are the most effective ways to improve corporate governance practices?, LinkedIn, <https://www.linkedin.com/advice/0/what-most-effective-ways-improve-corporate>

¹⁶ Kezia Farnham, (2023), 11 effective corporate governance best practices to implement now, dilifent blog, <https://www.diligent.com/resources/blog/best-practices-for-corporate-governance>

focusing on ESG which means integration between environmental, social and governance until witnessing sustainable long-term growth of businesses. The board evaluation must be more cautious about implementing regular and independent board evaluations to identify areas for improvement and access effectiveness. This determines providing succession planning across companies to ensure smooth leadership transitions¹⁷.

Furthermore, it is important to raise public awareness about the importance of corporate governance for reaching a healthy business environment and improve investor confidence. This can be more effective in case of utilizing technology to improve the level of data transparency and enhance communication with stakeholders. Continuous improvement should be utilized by focusing on reviewing and updating governance structures and practices along with fostering collaboration between the public and private sectors to implement the best practices. Benchmarking is also attractive by encouraging companies to utilize governance practices. Applying these recommendations can play a vital role in creating a robust and internationally recognized corporate governance framework that fosters long-term economic growth that attracts foreign direct investment with trust and transparency by increasing the level of confidence among foreign investors¹⁸.

¹⁷ Mark Twain, (2021), Ten Steps to Improving Your Corporate Governance, ibabs, <https://www.ibabs.com/en/board-meetings/ten-steps-to-improving-your-corporate-governance/>

¹⁸ Ralph Hohls, (2023), Five Ways to Improve Corporate Governance, LinkedIn, <https://www.linkedin.com/pulse/five-ways-improve-corporate-governance-board-portal-specialist>

6 – Relationship between foreign direct investment and Saudi

Vision 2030

There is a strong and mutually beneficial relationship between foreign direct investment and Saudi Vision 2030. The Saudi Vision 2030 includes various goals including economic diversification to reduce dependence on oil and develop new industries by bringing expertise technology and new industries for achieving diversification. Another goal is related to increasing private sector contribution with a bigger role for the private sector in the economy such as encouraging foreign direct investment¹⁹.

This is by finding it fosters competition innovation and job creation which strengthens the private sector. The third aim is related to improving the welfare and efficiency of people's lives by increasing knowledge transfer until they are ready to develop their own technological capabilities and workforce skills²⁰. That makes increasing the foreign direct investment play a vital role in achieving the Saudi Vision 2030 well. First, the Saudi Vision 2030 aims to raise the contribution of foreign direct investment to GDP from 3.8% to reach the global average of 5.7% to support achieving this goal. In addition, the national investment strategy is a key component of Saudi Vision 2030 to attract foreign direct investment by offering regular incentives and improving the investment environment²¹.

¹⁹ Mohammed Alharbi, (2023), foreign investment attracted by Saudi Arabia, SSRN, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4357486

²⁰ Chloe Domat, (2024), Saudi Arabia Opens Its Doors, global finance, <https://gfmag.com/economics-policy-regulation/saudi-arabia-opens-its-doors/>

²¹ Majed Alharthi, (2022), Factors of foreign direct investment inwards: The case of Saudi Arabia, ideas blog, <https://ideas.repec.org/p/sek/iefpro/13015491.html>

This prioritizes shedding light on different factors such as tourism, manufacturing and renewable energy which makes foreign direct investment crucial for attracting investment. This in advance makes foreign direct investment become a more open and investor-friendly environment to attract foreign companies. In addition, it increases the level of level of transparency and accountability to attract foreign companies that reduce risks for foreign investors²².

The megaprojects can be supported as well by providing a large-scale infrastructure project to present significant investment opportunities to attract foreign direct investment. The Saudi Arabia faces competition for reaching regular improvement to attract foreign direct investment. That means foreign direct investment becomes a critical driver for achieving the goals of Saudi Vision 2030. This in advance is a more attractive investment environment and focuses on the key factors that the Kingdom of Saudi Arabia seeks towards attracting more foreign investment, leading to economic diversification, job creation and long-term growth. That needs a skilled workforce to attract and benefit from foreign direct investment leading to economic diversification, job creation and long-term growth.

²² Abdel-Mahmoud Abdel-Rahman , (2002), The Determinants of Foreign Direct Investment in The Kingdom of Saudi Arabia,
https://www.researchgate.net/publication/46453283_The_Determinants_of_Foreign_Direct_Investment_in_The_Kingdom_of_Saudi_Arabia

7- The impact of corporate governance on foreign direct investment

Corporate governance is considered the system of rules and practices that guide a company's operations in a proper manner. It plays a role in attracting foreign direct investment (FDI) by creating an effective environment to enhance the attraction well. This is by finding the investors always seek to find stable, transparent, and accountable environments where their investments are protected which can be achieved by the corporate governance framework. Strong corporate governance practices provides a hint to potential investors that a country or region is a reliable and attractive destination for their capital so they like to invest there.

Effective corporate governance determines and ethical framework by which the businesses and companies adhere to ethical standards by complying with regulations. The proper application can also play a vital role in prioritizing the interests of shareholders. This fosters investor confidence and reduces the perceived risks associated with investing in a particular market as the corporate governance can draw suitable feedback concerning the recent and previous events. In addition, good corporate governance practices can enhance a company's financial performance and economic growth which in advance paves the way to make it more attractive to investors. By demonstrating transparency, accountability, and responsible stewardship, companies can signal to foreign investors that their investments will be managed effectively and ethically within an adequate framework. This in advance can support reaching amazing results of the foreign direct investment

attraction by building matchless effective trust by following the procedures and regulations of the system in a proper manner²³.

The countries with robust legal and regulatory frameworks, independent boards of directors, and transparent disclosure practices are always shown as an attractive pillar to attract more FDI. That is by finding these factors contribute to a favorable investment climate. In addition, they can reduce the perceived risks associated with investing in a foreign market. Moreover, strong corporate governance can enhance a firm's competitive advantage by improving its efficiency. They can reduce costs, and foster innovation. This can make it more attractive to foreign investors seeking profitable investment opportunities which in advance supports the efforts of the countries and businesses to reach much developments²⁴.

On the other hand, the relationship between corporate governance and foreign direct investment FDI is not always straightforward. The impact of corporate governance can vary across different countries and industries. In some cases, the specific corporate governance mechanisms that are most effective in attracting FDI may differ as the impact differs according to the surrendering circumstances and needs of the markets. In other words, there are various factors, such as economic conditions, political stability, and cultural differences affect the attraction of the foreign direct investments. That is by finding several factors can influence FDI decisions not only adopting the corporate governance

²³ Meghan Day, (2024), What is good corporate governance? 9 characteristics (with examples). <https://www.diligent.com/resources/blog/what-constitutes-good-governance>

²⁴ Hayes, A. (2024a, June 6). *Foreign Direct Investment (FDI): What it is, types, and examples*. Investopedia. <https://www.investopedia.com/terms/f/fdi.asp>

practices. Therefore, while strong corporate governance is generally considered a key driver of FDI, it is important to put into consideration the broader context and specific circumstances of each country and industry and try to improve along with adopting corporate governance measures. This can lead to have more adequate framework to increase the foreign direct investments in a proper manner.

Key concepts and definitions

Corporate governance: it is the system of regulations, practices and processes to direct and control a company. It aims to ensure that it is accountable to shareholders.

Foreign direct investment (FDI): it is an investment made by a resident of one country in the economic activity of another country. FDI involves control over foreign entity with long-term interest

Relevant theories

Agency theory: this theory posits that there is a separation between ownership and control in corporations. The theory suggests that the owners have the authority to make decisions to managers who have conflicting interests. The effective corporate governance mechanisms are necessary to align with the interests of managers to mitigate agency problems.

Stakeholder theory: the theory suggests the organizations have a responsibility to put into consideration the interests of stakeholders. These stakeholders include employees, customers, shareholders, suppliers and the community. The good corporate governance can help to balance between these interests to create a more sustainable and ethical business environment

Institutional theory: this theory sheds the light on the great role played by institutions like industry associations, regulatory bodies as well as the governments. The institutional pressures can affect the firms to adopt effective practices with effective corporate governance standards in order to gain legitimacy.

Variables

1 – Independent variables: There are two main independent variables which are corporate governance mechanisms and institutional factors. The corporate governance mechanisms include board independence, CEO duality and ownership concentration. In addition, the legal and regulatory framework and the measures of investor protection also play a vital independent variable concerning the institutional factors.

2 – The independent variable: the foreign direct investment inflows are the dependent one.

Hypothesis:

it is expected that there is strong governance practices are positively associated with higher level of foreign direct investment in Saudi Arabia to support achieving the Saudi vision 2030.

Previous studies:

Previous studies have discussed the same topic generally by finding a positive relationship between corporate governance and foreign direct investment. It has been found that it is important to strengthen the regulatory framework by increasing standardization. The independence of directors has also been shown as effective in reducing conflicts and promoting objective decision-making. Moreover, findings of the previous studies stress the great need for promoting the culture of accountability has to be aligned with shareholder activism by supporting the development of it for enhancing its governance practices with executive compensation and stress on the vital need for succession planning across companies to ensure smooth leadership transitions.

They used different methodologies for gathering the data. Some of them tackled the topic by shedding the light into the impact of the suitable of ownership structure on increasing foreign direct investment (FDI). The impact of the independence of board members in increasing foreign direct investment have been discussed as well. Moreover, they have explored how having long term plans is associated with increasing the level of confidence of foreign investors. The relationship between corporate governance and foreign direct

investment as well as ways to improve the corporate governance principles. There are some of them have tackled the relationship between foreign direct investment and Saudi Vision 2030 in general without clarifying adequate information concerning the relationship between foreign direct investments, economic diversification and the efforts and supports of the Saudi government concerning the corporate governance practices. On the other hand, there are some studies discuss the impact of corporate governance on foreign direct investment.

The current study

However, this study will delve deeper into understanding the relationship between corporate governance and foreign direct investments in the Kingdom of Saudi Arabia. As there is a need to bridge the knowledge gap by examining the specific factors that drive foreign direct investment inflows. This is by finding most of the previous studies tackled the topic generally or by shedding the light on different countries. That leads to design this study in order to gather the topic from a Saudi Arabian perspective for reaching adequate information that can support the Kingdom economic growth and development.

Research Methodology

This study will include a mixed-methods approach by utilizing both quantitative and qualitative ways for collecting data. This is by collecting data about the topic from different reliable sources. The quantitative data will measure the historical data on FDI in the Kingdom of Saudi Arabia. This is by providing a survey to collect the opinions about this topic. In addition, the qualitative data includes semi-structured interviews regarding the perceived impact of corporate governance on foreign direct investment decisions.

The overall structure of the study is descriptive one as it aims to describe the impact of corporate governance on increasing foreign direct investment in Saudi Arabia. It aims to identify trends and understand the characteristics of it within Saudi Arabian context. The profiling of corporate governance practices is identified by analyzing the changes and practices. Assessing disclosure quality is aimed as well by seeking towards evaluating the quality and transparency of corporate disclosures. It outflows Saudi companies to identify the relationship between corporate governance and foreign direct investment (FDI). Identifying the key challenges and assessing the impact policies. Understanding the current state of corporate governance and foreign direct investment will be achieve in advance. There will be inferential statistics to identify the correlation analysis to analyze the relationship between variables.

Research tools

1 – Databases will include accessing to different historical data on foreign direct investment in the Kingdom of Saudi Arabia from different reliable sources such as World Bank databases, Saudi Arabian Monetary Agency (SAMA) databases and academic journals that have discussed the topic before.

2 – Survey instrument will be used as a main tool for gathering the quantitative for the study. The survey will be designed to address the research objectives. The used scaling is a Likert scale which includes five main choices; strongly disagree, disagree, neutral, agree, strongly agree.

3 – Semi-structured interviews will be utilized for reaching much understanding of the topic for reaching qualitative data.

Survey objectives

1 – It aims to gather information about the perceived impact of corporate governance practices on attracting foreign direct investment in the Kingdom of Saudi Arabia

2 – To identify the main factors that attract foreign direct investment

3 – To assess the challenges and opportunities faced by Saudi companies in implementing effective practices of corporate governance

Survey content

The survey will discuss corporate governance practices such as shareholder rights, internal controls, executive compensation and board composition and independence. The perceived impact of corporate governance on FDI along with identifying factors that affect the foreign direct investment such as economic stability and market potential. The barriers to effective corporate governance implementation will be discussed as well.

Survey administration

Online survey will be distributed using Google forms. It will be sent via email to the target population. After that, there will be some interviews with key stakeholders to gather more in-depth information. Pre-test will be done with a sample of respondents to identify any potential issues to make adequate modifications.

Target population

Saudi population either executives and managers or customers of companies.

Sampling:

Simple random sampling can be used.

Research limitations

The research may be limited by the availability of reliable and comprehensive data on corporate governance in the Kingdom of Saudi Arabia. The interviews might be influenced by the interviewees' positions and perspectives

Study delimitations

Time period: it must focus on a specific time period over the past five years.

Geographical scope: there is limit in the study to the Kingdom of Saudi Arabia

Data availability: the collected data is general and it will be specified in the survey by measuring the topic within Saudi context

Ethical considerations

1 – Informed consent will be obtained before participation by informing all participants in the interview and survey about the purpose of the study, data usage and participant rights.

That indicates providing clear Communication by explaining the purpose of the survey, its potential risks and benefits, and the participant's right to withdraw at any time. It is also important to ensure that participation is entirely voluntary and that there are no negative consequences for declining.

2 – Confidentiality will be ensured for all the responses such as removing names and other identifying details. The participants' responses will be kept confidential and anonymous, unless otherwise specified.

3 – Data collection, analysis and management will be done with all means of objectivity and accuracy.

4 – Providing voluntary participation with improving all levels of comfortability.

5 – Designing the questions that avoid sensitive topics along with insuring objectivity during interview questions.

6 – There will be respect for the participants' rights by ensuring that the survey questions and procedures do not cause physical or psychological harm to participants. In addition, the sensitive topics will be avoided by providing participants with the option to skip questions if they feel uncomfortable.

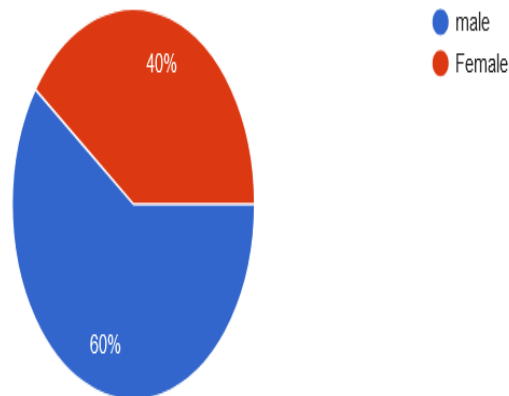
Results and recommendations

This chapter aims to shed the light into the empirical study of the research. The survey was launched online to gather the data that help in answering the research questions and achieve the objectives of the research. This facilitates reaching valuable insight about the topic of the impact of corporate governance on increasing foreign direct investment in the Kingdom of Saudi Arabia. The gathered data is quantitative and qualitative one. This is by finding the survey results clarifies the quantitative statistical results; while finding the interview results can lead to have the qualitative one.

Gender

30 responses

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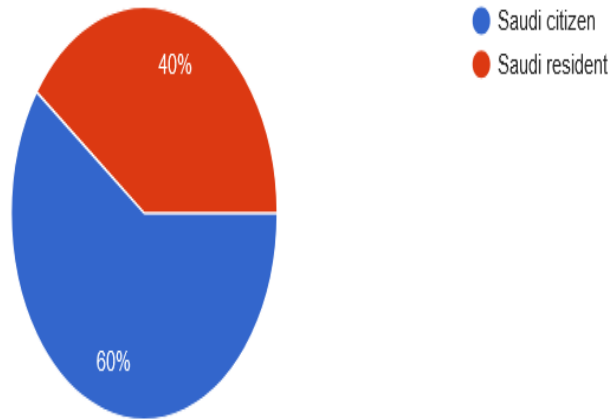
There are 30 participants who participate in the study both males and females. The majority of them are males by 60% and 40% of them are females

Nationality

30 responses

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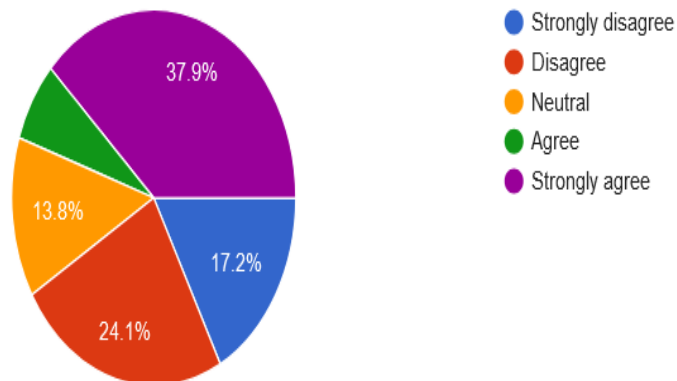


The majority of the participants are Saudi citizens by 60%; while there 40% of them are Saudi residents

Saudi Arabia has made significant strides in improving its corporate governance practices

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29 responses

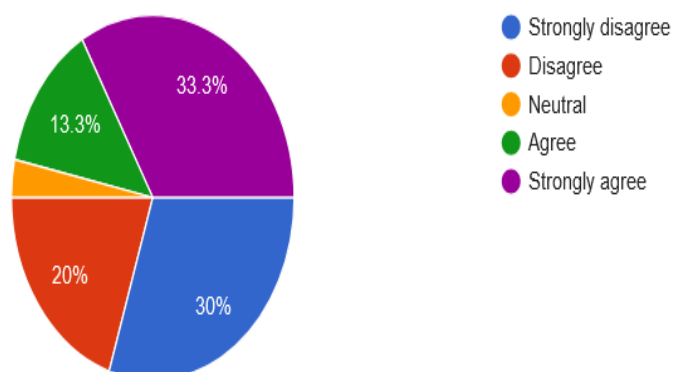


Saudi Arabia has been shown to conduct a significant participation in corporate governance practices. That is by finding 37.9% strongly agree and 13.8% are neutral, while finding the rest of them disagree.

Saudi companies are transparent in their financial reporting

30 responses

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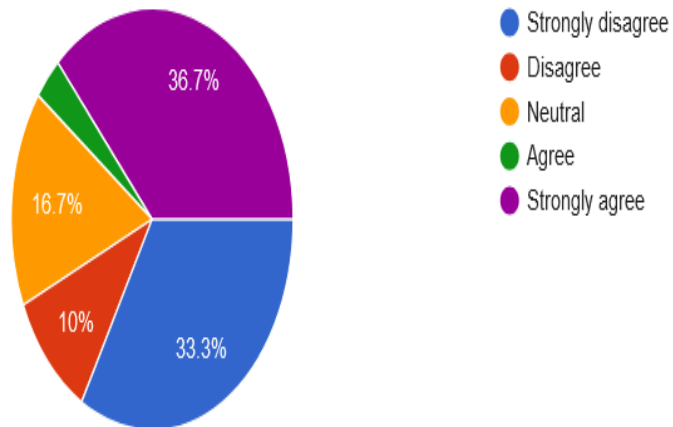


This question has been included as transparency is considered a very effective tool for increasing the foreign direct investments as well as finding it a key pillar of the corporate governance. There are 33.3% of them strongly agree on finding the Saudi companies provide a great transparency concerning their financial reporting. 13.3% of them agree and the rest of them disagree.

Saudi Arabia is an attractive destination for foreign investors

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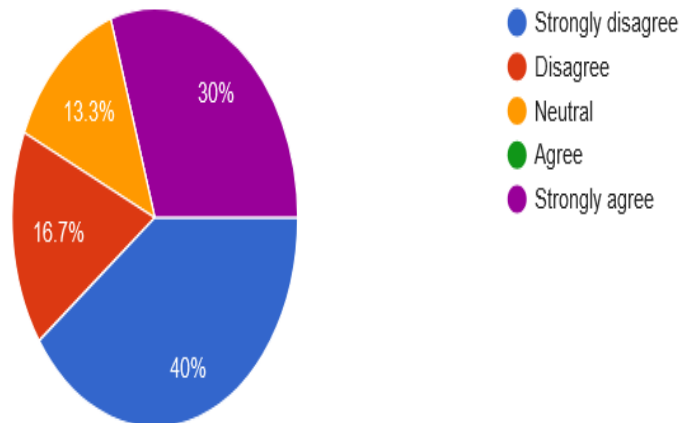


This question is designed to identify their perceptions about how the Kingdom of Saudi Arabia is an attractive destination for foreign investors. 36.7% strongly agree and there is 16.7% are neutral. The rest of them disagree on finding the Kingdom an attractive destination

The Saudi government offers incentives to attract FDI

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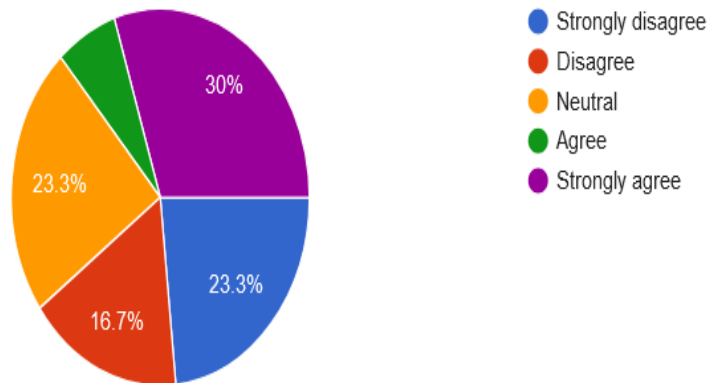


This question sheds the light on identifying whether the Kingdom of Saudi Arabia provides incentives to attract the foreign direct investment or not. Only 30% of them agree and the rest of them either disagree or are neutral. That means the Kingdom of Saudi Arabia needs to improve its strategies for implementing adequate regulations and stepping forward adequate regulations to regulate the foreign direct investment in a proper manner.

Ethical business practices can enhance the trust and confidence of foreign investors in Saudi Arabia.

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30 responses



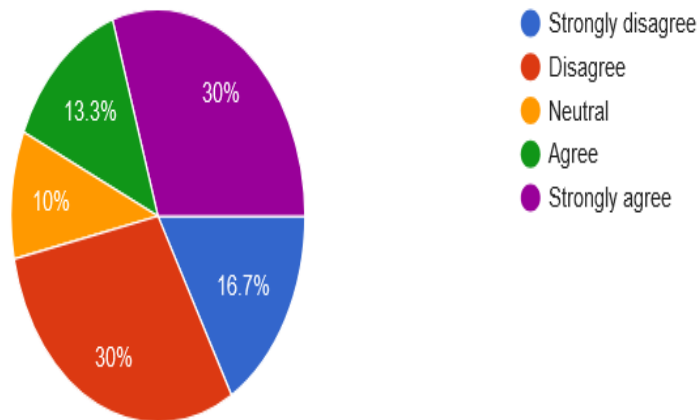
This question aims to identify the level of ethical business practices to enhance the trust and confidence of foreign investors within a Saudi Arabian context. There are 30% of them strongly agree and 23.3% of them are neutral. The rest of them disagree. That determines providing more adequate ethical framework by ensuring transparency and accountability to attract more investments.

Foreign investors are more likely to invest in Saudi companies with strong corporate governance

30 responses

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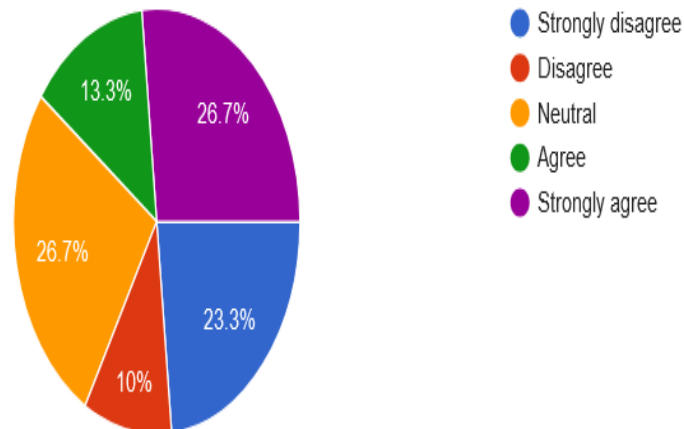


The responses declare the great importance of corporate governance to increase the foreign direct investments. 30% of them strongly agree, 13.3% agree and 1% of them are neutral. This means the corporate governance plays a vital role in increasing the foreign direct investments.

Poor corporate governance can deter FDI in Saudi Arabia.

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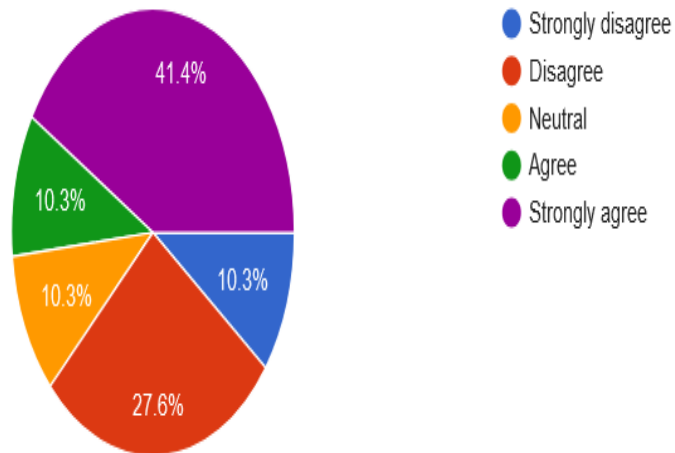


This question is included to measure how poor corporate governance limits the opportunities of foreign direct investments within a Saudi Arabian context. There are 26.7% strongly agree, 13.3% agree and 26.7% are neutral. The rest of them disagree and strongly disagree. They may have some thoughts about the effectiveness of other strategies to attract customers; however, the majority of them agree on finding the poor corporate governance may limit the foreign direct investments.

The Saudi government is responsive to the needs of foreign investors

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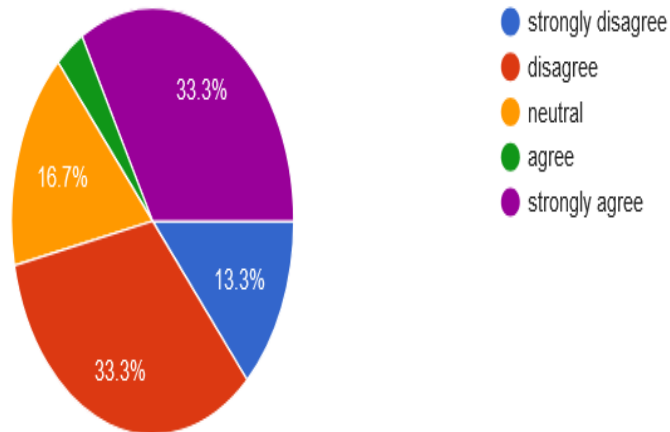


The Saudi government is identified as a key motivator to identify the needs of foreign investors and work on increasing their satisfaction. There are 41.4% strongly agree, 10.3% agree and 10.3% are neutral. The rest of them disagree and strongly disagree’

FDI is aligned with Saudi Arabia's sustainability goals

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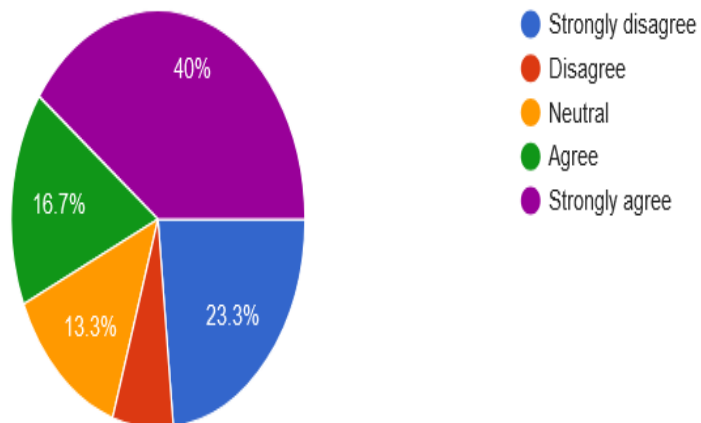


There are a great number of participants agree on the great importance and coherence of the Kingdom of Saudi Arabia's sustainability goals and the need for foreign direct investments by finding them agree, strongly agree or are neutral. There are only 33.3% disagree and 13.3% strongly disagree.

FDI contributes to the economic growth and development of Saudi Arabia

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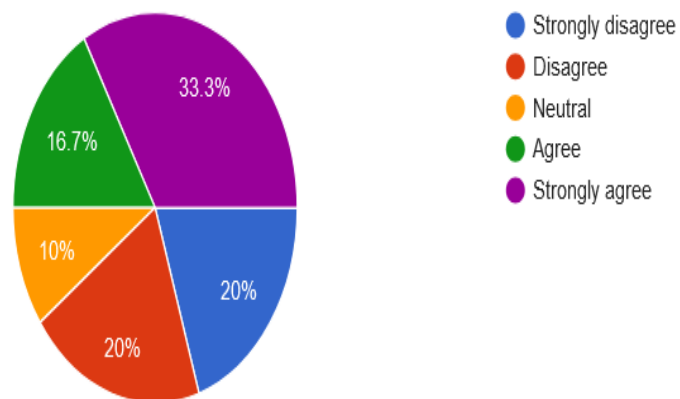


The question sheds the light on the foreign direct investments contributes to the economic growth and development of Saudi Arabia. There are 40% of them strongly agree, 16.7% agree and 13.3% are neutral. The rest of them either disagree or strongly disagree.

Saudi Arabia has made substantial improvements in its corporate governance practices

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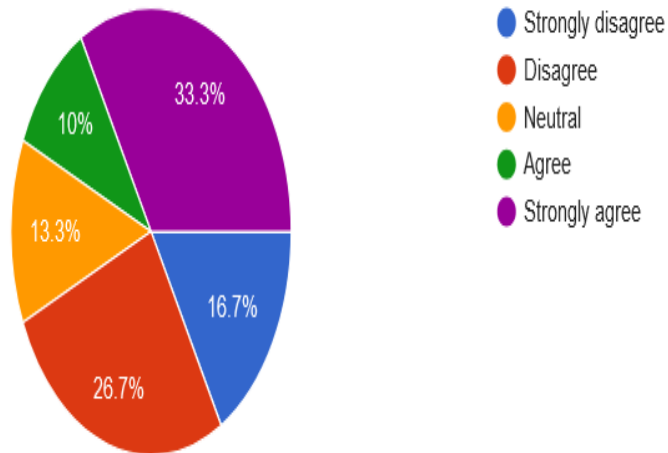


The Kingdom of Saudi Arabia has made substantial improvements in its corporate governance practices by finding 33.3% of them agree on this idea and 16.7% of them agree along with finding only 10% of them are neutral. The rest of them disagree.

The Saudi government's economic diversification efforts are encouraging FDI

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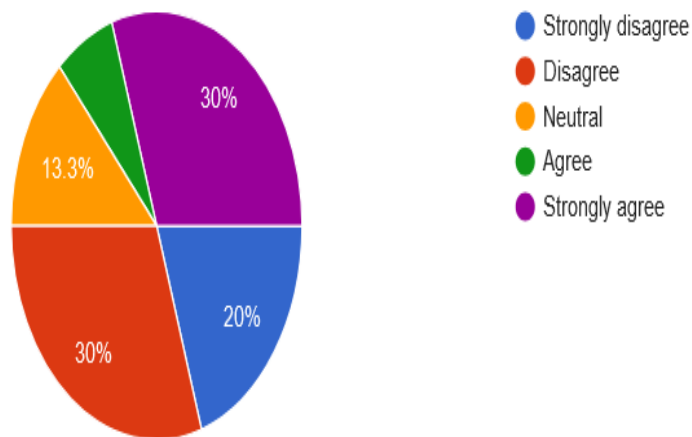


The Saudi government plan for reaching an economic diversification effort is shown to be a great motivator for increasing the foreign direct investments as 33.3% of them strongly agree, 10% agree and 13.3% of them are neutral. The rest of them disagree

Investors are more confident in the long-term prospects of Saudi companies with strong corporate governance.

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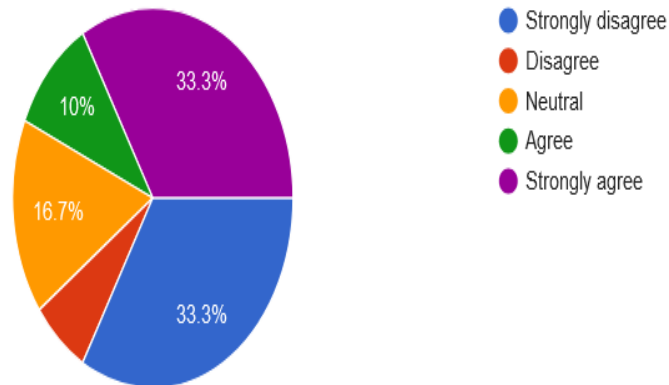


Investors are shown as more confident in long-term prospects among the Saudi companies with strong corporate governance. The half of participations ensures being neutral or agree on that; while finding the rest of them either disagree or strongly disagree.

Foreign investors are more likely to trust Saudi companies with a strong commitment to corporate governance

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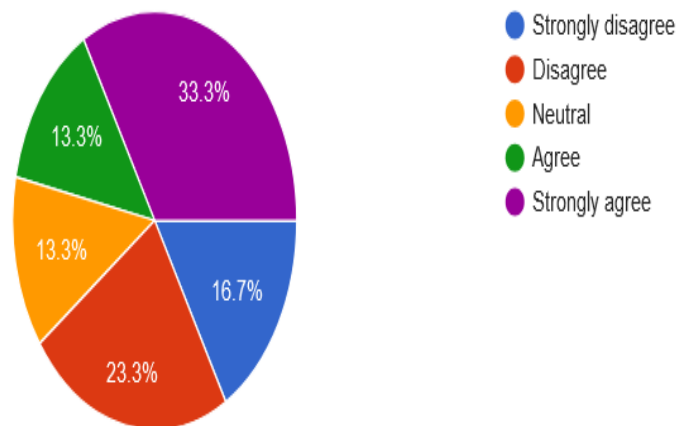


Foreign investors are shown to be effectively related to the commitment to corporate governance by finding 33.3% of them strongly agree, 10 of them agree and 16.7% are neutral. The rest of them disagree with this idea.

The government's focus on technology and innovation creates new opportunities for foreign investors

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30 responses



There are different opinions have been gathered concerning identifying whether the focus of the government in the Kingdom of Saudi Arabia on technology and innovation can create new opportunities for foreign investors or not. There are 33.3% strongly agree and 13.3% agree. There are 13.3% of them are neutral. Only 16.7% strongly disagree and 23.3% disagree.

Analysis

The previous survey was followed by conducting an interview with 10 of the participants. They were chosen randomly to reach qualitative data by asking the participants in depth questions about their perceptions and recommendations. The majority of them by finding 9 of them strongly agree on the great importance of applying corporate governance

practices to increase the foreign direct investment in the Kingdom of Saudi Arabia. They recommend adopting adequate measures and strategies for enhancing the result of this application. Others recommend educating not only businesses but the public as well of the great importance of applying it to achieve the Saudi vision and increasing the prosperity of the nation. They clarified their understanding of the great efforts presented by the Kingdom of Saudi Arabian government to increase the foreign direct investments in the Kingdom in a proper manner. Furthermore, all of them recommend utilizing transparency and accountability as well as drawing an effective ethical framework to create adequate foreign direct investment attraction.

Results

Foreign direct investments are shown to be an effectively related to the corporate governance. This is by finding the majority of participants either in the interview or in the survey seek to apply corporate governance to increase the number of foreign investments. The transparency, corporate social responsibility, accountability as well as accountability are shown as great key factors must be applied. Understanding the needs of investors and trying to increase their level of satisfaction s very important pillars as well.

The results clarify the great efforts of the Saudi government in accomplishing adequate results concerning applying the corporate governance and attracting the foreign investors. However, it has been shown that there are some limitations must be directed to reach more adequate results. To sum up, corporate governance has been considered a vital tool for increasing the foreign direct investments along with finding the foreign direct investments

creates a great importance for improving the economic stability and growth in the Kingdom of Saudi Arabia.

Conclusion and Recommendations

The study sheds the light on the great importance of the strong corporate governance practices play a vital role in attracting the foreign direct investment in the Kingdom of Saudi Arabia. It can enhance board independence as well as improving the financial reporting to create attractive environment for the foreign investors. The study emphasizes the great importance of supporting the regulatory framework. By addressing the challenges and shedding the light on the opportunities, Saudi Arabia can position itself in a leading destination as well as paving the way to reach economic growth and successive developments

Strong corporate governance is a main factor in attracting foreign direct investment. By establishing transparent and accountable practices, companies as well as countries can signal to investors that their capital will be managed responsibly and ethically. That means the Saudi Arabian companies as well as the whole Saudi economy can reach success in case of reaching adequate success in the corporate governance to enhance the attraction of the foreign direct investments. Effective corporate governance fosters investor confidence, reduces perceived risks, and enhances the overall attractiveness of a market for FDI which in advance leads to make the global economy becomes increasingly interconnected, the

importance of good corporate governance will only continue to grow which is reflected within the great interests and efforts presented by the Saudi economy to apply it as well as being aligned with the Saudi Vision 2030.

This section also aims to provide some recommendations for enhancing corporate governance and attracting foreign direct investment in the Kingdom of Saudi Arabia. These recommendations include the following ones:

1 – Strengthening the independent board oversight.

This can be achieved through three main ways including increasing the proportion of independent directors by ensuring that they have different backgrounds in order to secure creativity. Establishing specialized board committees to enhance the decision making is effective as well. Implementing regular board evaluations to assess the effectiveness of board members and committees. This can facilitate achieving adequate corporate governance practices in a proper manner.

2 – Enhance the rights of shareholders

It is important to enhance the rights of shareholders to create adequate corporate governance. This can be done by strengthening shareholder voting rights. In addition, it is important to increase the shareholder engagement through platforms for effective communication with management. Implementing measures to protect the rights of minority shareholders such as providing fair treatment in mergers and acquisitions

3 – Improve the executive compensation practices

It is important to improve the executive compensation practices. This is by aligning the executive compensation with the performance of company to increase the long-term objectives. This must be combined with claw back provisions in order to record any improper or poor performance as well as enhancing the transparency and accountability levels.

4 – Adopting international financial reporting

It is effective to enhance financial reporting and disclosure by adopting international financial reporting standards to improve transparency. It is very effective to expand the risk management by increasing the sustainability practices. This can strengthen the independence and effectiveness of the external auditors.

5 – Increasing the corporate social responsibility

Improving corporate social responsibility is important as well as CSR reporting plays a vital role in increasing the attraction of companies to disclose their activities and performance. Fostering dialogue and collaboration to promote sustainable business practices such as social responsibility and environmental protection are important as well

6 – Strengthening the regulatory framework to facilitate applying corporate governance measures as well as enhancing foreign direct investments

It is important to strengthen regulatory framework to ensure compliance with corporate governance regulations. This in advance can strengthen the investor protection laws and regulations with regular updates to ensure having the best practices in a proper manner

7 – Fostering the culture of good governance

It is important to foster a culture of good governance by promoting the ethical leadership and a culture of integrity within organizations. The public awareness of the importance of good corporate governance must be adequately done by providing regular training and education on corporate governance principles

8 – Providing facilities to attract the foreign investments

It is recommended to facilitate foreign direct investment attraction by offering targeted investment incentives as well as reducing regulatory burdens on foreign investors. Promoting the economic diversification to reduce reliance on gas and oil which can be easily done by achieving the Saudi vision 2030

9 – Enhancing the international cooperation

It is important to enhance the international cooperation by participating in regional economic integration initiatives to facilitate the investment as well as aligning the Saudi Arabia's corporate governance standards with the international best practices

10 – Providing regular monitoring to evaluate as well as modify the corporate governance measures

Conducting ongoing monitoring and evaluation is recommended as well. This is by doing regular assessments and developing the key performance indicators which will in advance paves the way to identify the necessary adjustments based on findings of monitoring and evaluation.

Summary

This research paper aimed to investigate the relationship between corporate governance and foreign direct investment (FDI) in the Kingdom of Saudi Arabia. Empirical evidence from studies conducted in Saudi Arabia and similar countries have examined to assess the positive and negative effects of corporate governance on FDI inflows by measuring the impact of utilizing corporate governance to attract the foreign investments. The specific corporate governance mechanisms relevant to the Saudi Arabian context, as well as the potential moderating factors that may influence this relationship. That leads to design descriptive research which was employed by collecting different data by utilizing various tools and instruments.

It examined various aspects of corporate governance such as executive compensation, financial reporting, board composition and the shareholder rights. It analyzed the trends, patterns and factors that may affect the decisions of foreign direct investors. The findings revealed that the Kingdom of Saudi Arabia has conducted a great progress in the field of utilizing corporate governance on increasing the foreign direct investments; however, there is a need for improving the quality.

The study also provided some recommendations to create more stable environment to support FDI adequately as well as utilizing adequate corporate governance practices. Strengthening the independent board oversight and enhancing the rights of shareholders are among these factors. Improving the executive compensation practices and adopting international financial reporting can increase the number of investments as well as there

will be coherence between the economic regulations in the Kingdom and those of other countries. Increasing the corporate social responsibility as well as strengthening the regulatory framework to facilitate applying corporate governance measures as well as enhancing foreign direct investments are recommended as well. Fostering the culture of good governance and providing facilities to attract the foreign investments are suggested along with asserting the importance of enhancing the international cooperation. Finally, the study recommends providing regular monitoring to evaluate as well as modify the corporate governance measures to make them fit the attraction of foreign direct investments in the era of globalization.

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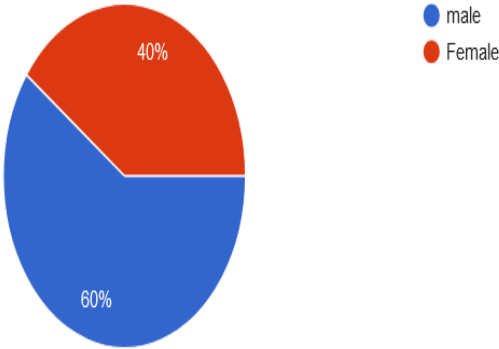
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Appendices

Gender

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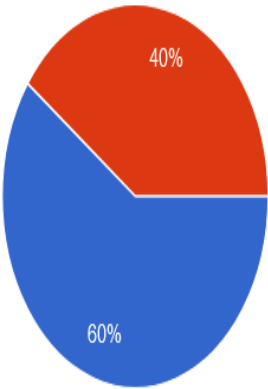


Nationality

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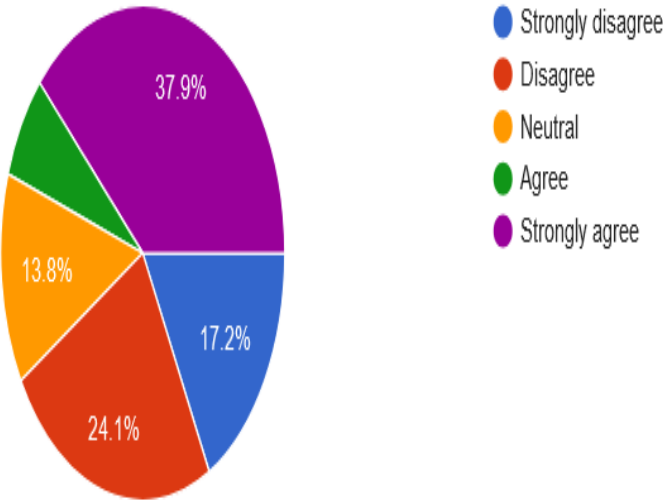


-  Saudi citizen
-  Saudi resident

Saudi Arabia has made significant strides in improving its corporate governance practices

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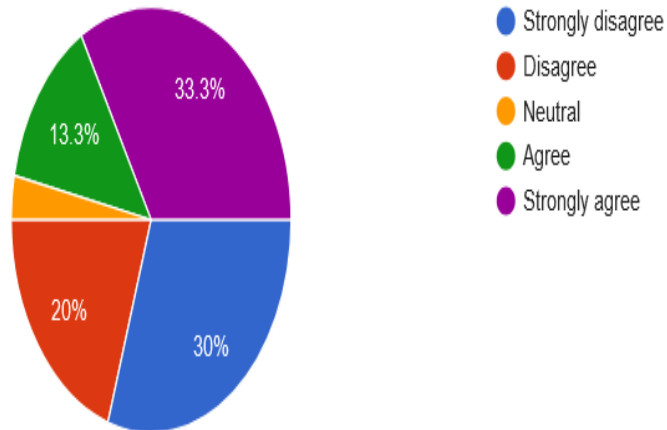
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Saudi companies are transparent in their financial reporting

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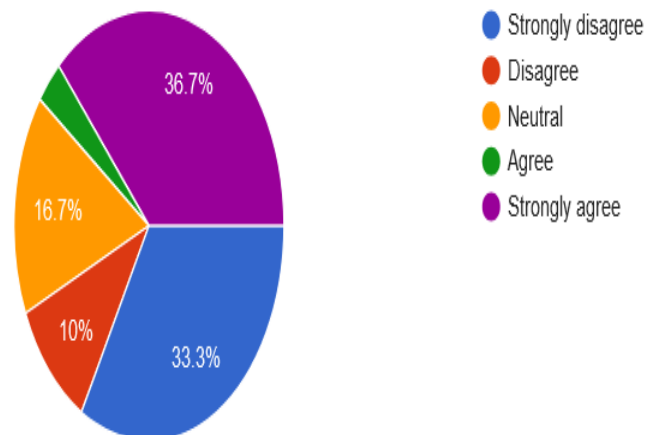
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Saudi Arabia is an attractive destination for foreign investors

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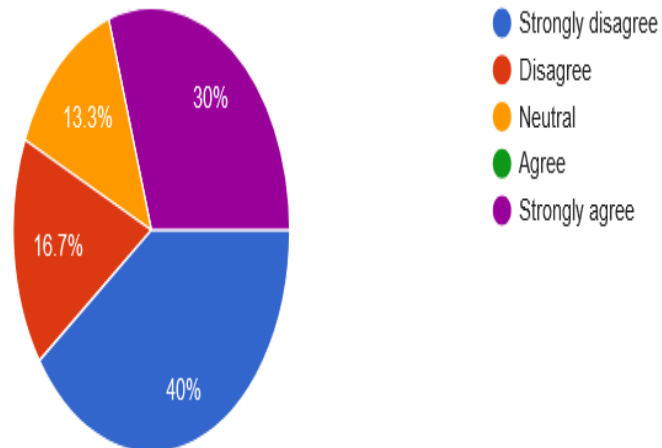
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The Saudi government offers incentives to attract FDI

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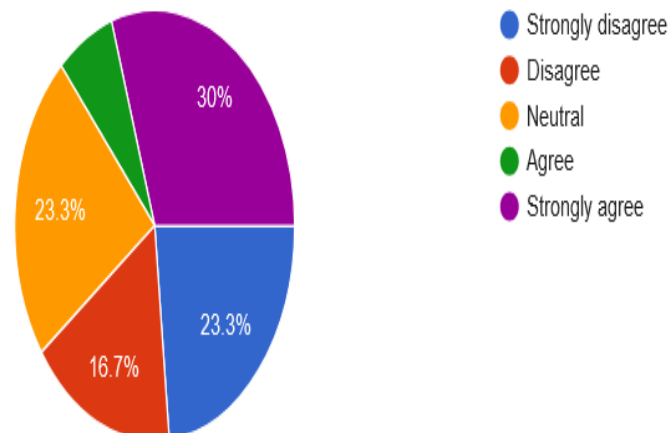
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Ethical business practices can enhance the trust and confidence of foreign investors in Saudi Arabia.

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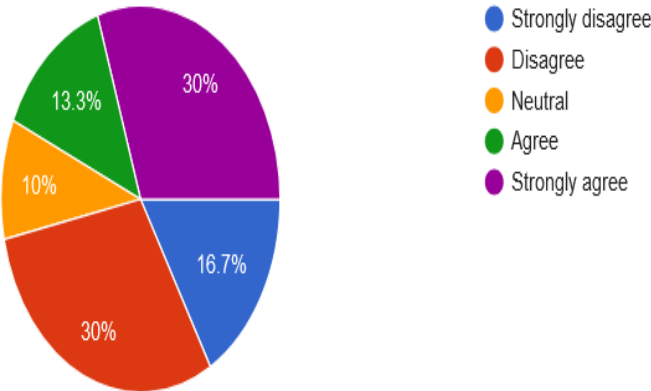
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Foreign investors are more likely to invest in Saudi companies with strong corporate governance

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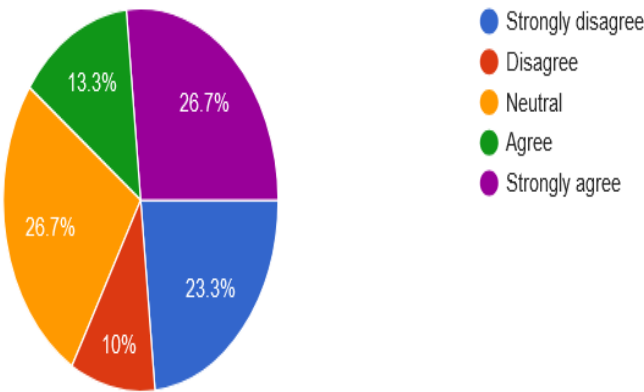
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Poor corporate governance can deter FDI in Saudi Arabia.

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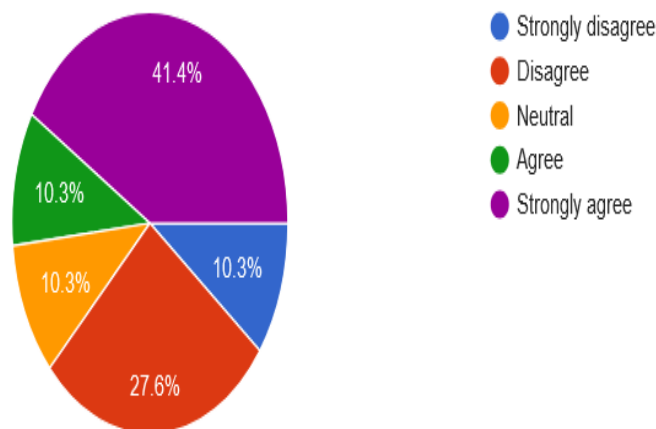
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The Saudi government is responsive to the needs of foreign investors

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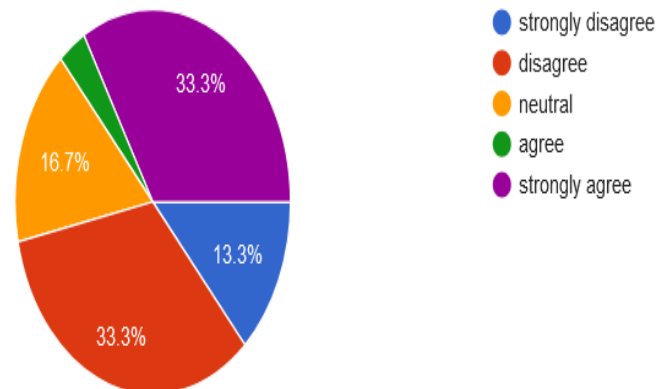
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FDI is aligned with Saudi Arabia's sustainability goals

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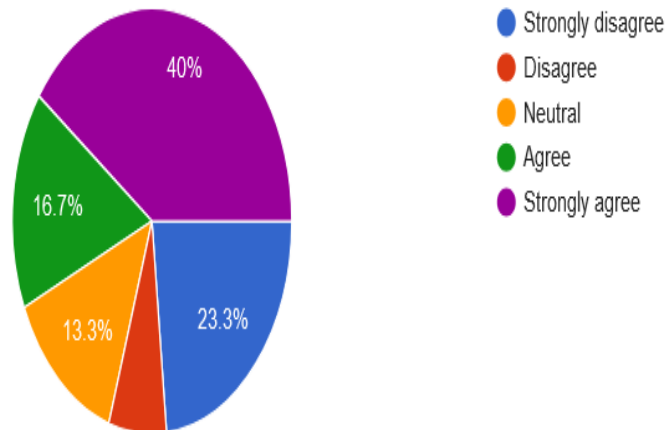
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FDI contributes to the economic growth and development of Saudi Arabia

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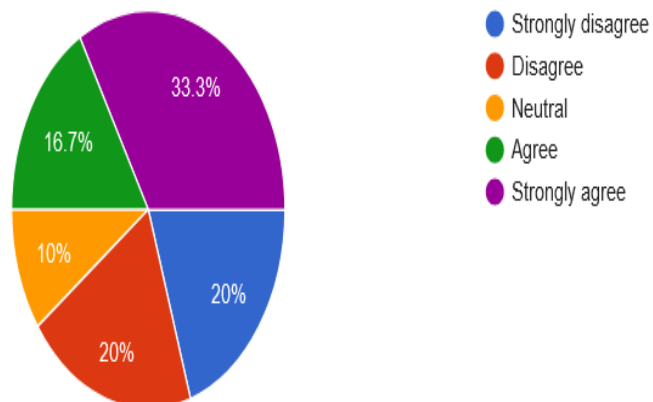
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Saudi Arabia has made substantial improvements in its corporate governance practices

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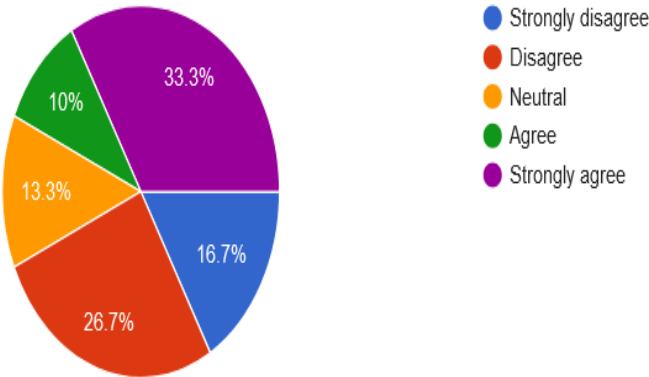
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The Saudi government's economic diversification efforts are encouraging FDI

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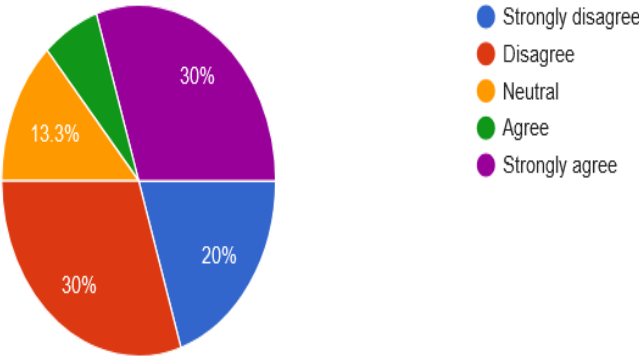
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Investors are more confident in the long-term prospects of Saudi companies with strong corporate governance.

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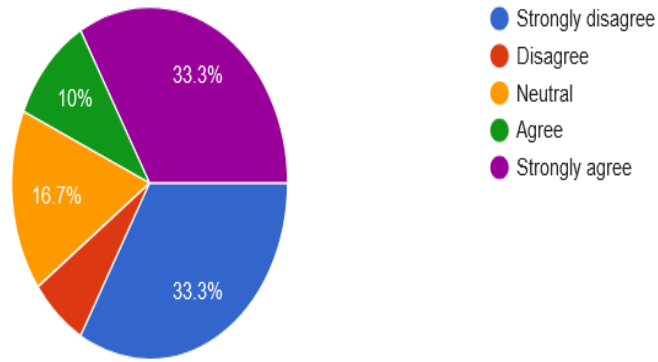
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Foreign investors are more likely to trust Saudi companies with a strong commitment to corporate governance

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The government's focus on technology and innovation creates new opportunities for foreign investors

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