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The Impact of Governance Policies on Risk Management in Small and Medium Enterprises in Saudi Arabia

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List of Contents

Chapter 1: Introduction	1
Introduction:.....	2
Problem Statement:.....	5
Study Purposes and Objectives:	8
Research Importance:	9
Study Questions:	11
Research Hypotheses:	11
Theoretical Model:.....	13
Chapter 2: Literature review	15
Introduction:.....	16
Dependent Variable:.....	17
Independent Variables:.....	17
Summary of Past Studies:	18
Theoretical Framework of the Study:	25
Chapter 3: Research Methodology	26
Introduction:.....	27
Research Design:	27
Population of the Study:	28
Sample Characteristics:	28
Sample Size Determination:	29
Data Collection Procedures:	30
Method of Analysis:.....	30
Research Limitations:	31
Chapter 4: Practical Study	33
References:.....	34

Chapter 1: Introduction

Introduction:

The dynamism of global business landscapes necessitates a comprehensive understanding of the intricate relationships between governance policies and risk management, especially within the context of Small and Medium Enterprises (SMEs). In recent years, Saudi Arabia has witnessed a burgeoning growth in its SME sector, becoming a vital contributor to the nation's economic development (Nuñez et al., 2023). However, as these enterprises navigate through the complexities of a rapidly evolving business environment, the role of governance policies in shaping risk management effectiveness emerges as a critical area of investigation. This research endeavors to explore and analyze the impact of various governance dimensions on risk management within the unique context of Saudi Arabian SMEs (Wen et al., 2023).

The primary focus of this study revolves around four independent variables, each representing a distinct facet of governance that may influence risk management outcomes. Firstly, the corporate governance structure, which encompasses the mechanisms through which companies are directed and controlled, plays a pivotal role in determining how effectively risks are identified, assessed, and mitigated (Ozcelik & Ercek, 2023). The second variable delves into the company's transparency level with stakeholders, acknowledging the importance of open and honest communication in fostering trust and facilitating efficient risk management processes (Boadi et al., 2023).

Another key dimension under scrutiny is the organization of governance committees and their activity level. Governance committees serve as the nerve center for decision-making and oversight, influencing the overall risk management framework within an organization. The fourth

independent variable scrutinized in this research is the adoption of international governance standards (Taufiq, 2023). As businesses increasingly operate in a globalized context, aligning with international best practices in governance may have profound implications for risk management effectiveness. By investigating these four independent variables, we aim to offer a nuanced understanding of the intricate relationships between governance policies and risk management outcomes in Saudi Arabian SMEs (Wieczorek-Kosmala & Henschel, 2022).

The choice of SMEs as the focal point of this research is deliberate, considering their burgeoning significance in the Saudi Arabian economy. SMEs often face distinct challenges compared to their larger counterparts, stemming from resource constraints, limited access to capital, and organizational structure. Understanding how governance policies impact risk management in these entities is not only academically intriguing but also holds practical implications for enhancing the resilience and sustainability of SMEs in the face of uncertainties (Paudel, 2023).

As the world becomes increasingly interconnected, the importance of robust governance structures in managing risks cannot be overstated. The interconnectedness of global markets implies that risks faced by businesses are often multifaceted and dynamic. Effective governance policies act as a safeguard, providing SMEs with the necessary frameworks to navigate through these complexities. This research seeks to contribute to the existing body of knowledge by shedding light on the nuanced ways in which governance policies influence risk management effectiveness within the specific context of Saudi Arabian SMEs (Yuwono & Ellitan, 2024).

The Saudi Arabian business landscape is unique, influenced by cultural, regulatory, and economic factors. Therefore, a study tailored to this specific context is imperative to derive insights that can be directly applied to the challenges and opportunities faced by SMEs in the region. The research recognizes the significance of the dependent variable, which is the effectiveness of risk management in the governance context. By emphasizing effectiveness, the study goes beyond a binary analysis of whether governance policies are in place and instead focuses on the tangible impact of these policies on the actual management of risks within SMEs (Malik, 2023).

Furthermore, this research acknowledges that governance policies are not static entities; rather, they evolve over time. The dynamic nature of business environments necessitates a continuous reassessment of governance frameworks to ensure their relevance and effectiveness. By exploring the interplay between governance policies and risk management in Saudi Arabian SMEs, this study aims to provide insights that can guide policymakers, business leaders, and academics in enhancing the adaptability and resilience of governance structures in the face of evolving challenges (Xu, 2023).

As Saudi Arabian SMEs play an increasingly pivotal role in the nation's economic landscape, understanding the intricate relationships between governance policies and risk management becomes imperative. This research endeavors to contribute to this understanding by delving into the impact of corporate governance structure, transparency with stakeholders, organization of governance committees, and the adoption of international governance standards on the effectiveness of risk management in Saudi Arabian SMEs (Alimoradi & Ahmad, 2019). Through a nuanced exploration of these variables, the study seeks to provide actionable

insights that can foster the growth, sustainability, and resilience of SMEs in the ever-evolving global business environment (Alvi et al., 2019).

Problem Statement:

The research problem addressed in this study revolves around the intricate interplay between governance policies and risk management effectiveness within the context of Small and Medium Enterprises (SMEs) in Saudi Arabia. Despite the growing significance of SMEs in the nation's economy, there is a paucity of comprehensive research that systematically investigates how governance dimensions influence risk management outcomes in these entities (Rashid et al., 2018). This research seeks to fill this gap by exploring the impact of corporate governance structure, transparency with stakeholders, organization of governance committees, and the adoption of international governance standards on the effectiveness of risk management in Saudi Arabian SMEs (Villanueva et al., 2022).

The study faces several challenges and weaknesses that merit consideration. One notable challenge lies in the diversity of SMEs operating in Saudi Arabia. These enterprises vary in size, sector, and operational complexity, posing a challenge in developing a one-size-fits-all approach to governance policies and risk management. Additionally, the dynamic nature of business environments introduces an inherent complexity, requiring the research to navigate through evolving governance frameworks and risk landscapes (Gulzar et al., 2021).

Another challenge pertains to the limited resources often available to SMEs. Unlike larger corporations, SMEs may encounter constraints in implementing sophisticated governance structures and risk management

processes. The research acknowledges these resource limitations and aims to provide insights that balance effectiveness with practical feasibility for SMEs (Nguyen & Dang, 2022).

The existing literature on the relationship between governance policies and risk management in the context of Saudi Arabian SMEs exhibits notable research gaps. While some studies focus on general governance issues or risk management practices in larger corporations, there is a dearth of research specifically tailored to the unique challenges faced by SMEs in the Saudi Arabian business landscape. This research aims to bridge this gap by offering targeted insights that align with the specific context and characteristics of SMEs in the region (Jallali & Zoghlami, 2022).

Furthermore, previous studies often adopt a binary approach, merely assessing the presence or absence of governance policies without delving into their practical implications on risk management effectiveness. This research seeks to address this gap by emphasizing the effectiveness of risk management within the governance context, providing a more nuanced and actionable perspective for SMEs and policymakers (Temitope & Sorunke, 2023).

The gaps in previous studies are compounded by a lack of exploration into the four independent variables identified in this research: corporate governance structure, transparency with stakeholders, organization of governance committees, and adoption of international governance standards. While some studies touch upon isolated aspects of these variables, there is a paucity of comprehensive research that integrates these dimensions into a holistic understanding of governance policies and

their impact on risk management in SMEs (Naibaho & Mayayogini, 2023).

Moreover, existing studies often overlook the dynamic nature of governance frameworks and their evolution over time. A thorough examination of how governance policies adapt to changing business landscapes and contribute to sustained risk management effectiveness is crucial for providing practical insights (Alsaleem & Husin, 2024).

To overcome these challenges and weaknesses, the research adopts a multifaceted approach. By acknowledging the diversity of SMEs and the limitations they face, the study aims to provide flexible insights that can be adapted to varying contexts. Additionally, the research adopts a longitudinal perspective, considering the dynamic nature of governance frameworks and risk landscapes, thus contributing to a more robust understanding of the evolving relationship between governance policies and risk management effectiveness (Wieczorek-Kosmala & Henschel, 2022).

The research also seeks to address gaps in previous studies by comprehensively exploring the identified independent variables. Through a holistic examination of corporate governance structure, transparency with stakeholders, organization of governance committees, and the adoption of international governance standards, the study aims to offer a comprehensive framework that informs both theory and practice (Paudel, 2023).

While challenges and weaknesses exist, the research is poised to make a substantial contribution to the understanding of governance policies and risk management in Saudi Arabian SMEs. By addressing research gaps

and weaknesses, the study aims to provide actionable insights that contribute to the resilience, sustainability, and growth of SMEs in the dynamic business landscape of Saudi Arabia (Alsaleem & Husin, 2024).

Study Purposes and Objectives:

✓ Main Research Objective:

The overarching aim of this research is to systematically examine the impact of governance policies on risk management effectiveness within Small and Medium Enterprises (SMEs) in Saudi Arabia. The research endeavors to provide a nuanced understanding of how specific governance dimensions influence the identification, assessment, and mitigation of risks in the unique context of SMEs operating in the Saudi Arabian business landscape (Alimoradi & Ahmad, 2019).

✓ Sub-Objectives:

1. Evaluate the Influence of Corporate Governance Structure:

The first sub-objective involves assessing the influence of the corporate governance structure on risk management within Saudi Arabian SMEs. This includes an exploration of governance mechanisms, board structures, and decision-making processes to understand how these elements contribute to or impede effective risk management (Alimoradi & Ahmad, 2019).

2. Examine Transparency Levels with Stakeholders: The second sub-objective aims to investigate the transparency levels maintained by SMEs with their stakeholders. This involves an analysis of communication practices, disclosure mechanisms, and the openness of information flows to ascertain how transparency

contributes to or hinders the effectiveness of risk management processes (Rashid et al., 2018).

3. **Analyze Organization of Governance Committees and Their Activity Level:** The third sub-objective focuses on the organization of governance committees within SMEs and their activity levels. This includes an examination of the roles, responsibilities, and efficacy of governance committees in overseeing risk management processes, providing insights into the influence of committee structures on risk management effectiveness (Rashid et al., 2018).
4. **Assess the Impact of Adoption of International Governance Standards:** The fourth sub-objective involves evaluating the impact of the adoption of international governance standards on risk management within Saudi Arabian SMEs. This includes an exploration of the extent to which aligning with global best practices influences risk management outcomes, contributing to a broader understanding of the international dimension in governance and risk management (Alimoradi & Ahmad, 2019).

These sub-objectives collectively aim to unravel the complexities surrounding governance policies and risk management in Saudi Arabian SMEs. By delving into these specific dimensions, the research seeks to provide practical insights and contribute to the development of tailored recommendations for enhancing the resilience and sustainability of SMEs in the face of evolving risks and challenges (Alvi et al., 2019).

Research Importance:

- ✓ **Theoretical Significance:**

The theoretical study within this research is paramount for constructing a robust foundation that elucidates the intricate relationships between governance policies and risk management in Saudi Arabian SMEs. By delving into theoretical frameworks, the study aims to provide a conceptual map, offering a comprehensive understanding of how independent variables such as corporate governance structure, transparency levels, organization of governance committees, and the adoption of international standards collectively influence the dependent variable of risk management effectiveness (Gulzar et al., 2021). This theoretical significance not only guides the research design and methodology but also facilitates the synthesis of existing knowledge, contributing to the academic discourse surrounding governance and risk management dynamics in the context of SMEs (Jallali & Zoghلامي, 2022).

✓ **Practical Implications:**

The practical study is equally essential, as it seeks to validate and apply theoretical insights in the real-world context of Saudi Arabian SMEs. By empirically testing hypotheses and assessing the practical implications of governance policies, the research endeavors to offer tangible solutions and recommendations (Villanueva et al., 2022). Practical findings will not only enhance the applicability of theoretical frameworks but will also provide actionable insights for SMEs, policymakers, and practitioners in Saudi Arabia. The integration of theoretical and practical dimensions ensures that the research contributes not only to academic scholarship but also addresses the practical challenges faced by SMEs, fostering a symbiotic relationship between theory and application (Nguyen & Dang, 2022).

Study Questions:

✓ Main Research Question:

How do governance policies impact the effectiveness of risk management in Small and Medium Enterprises (SMEs) operating in the Saudi Arabian business landscape?

✓ Sub-Questions:

1. How does the corporate governance structure influence the identification and mitigation of risks in Saudi Arabian SMEs?
2. To what extent does transparency with stakeholders contribute to the effectiveness of risk management processes in SMEs?
3. What is the role and effectiveness of governance committees in overseeing risk management within SMEs, considering their organization and activity levels?
4. How does the adoption of international governance standards affect risk management outcomes in Saudi Arabian SMEs, and what implications does it have for their resilience in a globalized context?

These questions collectively guide the investigation, providing a structured approach to unraveling the complexities of governance policies and their impact on risk management within the specific context of Saudi Arabian SMEs (Naibaho & Mayayogini, 2023).

Research Hypotheses:

▪ Hypothesis 1:

Hypothesis: There is a positive relationship between the corporate governance structure of Small and Medium Enterprises (SMEs) in Saudi Arabia and the effectiveness of their risk management practices.

Null Hypothesis: There is no significant relationship between the corporate governance structure of SMEs in Saudi Arabia and the effectiveness of their risk management practices.

▪ **Hypothesis 2:**

Hypothesis: Increased transparency with stakeholders in Saudi Arabian SMEs correlates positively with enhanced effectiveness in risk management processes.

Null Hypothesis: There is no significant correlation between transparency with stakeholders in SMEs and the effectiveness of risk management processes.

▪ **Hypothesis 3:**

Hypothesis: The organization and activity levels of governance committees within SMEs have a positive impact on the effectiveness of their risk management practices.

Null Hypothesis: The organization and activity levels of governance committees within SMEs have no significant impact on the effectiveness of their risk management practices.

▪ **Hypothesis 4:**

Hypothesis: The adoption of international governance standards by Saudi Arabian SMEs is positively associated with improved risk management outcomes.

Null Hypothesis: The adoption of international governance standards by SMEs in Saudi Arabia has no significant association with improved risk management outcomes.

These hypotheses provide a framework for testing and analyzing the relationships between governance policies and risk management effectiveness in the specific context of Saudi Arabian SMEs.

Theoretical Model:

1. Introduction to Corporate Governance in SMEs:

- Definition and components of corporate governance.
- Overview of governance structures tailored to Small and Medium Enterprises.
- Theoretical perspectives on the role of governance in risk management.

2. Corporate Governance and Risk Management Linkages:

- Theoretical foundations of the relationship between corporate governance and risk management.
- Models and frameworks explaining how governance structures influence risk identification, assessment, and mitigation.

3. Transparency and Stakeholder Engagement:

- Theoretical underpinnings of transparency in SMEs.
- Importance of stakeholder engagement and its role in risk management.
- Theoretical models on effective communication with stakeholders in the context of risk management.

4. Governance Committees and Decision-Making Processes:

- Theoretical insights into the organization and functioning of governance committees.

- Decision-making theories within governance committees and their impact on risk management.
- 5. **International Governance Standards and Their Adoption:**
 - Theoretical frameworks explaining the significance of international governance standards.
 - Models illustrating the process and impact of SMEs adopting international governance standards.
- 6. **Risk Management Effectiveness:**
 - Theoretical foundations of effective risk management.
 - Models assessing the factors contributing to successful risk management outcomes.
- 7. **Challenges Faced by SMEs in Governance and Risk Management:**
 - Theoretical perspectives on the unique challenges encountered by SMEs.
 - Frameworks for understanding resource constraints and their impact on governance and risk management.
- 8. **Dynamic Nature of Governance Policies:**
 - Theoretical exploration of the evolution of governance policies over time.
 - Models illustrating the adaptability of governance frameworks in response to changing business environments.
- 9. **Globalization and Governance:**
 - Theoretical insights into the implications of globalization on governance structures.
 - Models explaining how SMEs can align with global governance standards.

Chapter 2: Literature review

Introduction:

The literature review for this research explores the intricate relationships between governance policies and risk management in the context of Small and Medium Enterprises (SMEs) in Saudi Arabia. The independent variables under scrutiny include the corporate governance structure, transparency levels with stakeholders, organization of governance committees, and the adoption of international governance standards. The dependent variable, risk management effectiveness within the governance context, serves as the focal point of investigation (Nuñez et al., 2023).

Previous studies have laid the foundation for understanding the role of corporate governance in risk management, emphasizing its importance in enhancing organizational resilience and sustainability. Existing research has explored transparency as a key element in governance, acknowledging its impact on stakeholder trust and the efficient functioning of risk management processes. The organizational aspects of governance committees have also been subject to investigation, recognizing their pivotal role in decision-making and oversight (Yuwono & Ellitan, 2024).

Theoretical frameworks proposed in the literature encompass diverse perspectives, including models that explain the relationship between governance structures and risk management outcomes, theoretical foundations of transparency, and frameworks detailing the organization and functioning of governance committees (Malik, 2023). Additionally, literature addresses the implications of adopting international governance standards for SMEs, shedding light on the global context in which these enterprises operate. Synthesizing these theoretical perspectives and integrating them into a cohesive framework is essential for guiding the

analysis of empirical findings and formulating practical recommendations for the enhancement of governance policies and risk management in Saudi Arabian SMEs (Xu, 2023).

Dependent Variable:

- **Risk Management Effectiveness in the Governance Context:**

The dependent variable in this research is "Risk Management Effectiveness in the Governance Context." It represents the overarching metric by which the success and efficiency of risk management practices within Small and Medium Enterprises (SMEs) in Saudi Arabia will be assessed (Xu, 2023). This variable aims to capture the tangible outcomes of governance policies on the identification, assessment, and mitigation of risks. The effectiveness of risk management, within the specific governance framework of SMEs, becomes the central focus, emphasizing the practical implications of governance structures on the resilience and sustainability of these enterprises in the face of uncertainties (Malik, 2023).

Independent Variables:

1. **Corporate Governance Structure:**

- This variable delves into the configuration of the mechanisms directing and controlling companies. It encompasses the overall governance framework, including board structures, decision-making processes, and the organizational setup that influences how risks are managed within SMEs (Malik, 2023).

2. **Transparency Levels with Stakeholders:**

- The independent variable of transparency examines the openness and clarity in communication between SMEs and their stakeholders. This encompasses the disclosure of information, communication practices, and the extent to which transparency contributes to stakeholder trust and efficient risk management processes (Yuwono & Ellitan, 2024) (Taufiq, 2023).

3. Organization of Governance Committees and Activity Level:

- Focusing on the structural and operational aspects of governance committees, this variable explores how these committees contribute to decision-making and oversight. It assesses the roles, responsibilities, and activity levels of governance committees, considering their impact on the overall effectiveness of risk management (Boadi et al., 2023).

4. Adoption of International Governance Standards:

- The adoption of international governance standards is a variable that evaluates the extent to which SMEs align with global best practices. This variable investigates the implications of such alignment for risk management within the context of globalized business environments, emphasizing the international dimension in governance policies and their impact on risk management outcomes (Wen et al., 2023).

Summary of Past Studies:

Yuwono & Ellitan (2024) study addresses the centrality of Corporate Governance (CG) in modern corporate strategy, particularly in the banking industry. Focusing on the impact of technological change and

globalization on Enterprise Risk Management (ERM) challenges, the study explores the relationship between CG, ERM, and organizational culture. Findings reveal that effective CG positively influences the company, establishing a robust foundation for wise risk management. Additionally, a positive organizational culture proves critical in aligning ERM with internal values and norms, emphasizing the importance of harmonious integration between CG, ERM, and organizational culture for full effectiveness in risk management.

Nuñez et al. (2023) study addresses the dearth of research on risk governance in medium-sized textile/clothing companies, identifying it as an emerging field. The objective is to explore risk governance, focusing on guidelines, the relationship with corporate governance, and practices like risk culture. Utilizing a qualitative and descriptive approach, the study employs semi-structured interviews with eight companies and one expert. Findings reveal a general awareness of the importance of structured risk governance among participants, albeit often applied empirically. The study emphasizes the need for formalizing risk management processes in medium-sized companies, particularly in the textile/clothing sector, with potential applicability nationally and internationally across various economic sectors.

Temitope & Sorunke (2023) study delves into the background of Theory U as a potent tool for risk and performance management, aiming to bolster efficient corporate governance. The objective is to elucidate how organizations can address corporate governance challenges, instill a risk management culture, and optimize opportunities while minimizing threats. Employing a positivism paradigm and empirical case studies, the study tests three hypotheses to validate data results. Results showcase Theory U's transformative impact, fostering collaboration, innovation,

and adaptability for effective governance mechanisms. The authors stress that despite implementation challenges, embracing Theory U yields substantial benefits, fostering resilience, sustainable value creation, and long-term success for organizations in today's dynamic business landscape.

Naibaho & Mayayogini (2023) study investigates the impact of operational risk, credit risk, and liquidity risk on firm performance, with corporate governance as a moderating variable. The background underscores the significance of understanding how these risks influence performance. The objective is to assess the relationships and provide implications for companies and investors. Employing a purposive random sampling method, the study utilizes secondary data from more than 45 Southeast Asian companies in Consumer Durable and Apparel, Consumer Service, and Consumer Staples industries from 2017-2021. Findings reveal that operational and credit risks insignificantly affect performance, while credit risk negatively influences it. Corporate governance mitigates the negative impact of liquidity risk but amplifies the relationship between operational and credit risks on firm performance. The study emphasizes the importance of robust corporate governance in maximizing risk management and aiding investor risk assessments.

Xu (2023) study delves into financial risks and corporate governance structures, utilizing a sample of A-share companies listed in the Shanghai and Shenzhen Stock Exchange from 2016 to 2018. Employing Z-score for financial risk measurement and quantitative methods for governance factors, the study uses a multiple linear regression model. Results highlight ownership concentration, executive shareholding percentage, and executive compensation as significantly impacting financial risks, all showing negative correlations. The study recommends improving non-

executive director mechanisms, maintaining concentrated ownership, and implementing effective executive incentive mechanisms to enhance financial risk management in companies.

Nguyen & Dang (2022) study addresses the background of assessing bank risk management effectiveness in ASEAN countries, specifically examining the role of risk governance in enhancing this effectiveness. The study aims to evaluate the correlation between risk governance structure and the effectiveness of managing insolvency risk, credit risk, and operational risk in banks within ASEAN. Using dynamic panel models with the two-step GMM method, results reveal a low overall risk management effectiveness in ASEAN banks. However, the study demonstrates a positive correlation between the effectiveness of risk governance structure and the overall effectiveness of risk management in addressing insolvency, credit, and operational risks. The findings suggest regulatory guidelines on risk governance could enhance risk management activities and maintain bank stability.

Villanueva et al. (2022) study explores the escalating need for Enterprise Risk Management (ERM) in the evolving business landscape. The objective is to investigate the impact of risk governance, including senior management commitment and risk management structure, along with associated practices and tools like risk maps and treatment measures, on ERM development. Employing hierarchical linear regression models, the study utilizes a sample of 140 large private companies in Colombia across diverse sectors. Results indicate a positive correlation between risk governance and ERM, highlighting senior management commitment and structured risk management as influential factors. The study underscores the positive correlation between ERM maturity and practices/tools such

as risk maps and treatment measures, offering insights to enhance ERM in emerging markets.

Rashid et al. (2018) study aims to identify and prioritize corporate governance factors influencing risk management in Malaysian banks. Employing both qualitative and quantitative methods, the research highlights challenges faced by employees in assessing the board's fiduciary and leadership functions. Results indicate a widespread application of effective corporate governance codes, with a particular emphasis on accountability as the most impactful factor in enhancing risk management capabilities across all commercial banks in Malaysia.

In the realm of risk management and corporate governance, Nguyen & Dang (2022), Villanueva et al. (2022), and Xu (2023) present noteworthy studies with commonalities in their strengths and features. Nguyen & Dang meticulously investigate the impact of risk governance structure on various risks in ASEAN banks, offering a detailed quantitative analysis. Villanueva et al. focus on the positive correlation between risk governance and Enterprise Risk Management (ERM) in Colombian companies, showcasing a robust methodology and emphasizing the importance of senior management commitment. Xu delves into the intricate relationship between ownership concentration, executive compensation, and financial risks in A-share companies, employing a quantitative approach. These studies collectively contribute to understanding the dynamics of risk management in diverse contexts.

Shifting to Rashid et al. (2018), Yuwono & Ellitan (2024), and Xu (2023), these studies bring unique insights to the table. Rashid et al. concentrate on the prioritization of corporate governance factors influencing risk management in Malaysian banks, showcasing a robust

methodology with both qualitative and quantitative elements. Xu's study adds depth by examining the impact of financial risks and corporate governance structures in A-share companies, employing Z-score for financial risk measurement. Yuwono & Ellitan stand out with a comprehensive exploration of the intricate connections between Corporate Governance (CG), Enterprise Risk Management (ERM), and organizational culture, particularly in the banking sector. These studies offer diverse perspectives on the intricate relationships within risk management and corporate governance.

In the final set of studies, Nguyen & Dang (2022), Rashid et al. (2018), Xu (2023), and Yuwono & Ellitan (2024) collectively provide a nuanced understanding of risk management and corporate governance. Nguyen & Dang highlight the low overall risk management effectiveness in ASEAN banks, emphasizing the importance of risk governance structure. Rashid et al. reveal the widespread adoption of effective corporate governance codes in Malaysian banks, with accountability playing a pivotal role in enhancing risk management capabilities. Xu's study in A-share companies showcases a negative correlation between ownership concentration, executive compensation, and financial risks. Yuwono & Ellitan's comprehensive exploration underscores the interconnectedness of CG, ERM, and organizational culture, presenting a holistic framework for achieving full effectiveness in risk management. These studies collectively enrich our understanding of the complexities and opportunities within risk management and corporate governance.

Nguyen & Dang (2022) and Villanueva et al. (2022) both contribute to the understanding of risk management, yet they share common weaknesses. Both studies, while robust in their methodologies, primarily rely on quantitative approaches, potentially overlooking nuanced

qualitative aspects in assessing risk governance. The limitations in data collection methods, especially in capturing real-time changes in risk landscapes, pose challenges to the studies' relevance in rapidly evolving industries. Additionally, the scope of these studies is region-specific, limiting the generalizability of findings to a broader global context.

Rashid et al. (2018), Xu (2023), and Yuwono & Ellitan (2024) exhibit individual research gaps and challenges. Rashid et al.'s focus on Malaysian banks might limit the applicability of findings to other banking sectors. Xu's exploration into financial risks and corporate governance is restricted to A-share companies, potentially missing insights from other market segments. Yuwono & Ellitan's comprehensive approach, while commendable, introduces the challenge of synthesizing diverse variables and measuring organizational culture objectively, leaving room for subjectivity in interpretation. Furthermore, the studies lack a unified framework for comparing and combining findings, hindering a holistic understanding of the relationships studied.

In the final set of studies, Nguyen & Dang (2022), Rashid et al. (2018), Xu (2023), and Yuwono & Ellitan (2024) present insightful results with implications. Nguyen & Dang's findings on the low overall risk management effectiveness in ASEAN banks underscore potential systemic vulnerabilities. Rashid et al.'s identification of accountability as a key factor in Malaysian banks aligns with industry trends emphasizing transparency. Xu's negative correlation between ownership concentration, executive compensation, and financial risks prompts considerations for corporate governance practices. Yuwono & Ellitan's emphasis on the interconnectedness of CG, ERM, and organizational culture offers a holistic perspective, advocating for a harmonious integration for effective risk management. These results collectively highlight the diverse aspects

and implications within the realm of risk management and corporate governance.

Addressing the challenges and leveraging the strengths identified in these studies is imperative for fostering effective risk management and corporate governance practices. The studies collectively pinpoint weaknesses such as regional specificity, methodological limitations, and scope constraints. Recognizing these gaps encourages researchers to design studies with broader applicability, employing a mix of qualitative and quantitative approaches for a more comprehensive understanding. Furthermore, capitalizing on the strengths, such as robust methodologies and insightful findings, serves as a foundation for future research and industry practices. Implementing the recommendations from these studies, like refining governance structures or emphasizing accountability, can contribute to enhancing risk management effectiveness. Continuous efforts to bridge the identified loopholes and capitalize on strengths pave the way for more robust and universally applicable frameworks, fostering a proactive and adaptive approach to risk management and corporate governance across various sectors and geographical contexts.

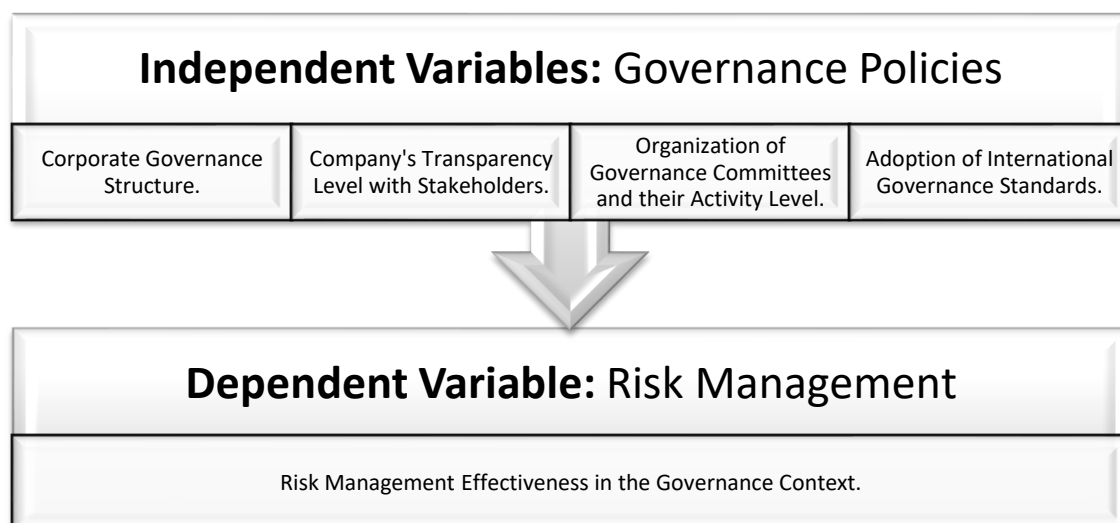
Theoretical Framework of the Study:

Chapter 3: Research Methodology

Introduction:

This research embraces a mixed research approach by harmonizing applied quantitative analysis with theoretical qualitative inquiry. The incorporation of both methodologies allows for a nuanced exploration of the intricate relationships between governance policies and risk management in Saudi Arabian SMEs. The applied quantitative component involves statistical analysis to quantitatively measure variables and test hypotheses. Simultaneously, the theoretical qualitative segment delves into the underlying mechanisms and contextual factors shaping these relationships. A descriptive analytical approach will guide the study, facilitating a comprehensive understanding of the research questions and substantiating the validity of the hypotheses. This combined approach ensures a well-rounded investigation, bridging the gap between quantitative precision and qualitative depth in the exploration of governance and risk management dynamics within the SME sector.

Research Design:



Population of the Study:

The study will focus on administrators from various management tiers, including lower, middle, and senior levels, within small and medium-sized enterprises (SMEs) in the Kingdom of Saudi Arabia. This strategic selection of the study population ensures a holistic examination of perspectives across different organizational hierarchies. By engaging administrators from these diverse management levels, the research aims to capture nuanced insights into how governance policies influence risk management practices within the dynamic landscape of Saudi Arabian SMEs. This comprehensive approach acknowledges the multifaceted nature of decision-making processes and organizational dynamics, enriching the study with a range of experiences and perspectives from individuals actively involved in the implementation and oversight of governance policies within SMEs.

Sample Characteristics:

The sample selection for this research will adhere to a random sampling approach, ensuring an unbiased representation of society. The goal is to mirror the demographics of the broader population, selecting participants without subjective biases. The sample will meticulously account for the distinctions between small and medium-sized enterprises (SMEs) to capture the diverse dynamics of these entities within the Saudi Arabian business landscape. Moreover, the selection process will consider the variation in administrative levels, aiming for a balanced representation from lower, middle, and senior management tiers.

This approach ensures a directed and precise selection methodology, resulting in a highly representative sample that accurately reflects the

characteristics of the target population. By prioritizing randomness and inclusivity, the selected sample will offer valuable insights into the relationships between governance policies and risk management across different business sizes and administrative levels in the context of Saudi Arabian SMEs.

Sample Size Determination:

In this research, a systematic sampling approach is employed to ensure a comprehensive understanding of governance policies and risk management within Small and Medium Enterprises (SMEs) in Saudi Arabia. A random sample will be equally selected from all administrative levels across five small companies and five medium-sized companies, totaling ten companies. This strategy is designed to capture a representative cross-section of the SME sector, considering the diversity of operational scales and complexities.

Within each company, representatives will be chosen from three administrative levels—lower, middle, and senior management. Four individuals will be selected from each administrative level, resulting in a total of 12 participants from each company. This sampling methodology ensures an inclusive representation across the organizational hierarchy, offering insights into how governance policies influence risk management practices at different levels of decision-making. The resulting sample of 120 individuals provides a robust dataset that allows for a nuanced analysis of the relationships between governance structures and risk management effectiveness in the unique context of Saudi Arabian SMEs.

Data Collection Procedures:

Data for this research will be systematically collected through a specially designed questionnaire tailored for administrators and leaders in small and medium-sized enterprises (SMEs) in Saudi Arabia. The questionnaire is meticulously structured to encompass the four independent variables and one dependent variable identified in the study. Each variable and its dimensions will be comprehensively represented, ensuring a thorough examination of governance policies and risk management effectiveness. The questionnaire will consist of 25 questions, with five questions dedicated to each variable.

Additionally, the questionnaire will incorporate a consent section outlining research information. Participants will be assured of the confidentiality of their data, the voluntary nature of their participation, and the contribution of their responses to scientific research. They will be informed of their right to withdraw at any stage. Clear details about the duration of participation and communication methods for additional information will be provided, ensuring transparency and ethical conduct throughout the data collection process.

Method of Analysis:

The data analysis for this research will be conducted utilizing SPSS version 26. To discern the direction of public opinion, a five-point Likert scale will be employed in the questionnaire. This scale enables the calculation of averages, standard deviations, and variances of participants' responses, offering insights into the consensus and variability of opinions. By comparing the obtained values with a standard table for the five-point

Likert scale, the direction and intensity of participants' opinions can be ascertained, providing a nuanced understanding of the research variables.

Furthermore, the study will involve analyzing the Pearson correlation coefficient between independent and dependent variables. This statistical measure will elucidate the strength and direction of associations between variables, revealing the extent of influence that governance policies have on risk management effectiveness. Each variable will be quantified by deriving the arithmetic average of the answers to the five questions associated with it. These quantitative values will serve as a reliable representation of participants' opinions, facilitating a comprehensive analysis of the interplay between governance policies and risk management within the surveyed SMEs.

Research Limitations:

❖ Temporal Limits:

The research is temporally bound by the year 2024, signifying that all data, analysis, and conclusions are derived from information available up to this specified time frame. This temporal boundary ensures the study's relevance to the contemporary business environment in Saudi Arabia.

❖ Spatial Limits:

The spatial boundaries encompass the entirety of the Kingdom of Saudi Arabia, covering all regions and provinces. Specifically, the study focuses on small and medium-sized enterprises (SMEs) operating within the national boundaries. This spatial delineation ensures that the research findings are reflective of the diverse economic landscape present throughout the Kingdom.

❖ **Human Boundaries:**

The research is confined to leaders and managers across all administrative levels within SMEs. The human boundaries include individuals involved in decision-making processes, ranging from lower to middle and senior management tiers. This restriction ensures that the insights garnered are directly relevant to those actively engaged in governance and risk management within the targeted SMEs.

❖ **Objective Limits:**

The objective boundaries of the research are delineated by the dependent variable, "Risk Management Effectiveness in the Governance Context," and the four independent variables: Corporate Governance Structure, Transparency Levels with Stakeholders, Organization of Governance Committees and their Activity Level, and Adoption of International Governance Standards. The study exclusively focuses on exploring the relationships, interactions, and influences among these defined variables, providing a clear and targeted investigation into the impact of governance policies on risk management within Saudi Arabian SMEs.

Chapter 4: Practical Study

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