The corporate governance framework

Business, Corporate Governance

Corporate governance refers to a company's stakeholder rights and responsibilities (Afrifa & Tauringana, 2015; Ahmed & Hamdan, 2015). According to Buallay, Hamdan and Zureigat (2017), its structure comprises of a wide range of practices like compensation of the executives and fair financial disclosure. Corporate governance is the framework that a company's board of directors uses to check for accountability, transparency and fairness in the relationship between a company and its stakeholders (Azeez, 2015; Arora & Sharma, 2016). Stakeholders often include the management, their employees, the community, the customers and sometime the government in case of state owned businesses (Buallay, Hamdan and Zureigat, 2017). According to the literature on corporate governance there are three components that characterise this concept. These components serve the purpose of monitoring operations to ensure that companies practice effective corporate governance. These components include effective directorship, internal auditing mechanisms and external auditing activities (Al-Kahtani, 2014). Internal auditing and checks within a company make up important internal control system that is necessary for facilitating responsibility in relation to governance.

The corporate governance framework firstly consists of both the implied and explicitly expressed contracts between the company and its stakeholders that describes and dictates the way in which responsibilities are distributed among the parties and the rights and rewards that the stakeholders are entitled (Al-Kahtani, 2014). Secondly, it is concerned with the procedures that are deemed necessary in the reconciliation of the interests of the stakeholders according to their duties, roles and responsibilities (Al-Kahtani,

2014; Ukhriyawati, Ratnawati & Riyadi, 2017). These interests may be conflicting and hence they require reconciliation. Lastly, it involves the procedures to ensure there is proper supervision and control and that information flows as it should and thus serves as a system for checking and balancing a company’s operations and activities (Azeez, 2015).

The global economy is characterised by state owned corporations which are firms that are still under the ownership of the government. These companies are characterised by having shares that are traded on public stock markets. The expansion of this sector has resulted from the efforts of policy makers to encourage the partial floating of the shares of companies owned by the state as a step forward or as an alternative to their privatization. In Saudi Arabia, the practice has been to have the state owning the whole enterprise but with recent developments, there have been calls for some prominent state owned companies to float its shares. The tendency towards this mixed ownership strategy is deemed to be a means for reforming the economy’s state sector. Moreover, some policy makers propose that the injection of private capital in state owned companies is likely to improve their management.

State owned company structures pose some governance challenges especially due to the separation of the politicians and other bureaucrats charged with overseeing these firms from the citizens on whose behalf the former own these firms (Marai, Elghariani & Pavlović, 2017). More often than not, such problems include scandals like interference by politicians, corruption and lack of transparency (Arora & Sharma, 2016). Saudi Arabia has in effect experienced some governance reforms that began with

attention being given to the establishment of internal systems of control. As such, Saudi companies are required to use the internal codes of standards established in the year 2000 to design their internal systems of control.