Expectations Gaps in the Roles of Independent Directors: Evidence from Saudi Arabia

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Dedication

To my parents, grandparents, wife, sisters and sons.

Abstract

In recent years, the Saudi government has endeavored to make Saudi companies more attractive to both foreign and domestic investors. In doing so, they have strengthened regulatory codes of conduct to enhance corporate accountability to the wider investment community. Given that independent directors (IDs), as a key mechanism of corporate governance, are expected to ensure managers perform to safeguard their shareholders' interests, this thesis focuses on the extent to which they fulfil their expected roles and the factors that influence their performance in this regard.

The thesis more particularly investigates the existence of expectations gaps in the control, strategic and resource roles that IDs play in corporate governance to help us gain insights into the real life functioning of the monitoring roles they are expected to play, as well as the factors that hinder and facilitate them. To this end, twenty-nine semi-structured interviews were conducted with Saudi independent directors, non-independent directors, executive directors, institutional investors and regulators. The findings highlight the existence of a perceived gap between what IDs can be reasonably expected to achieve and their actual performance (i.e., a performance gap) but no gap between what is expected to be achieved and what can sensibly be achieved (i.e., a reasonableness gap) with respect to their control and strategic roles. It is argued that the observed gaps are attributable to a range of regulatory and socio-economic factors. Hence, both the control and strategic roles could benefit substantially from further changes in regulatory requirements as well as wider socio-economic changes.

The thesis consequently puts forward a number of recommendations on how the regulatory codes and guidelines can be reformed to help improve the performance of the control and strategic roles. Finally, the lack of any expectations gap with regard to the resource role is seen to be attributable to the elevated value that large shareholders place on how independent directors fulfil this role.

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Chapter One: Introduction

1.1 Introduction

There has been enormous growth in the awareness of the importance of corporate governance during the last few decades. A series of high-profile financial crises, such as the 1997 East Asian Crisis, and mega corporate scandals, such as those resulting in the collapse of Enron and WorldCom, were viewed as reasons propelling corporate governance to the forefront of economic debate (Reed, 2002). Such financial distresses highlighted the shortcomings in the existing corporate governance systems, and emphasized the need for robust management practices to encourage corporate accountability and safeguard shareholders' interests (Rama 2012).

In Saudi Arabia, the crash of the Saudi stock market in early 2006 revealed the importance of establishing regulatory corporate governance practices in the country. This led the Saudi Capital Market Authority (CMA) to issue corporate governance code of conduct for Saudi companies in November that year. Corporate governance regulations generally aim to protect shareholder interests by improving the performance of IDs in companies, promoting internal control, ensuring the effective implementation of strategies, and enhancing overall transparency and disclosure. Therefore, it is expected that corporate governance regulations should enhance the integrity and stability of financial markets. The code initially started on a "comply or explain" basis to insure a smoother adaptation of the newly introduced regulation. It was subsequently reviewed in 2010, 2017 and 2018 when the capital market authority introduced minor updates to the code. Working on a mandatory basis (as of 2017), the code sets out rules and standards to regulate the actions of all listed company management practitioners to guarantee the fulfilment of highly effective governance practices to safeguard the interests of shareholders. Hence, it is unsurprising that a significant component of the code's regulations focusses on boards of directors in general and their independent directors (IDs) in particular, as the inclusion of IDs is typically a key mechanism of corporate governance to control and monitor managers, ensuring that they act in the best interest of shareholders, especially those who do not have access to inside information and whose interest should be protected by a sound, reliable and functional monitoring system.

In line with the scholarly literature identifying that IDs play three corporate governance roles; namely, control, strategic and resource based (Li et al., 2012), the 2018 Saudi code of corporate governance emphasize the importance attached to these roles for the proper functioning of corporate governance systems of the Saudi companies. Nonetheless, mega corporate scandals, as indicated earlier, suggest that corporate governance systems remain ineffective at times and a lot more can be done to address some of its weaknesses or highlight areas that can benefit from further improvements. Unless such improvements are made, the Saudi companies and their shareholders and, more importantly, Saudi's economy will not be immune from such scandals. The case of the Saudi French bank, the first commercial bank to operate in the country, and one of the largest in the Saudi banking sector, provides a good example of the ineffectiveness of some aspects Saudi's corporate governance. In October 2017, the bank's investors were shocked by emerging news that the Saudi Arabian Monetary Authority (SAMA) was investigating the embezzlement of around 500 million Saudi Riyals (Alsubhi and ALabdullah, 2017).

Cases similar to the French Bank scandal outlined above indicate flaws in the current corporate governance mechanisms in Saudi Arabia, particularly in the monitoring mechanisms, whereby IDs are regarded as a first line of defense against incompetent management practices (Higgs Review, 2003). Thus, further research needs to focus on investigating those monitoring aspects of corporate governance that will play a key role to improve shareholders' interests and, in general, help raise the level of corporate accountability to shareholders. Hence, this study aims to concentrate on broadening our understanding of different roles that IDs are expected to play and the extent to which that they fulfil these expectations for each role as well as casting light on the impediments they encounter when trying to fulfil their roles. As will be discussed later, this thesis intends to achieve this by investigating the expectations gap of the roles of the directors among Saudi listed companies. The significance of the study, and the motivation for conducting it is discussed below.

1.2 Motivation and Significance

Although the Kingdom of Saudi Arabia's economic history began with humble origins, the discovery of oil in 1933 changed its fortunes (Yergin, 2009). The Saudi authorities have always endeavored to enhance the welfare of Saudi citizens by using the country's oil income. They have initiated successive development plans, which have brought dramatic advancements in education, health care, infrastructure, security and arguably all aspects of life. For example, the quality of life program in the Saudi 2030 vision indicates that by the end of 2020, the authorities will develop 149 art galleries, 27 electronic games facilities, family entertainment centers, waterparks, 11 museums, 11 public libraries, 45 cinemas, 3 theme parks, 6 zoos, aquariums and botanical gardens, 45 public parks, 18 theatres and one opera house. According to recent official figures, 90% of the Kingdom's revenue comes from oil (Ministry of Finance, 2014). This renders the Saudi economy exceptionally vulnerable to fluctuations in the oil price. For example, in 2015 the Saudi fiscal deficit rose to $130 billion, equating to 19.5% of GDP in that year (IMF, 2015). This heightened recognition of the need for a stronger and more diversified, investor-attractive economy whereby governance systems intend to ensure that companies are held accountable to their investors.

The above factors led the Saudi government to introduce its vision for 2030. The vison aims to fully diversify the Saudi economy by the year 2030, including the privatization of all seaports in the kingdom, the Saline Water Conversion Company, public hospitals, and the transformation of the world largest oil company (Saudi Aramco) into an industrial corporation. It also underpins the intention to attract foreign investors to the country (The Council of Economic and Development Affairs, 2016), which is linked to the decision to introduce a comprehensive privatization program, including listing Saudi Aramco in 2019, in what is thought to be the largest initial public offering globally, reaching $1.7 trillion (Reuters, 2019).

The decision to diversify economically underlies the development of an effective corporate governance system that will improve the appeal of the Saudi economy to both foreign and local investors. Corporate governance mechanisms, such as IDs are devised to reduce investment risks, by decreasing the monitoring costs of managers, and thereby leveraging economic attractiveness to investors (Shleifer and Vishny, 1997; Bebchuk and Weisbach, 2010). While the development of corporate governance in Saudi Arabia is progressing towards better practices, earlier to more recent research (e.g. Al-Harkan, 2005; Falgi, 2009; Al-Malkawi et al., 2014; Al Amri, 2014) indicates that the status of corporate governance in the country needs further improvement. Furthermore, the recent clampdown on corruption in the country which did not exclude anyone, including members of the royal family, indicate that the Saudi government is aware of these weaknesses in its corporate governance mechanisms and intends to improve the overall investment environment. These improvements include the introduction of corporate governance regulations (as can be seen from the consecutive improvements of the Saudi CG Code) to improve the broader notion of accountability to investors in the country. This amplifies the necessity for further research into corporate governance in Saudi Arabia.

IDs are arguably one of the most important aspects of corporate governance regulations. Nevertheless, high-profile corporate scandals suggest that there are inadequacies in IDs and their roles. Thus, it is important to uncover the expectations gaps associated with IDs' roles and to identify remedies to address these in order to achieve a more in-depth understanding of corporate governance in Saudi Arabia. This study, therefore, intends to contribute towards this research gap, by investigating the roles IDs play and the extent to which they contribute to the functioning of the current monitoring mechanisms of the major Saudi companies. Specifically, it explores the expectations gap, in terms of the three roles of IDs and provides remedies and solutions to address them where identified and relevant.

With recognition of the growing significance of the roles ID's play, comes considerable expectations regarding their performance. Porter (1993) argues that an expectations gap comprises two elements: a reasonableness gap and a performance gap (see section 2.5.4). To date, few studies have directly investigated the desirability, reasonableness, and effectiveness of IDs' roles. In particular, this researcher can only identify one. Li et al. (2012) explored the existence of an expectations gap, and its influence on the associated roles of IDs in listed Chinese companies, reporting influential factors. While the Chinese economy is transitional and the findings of Li et al.'s study might not be of direct relevance to a developing economy, such as that of Saudi Arabia, Li et al.'s use of expectations gap will be adapted in this study to help achieve its overall aim. The study's aims and questions are discussed in the next section.

1.3 Aims and Questions

Parallel with the intention of making its economy independent of the oil revenue, the Saudi government has endeavored to make Saudi companies attractive investment opportunities for investors, including potential as well as the existing foreign investors. To this end, they have strengthened relevant regulatory governance codes of conduct to enhance corporate accountability to the wider investment community. In the process of doing so, this thesis takes the view that the *extent* to which IDs fulfil their expected roles as well as the *impediments* they face for each role, namely control role, strategic role and resource provision role, are defining in how effective governance mechanisms are in delivering accountability to their investment community. Hence, this thesis aims to examine this view by exploring the expectations gap related to IDs' roles as set out in the regulatory requirements and as perceived by the key groups including IDs, non-executive directors, executive directors and regulators. The use of expectations gap helps us gain more insight into the real life functioning of the monitoring mechanisms and its accountability – who are accountable? to whom? how? for what? (Perks, 1993) - and highlights those weak or grey areas that can benefit from further improvements or clarifications. More specifically, this research investigates the following research questions:

RQ1. What roles are IDs expected to play?

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil those roles?

RQ3. Do IDs perform their reasonable roles effectively?

RQ4. What factors/aspects aid or hinder IDs in the execution of their roles?

A more detailed discussion related to each research question will be presented in section (2.6).

1.4 Methodology and Methods

This study adopts the constructivist ontological assumptions to address the research questions. Moreover, it employs a pragmatist epistemological approach to investigate the perceptions of the roles played by IDs in Saudi Arabia held by board members, institutional investors, and regulators. This aims to identify any potential expectations gaps in their control, strategic and resource roles.

Furthermore, this study is explorative in nature. This is due to a recognition that, while the work of Li et al. (2012) provides a basis for this research, China is a transitional economy and therefore their findings may not prove entirely relevant. Therefore, in response to the scarcity of existing literature concerning the research topic under investigation, this study implements an inductive approach, hence forming and testing a theoretical hypothesis was not an option.

In addition, this study implements a qualitative research design as the method of data collection, employing in-depth semi-structured interviews. It was considered more appropriate to employ in-depth semi-structured interviews than a questionnaire survey for this study. This was due to in-depth interviews enabling the researcher to gain deeper and richer insights, as a result of the participants being encouraged to clarify any ambiguous answers, while maintaining a focus on the key issues under discussion (Nachmias et al., 2015). The most important motivation for selecting the use of in-depth interviews was a view that board members were unlikely to complete questionnaires concerning sensitive issues, i.e. the existence of expectation gaps in the roles of fellow IDs (Li et al., 2012). Although there will still be sensitive issues in a semi-structured interview compared to a questionnaire, the researcher noticed that participants were more comfortable when he verbally explained the reasons for the research, the meaning of each question, and, more importantly, assured participants of their anonymity. This observation is also supported by Saunders et al. (2015), who indicate that managers are more likely to agree to be interviewed rather than complete a questionnaire, as an interview provides them with the opportunity to reflect on events without writing anything down.

A total of twenty-nine interviews were conducted, including seven IDs, four Institutional Investors, eight regulators, seven NEDs and three EDs. The following section discusses the structure of the thesis.

1.5 Structure of the Thesis

The reminder of the thesis is structured as follows. Chapter Two reviews the relevant literature, affording a broader understanding of the roles IDs play. The first part of the chapter maps out the actual duties and functions of the board in general, commencing with an introduction to the concept of corporate governance and its different models, and moving on to discuss the characteristics of the board members, to deliver a greater understanding of the environment in which IDs are expected to perform their roles. The conceptual and theoretical foundation of this investigation is set out in the second part of the chapter, which discusses accountability, and the conceptual frameworks (agency theory, stewardship theory and resource dependency theory) that provide the theoretical foundations on which to base the appointment of IDs. Furthermore, the chapter discusses the roles that IDs must play, and identifies the research gaps in existing literature. The chapter also discusses previous corporate governance studies within the context of Saudi Arabia.

The Saudi context is thoroughly discussed in the third Chapter. The Chapter offers a brief historical background, describing the political, financial, and legal systems that have been in place in Saudi Arabia since its establishment in 1932. Additionally, the Chapter discusses the corporate governance model employed in Saudi Arabia, reviewing the historical developments within the Saudi financial system, to underline corporate governance developments in the country, and thereby provide a regulatory foundation for the appointment of IDs and the roles they play.

Chapter four outlines the specific methodology and methods implemented in the study. The chapter sets out the ontological and epistemological assumptions relating to the nature of the social sciences, and discusses how semi-structured interviews are implemented for data collection.

The remaining chapters discuss the research findings, and offer recommendations and conclusions to be addressed after completion of the data collection.

Chapter Two: Literature Review

2.1 Introduction

Independent directors (IDs) can play an instrumental role in guaranteeing a successful corporate governance mechanism. Despite this, there are many gray areas and different perceptions and expectations associated with their roles. To provide broader understanding of the roles of IDs this study aims to investigate expectations gaps in the roles of IDs within Saudi listed companies. In order for this goal to be realized, the first part of the chapter will map out the actual duties/functions of the board in general. Accordingly, it will begin by introducing the concept of corporate governance and its different models. Then, the characteristics of the board will be discussed to better understand the environment in which IDs perform their roles.

The second part of the chapter sets out the conceptual and theoretical backcloth to this investigation. It does so by considering five issues in turn. First, it provides fundamental groundings for the theoretical framework by discussing the notion of accountability. Thereafter, it critically examines the conceptual frameworks (agency theory, stewardship theory and resource dependency theory) that offer theoretical foundations on which to base the appointment of IDs. Thirdly, particular attention is paid to the differing roles IDs might perform. Following this, available international research is used to demonstrate to what extent IDs carry out such roles effectively in reality. This is followed by a review of research findings relating to the behavior of IDs in the Saudi context. The chapter is concluded in section 3.7.

2.2 The Issue of Corporate Governance

The role of governance at the level of governments may be long established, but the term “corporate governance” was only adopted in the 1980s, since when it has been rapidly embraced worldwide (Tricker, 2015). There is no single accepted definition of corporate governance, due to significant differences in international practices (Solomon, 2013). Solomon (2013) further notes that the different definitions provided in the literature have some shared characteristics in terms of accountability, and that narrow definitions place greater emphasis on accountability to shareholders (which is adopted in this thesis), whereas broad definitions emphasize a more comprehensive view of accountability, which incorporates responsibility towards shareholders and other stakeholders.

For example, Sheilfer and Vishny (1997) define corporate governance as “the ways in which suppliers of finance to corporations assure themselves of getting return on their investment”. This represents a common view among scholars that the sole aim of corporate governance is to safeguard the interests of shareholders. Sheilfer and Vishny (1997) explain this by stating that shareholders’ investments in firms are normally sunk funds; thus, if a company runs into financial distress its shareholders will lose their investments, whereas other stakeholders, such as employees, suppliers, and customers can simply walk away (Goergen, 2012). Also prioritizing the position of shareholders, the Walker Review (2009) defines corporate governance thus: “the role of corporate governance is to protect and advance the interests of shareholders through setting the strategic direction of a company and appointing and monitoring capable management to achieve this”.

In contrast, Tricker (1984) offers a broader view of corporate governance, stating that: "the governance role is not concerned with the running of the business of the company per se, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries". Similarly, the Cadbury Report (1992) defines corporate governance as "the system by which companies are directed and controlled". Goergen (2012) outlines the Report, stating that it claims a critical role for the board of directors, as follows:

"Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors to satisfy themselves that an appropriate governance structure in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meetings". This view is also supported Mallin (2019), who argued that, while the shareholders' role is to appoint directors to ensure governance structures are put in place, the board of directors is the body responsible for the corporate governance of listed companies. The following section discusses differing models of corporate governance.

2.2.1 Corporate Governance Models

Models of corporate governance are not necessarily similar. In fact, corporate governance structures can vary substantially. Scholars (e.g. Solomon, 2013; Nestor & Thompson, 2000; Rosser, 2003; Mallin, 2019) indicate two models of corporate governance. The first is the outsider (or Anglo-Saxon) model, which is adopted in countries including the US, the UK, Canada, Australia, and New Zealand. The second is the insider model, which is predominantly adopted in Germany, Japan, and France.

It can be argued that the primary distinctive characteristic of the Anglo-Saxon model is the unitary (single tier) board of directors, where board members, particularly IDs, are appointed by shareholders to ensure that the company management acts in their best interests (Roe, 2003; Mallin, 2019). The outsider model is also characterized by: dispersed ownership; equity finance; solid legal protection emphasizing shareholder supremacy; strong bankruptcy regulations; low influence of employees, creditors, and other stakeholders; strong disclosure requirements; and relatively more freedom in regard to mergers and acquisitions (Nestor & Thompson, 2000; Rosser, 2003).

In contrast to the outsider model, the insider model approaches agency problem by adopting a two-tier board structure where the managerial board, which is responsible for operational issues, is controlled by a supervisory board that engages in strategic decision-making as well as supervising the management board (Dahya et al., 2002; Mallin, 2019). The insider model can be further characterized by: weak legal protection of minority shareholders; concentrated ownership structures; increased dependence on bank finance; a central role of large stakeholders; relatively weak disclosure; and, limited freedom in regard to mergers and acquisitions (Rosser, 2003)

The outsider and insider models may represent the two poles of global corporate governance model; yet, in reality, most national corporate governance models fall somewhere between the two. This is true in the case of this study's context, the Kingdom of Saudi Arabia. Nonetheless, it can be argued that the Saudi model of corporate governance leans heavily towards the outsider model (see Section 3.3). While majority ownership, for example, may be predominant in the Saudi corporate environment, the country's corporate governance systems and regulations are adopted entirely from the outsider model (Seidl et al., 2013; Al-Abbas, 2015; Al-Bassam, 2014), where all publicly listed companies use a unitary board system. The following sections will discuss corporate governance in an international context, namely the development of corporate governance in the UK and US[1].

2.2.2 Corporate Governance development in the UK

The development of corporate governance in the UK began when the Financial Reporting Council, the London Stock Exchange and the Accountancy Profession set up the Cadbury Committee in May 1992 to address the financial aspects of corporate governance. On a comply or explain basis, the Code was based on three main principles: openness, integrity, and accountability. In 1995, the Greenbury committee

1. Corporate governance in Saudi Arabia will be discussed in the next Chapter.

was set up to identify good practice in determining directors' remuneration in response to public and shareholder concerns about pay and other matters related to the remuneration of company directors. The Greenbury report (1995) recommended that boards of directors set up a remuneration committee of non-executive directors to determine on their behalf, and that of the shareholders, within agreed terms of reference, the company's policy on executive remuneration and specific remuneration packages for each of the executive directors, including pension rights and any compensation payments.

Further progress was made in 1998, when the Hampel Committee was established to review the Cadbury (1992) and Greenbury (1995) reports and their level of implementation. The Hampel committee found that most listed companies had fully implemented both codes. However, smaller companies found it harder to comply with the reports. Nevertheless, the Hampel report (1998) asserted the importance of high governance standards and concluded that governance standards should not distinguish between larger and smaller companies.

In 1999, the Turnbull committee focused on the need for directors to review risk management and internal control systems and report on them, since a company's system of internal control has a significant role in the management of risks for the achievement of its objectives. Thereby, the report recommended a framework for establishing systems of internal control.

The Higgs report, which was introduced in 2003, focused on the contribution of NEDs. Higgs (2003) was built on the 'comply' or 'explain' approach established by the Cadbury report (1992), and recommends specific guidelines regarding non-executive directors and their role. For example, the report emphasized the importance of IDs by recommending that they should comprise at least half of the board members.

Following the emphasis in the Higgs report (2003) on the roles and effectiveness of NEDs, the Tyson report (2003) focused on their recruitment and development, indicating that the best boards consist of the right mix of members with different skills, experience, and knowledge. Accordingly, the Tyson report (2003) makes three key recommendations in terms of additional guidance: a rigorous and transparent NED selection process, more and better evaluation and training for board members, and greater board diversity. Also in 2003, the Financial Reporting Council established the Smith committee to develop guidance on audit committees in response to corporate failures in the US in early 2002.

In 2006, the Financial Reporting Council published the 2006 combined Code. This was subsequently updated in 2007, 2008 and 2009 and called the UK Corporate Governance Code 2010. The Code was later updated in 2012, 2014 and 2018. It is worth noting that while previous UK codes underline the shareholders' role in corporate governance is to appoint directors and auditors to ensure that an appropriate governance structure is in place.' The 2018 Code of Corporate governance puts the environment in which companies, their shareholders and wider stakeholders in the heart of the Code to ensure a long-term sustainable growth in the economy. It does so by adopting the flexible application of the Code's principles through a 'comply or explain' basis while underlining that it is the responsibility of the board to use this flexibility wisely and of investors to assess adopted company approaches considerately (The UK Corporate Governance Code, 2018).

The next section discusses corporate governance in the US.

2.2.3 Corporate Governance development in the US

A series of collapses in large American corporations, including Enron and WorldCom, led the US to pass the Sarbanes-Oxley Act in 2002. The Act compels companies listed on national stock exchanges to adopt significant corporate governance and disclosure regulations, as well as providing the main regulatory system for accounting independence and certification (Brewer et al., 2011). For example, the Act requires CEOs and CFOs to certify the reliability of financial information in company reports, mandates the structure and functioning of audit committees, forbids CEOs from receiving incentive compensation upon accounting restatements, and prohibits executive loans and the procurement of non-audit services from auditors (Romano, 2009). The Act is thought to have had a positive effect on audit committee activities and corporate governance disclosure, as it mandates companies to invest in their internal control systems. This is thought to encourage the long-term enhancement of company corporate governance (Swartz, 2006).

The following sections will discuss some characteristics of the board of directors.

2.2.4 Characteristics of the Board

The board of directors can be seen as a fundamental mechanism of corporate governance (Monks & Minow, 2011; Westphal & Zajac, 2013). Thus, it is essential to understand the most important characteristics of the board to lay the fundamental groundings of board composition (executive directors, non-executive directors, and independent directors) and the board sub-committees (audit committee, remuneration committee, and nomination committee) which are key to understanding the environment within which IDs perform their roles. As such, the following subsections will discuss those key characteristics.

2.2.4.1 Board Composition

Board composition may involve a duality of a chairman and chief executive officer (CEO), and a number of executive directors (EDs), non-executive directors (NEDs), and independent directors (IDs). The next two sections will discuss these different issues in turn.

2.2.4.1. A. Executive, Non-Executive and Independent Directors

According to Article 1 of the Saudi Corporate Governance Code (2018), EDs are full-time board members that engage in the daily activities of the company, whereas NEDs are those members of the board that are not full-time, and do not participate in the day-to-day activities of the company. Additionally, Article 19 of the code indicates that for a member to be an independent director, he or she must be a NED and not refute the following requirements: holding (or representing a legal person who holds) more than 5% of the shares of the company or any other company within its group, is a relative of another member in the company's board or any other company within its group, is already a board member in any company within the company's group in which they are nominated to be an ID, If the individual currently is or has been an employee (or a holder of a controlling stake) of the following: the company; a company within its group; or, any party that deals with the company (such as auditors and suppliers) within the two years prior to the nomination. Further, the board member cannot be an ID if he/she: has a direct or indirect interest in the company's businesses and contracts, receives any financial consideration from the company aside from remuneration for the board membership and its committees, is part of any company or business that competes with the company in which they are nominated, or if the board member has served a total of nine years, consecutive or non-consecutive.

It can be argued that the balance of executive and non-executive directors on the board is the most important factor affecting the board's efficiency, and can greatly influence the board’s performance of its duties (Musteen et al., 2010). Thus, the appropriate composition of directors within corporate boards has a potentially profound impact on a company's activities and can be critical to the realization of its goals and its overall success (Klein, 1998; Van der Walt & Ingley, 2003).

As will be discussed in more detail in the next chapter (Section 3.5) Article 17 of the Saudi Corporate Governance Code (2018) indicates that the number of board members shall not be less than three, and not more than eleven. Article 16 further indicates that NEDs should account for more than half of the board members, and that board IDs must be the greater of no less than two or one third of the total board members. The next subsection will discuss chairman/CEO duality in more detail.

2.2.4.1. B. Chairman\CEO Duality

The chairman\CEO duality refers to the structure of board leadership, whereby the chairman is also the CEO of the board. The chairman is recognized as the leader of the board, and his or her duties include supervising the process of hiring, firing, evaluating, and compensating the CEO (Jensen, 1993). It has been argued that the position of chairman should be independent from that of CEO, so as to mitigate the agency problem and carry out leadership tasks objectively, as there is a risk of a CEO acting based on his or her own best interests (Fama & Jensen, 1983; Jensen, 1993). Additionally, separating these two positions is thought to fortify board independence, particularly when monitoring management performance (Rechner & Dalton, 1991). Along the same lines, scholars including Van den Berghe and Levrau (2004) and Williamson (1987) have argued that separating the two roles can contribute to reducing management dominance over the board of directors, and safeguard shareholder rights. It is thus essential to the effectiveness of corporate entities to ensure the separation of the two positions.

Accordingly, many corporate governance codes, such as the UK Corporate Governance Code (2016) recommend the separation of the chairman and CEO positions (Division A.2.1). Similarly, the Saudi Code of Corporate Governance indicate that the position of the Chairman must not be combined with any executive position (Article 24). Furthermore, the OECD Principles of Corporate Governance (2015) asserts that the separation of the two positions is considered good practice, as it can be beneficial in enhancing accountability by maintaining proper balance of power within the board of directors, and refining the board's capacity to make decisions independently of management (Principal, VI.8).

Despite the above, the scholarly literature is not wholly supportive of the separation of the two positions. In fact, some authors (e.g. Brickley et al., 1997; Baliga et al., 1996; Donaldson & Davis, 1991) take an opposing view. For example, Donaldson and Davis (1991) argue that the chairman\CEO duality can provide clear leadership and decision-making unity. Furthermore, Baliga et al. (1996) indicate that there is no solid evidence that combining the two posts negatively affects companies, and, even though the separation of chairman and CEO has some benefits, the potential costs of the separation are greater (Brickley et al. 1997). The next section will discuss in more detail the characteristics of the board, specifically its sub-committees.

2.2.4.2 Board of Directors' Sub-Committees

The board of directors may delegate some of its tasks and responsibilities to different sub-committees, which are supervised by the board as it is responsible for the activities of these committees (Mallin, 2019). The Saudi Corporate Governance Code (2018) indicates that boards of directors may establish any number of specialized committees (Article 50). Regardless of this, the corporate governance literature suggests that there are three main board committees: the audit committee; nomination committee; and remuneration committee. Together, these ensure board accountability and maintain independent oversight over the board's activities (Brown et al., 2011). The following three sections will discuss these main board sub-committees in more detail.

2.2.4.2.A Audit Committee

It can be argued that the establishment of audit committees was driven by international corporate collapses (Spira, 1999). It can thus be argued that, in many countries, such corporate scandals have led to the creation of corporate governance regulations awarding a prominent role to the audit committee (Rustam et al., 2013). Consequently, the audit committee can be seen as the key monitoring sub-committee of the board (Mallin, 2019).

The UK's Smith Report, first published in 2003, is intended to ensure the effectiveness of audit committees by focusing on the role they play in the internal control of publicly listed companies. The report, for example, explains the role of the audit committee, indicating that it should guarantee the independence of external auditor services and ensure proper functioning of the company's internal controls and its financial reporting (Mallin, 2019). More recently, the UK's Corporate Governance Code (2016) included a requirement that shareholders are to be informed on how audit committees perform their duties.

In Saudi Arabia, the establishment of audit committees was not recommended by the Saudi regulators until the issuance of the 1994 Ministry of Commerce resolution mandating that all publicly listed companies should establish such a committee (Al-Twaijry et al, 2002; Al-Moataz, 2003; Al Lehaidan, 2006). Prior to 1994, the number of companies that had already established an audit committee was very small. In fact, Piesse et al. (2012) claims that listed companies did not have any board sub-committees prior to the 1994 Ministry of Commerce resolution, and indeed by 2001 the number of firms embracing the use of these committee had increased only to five (Al-Qarni, 2004). Although it should be noted that at the time audit committees were composed of executive members only (Al-Moataz, 2003).

Recently, Article 54 of the Saudi Corporate Governance Code (2018) has included a mandate that all listed companies in the Kingdom establish an audit committee, which must be chaired by an ID member, and shall not include any ED members. The next subsection will discuss the remuneration committee.

2.2.4.2.B Remuneration Committee

The remuneration committee is an administrative tool that encourages an acceptable degree of integrity in regard to executive remuneration (Main et al., 2008). Discussing concerns regarding remuneration, the Greenbury Report (1995) indicates that boards of directors should establish a remuneration committee of NEDs to determine on their behalf, and on behalf of the shareholders, a detailed remuneration package for each executive director to avoid potential conflicts of interest (Provision A.1). Along the same lines, Solomon (2013) argues that the Greenbury Report does not attempt to reduce directors' salaries, rather, it provides a means to establish the necessary balance between the directors’ performance and remuneration. Currently, the UK Corporate Governance Code (2016) recommends that companies should establish a remuneration committee of at least three, or in the case of smaller companies, two, independent directors (Provision D.2.1.). The next subsection will discuss the nomination committee.

2.2.4.2.C Nomination Committee

Nomination committees have two main responsibilities. The first is to identify the required skills for the appointment or replacement of directors on the company's board and to approach potential candidates. The second role is arguably more critical, as it involves regularly reviewing the board's performance (Carson, 2002). Consequently, it is considered that stakeholder interest should be significantly better protected in companies with an established nomination committee than those without one (Vafeas, 1999; Shivdasani & Yermack, 1997). Thereby, the UK Corporate Governance Code (2016) suggests that all boards should have a nomination committee that should direct the process of board appointments and makes recommendations to the company's board. The code further indicates that the majority of members of the nomination committee should be IDs. (Provision B.2.1.). The next section will discuss the remuneration and nomination committees in the context of Saudi Arabia.

2.2.4.2.D The Remuneration and Nomination Committees in Saudi Arabia

At its introduction in 2006, the Saudi Corporate Governance Code included a voluntary provision recommending the establishment of a single committee entitled "the remuneration and nomination committee" (Falgy, 2009). These committees did not become mandatory until the code was revised in 2010 to indicate that, by 2011, all publicly listed companies must establish a remuneration and nomination committee. More recently, and as an attempt to adopt better corporate governance practices and improve the attractiveness of the business environment in Saudi Arabia, the revised Saudi Corporate Governance Code (2018) instructs that the duties of the nomination and remuneration committee must be separated between two committees, a nomination committee and a remuneration committee. The next section will discuss the notion of accountability.

2.3 The Notion of Accountability

Gray and Jenkins (1993) state that accountability is "an obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities". (p. 55). Similarly, Gray et al. (1996) argue that accountability exists when resource users have a responsibility to meet; i.e. company managers, are expected to use company resources responsibly and to provide an account of their actions to resource holders. The latter two definitions of accountability arguably reflect a narrower view, as they limit it to the resource holders (i.e. shareholders), whereas broader definitions expand it to all interested parties. For example, Kaler (2002) contends that to be accountable is to be answerable. Thus, accountability can be recognized as answerability where the accountable party provides answers (i.e. give an account) to interested parties. This implies that accountability, in general, demands providing an account of the responsible party's actions to interested parties. Which, in turn, raises the following questions: 1) Who is accountable? 2) To whom? 3) How? 4) For what? (Perks, 1993).

Companies function in the real world, and their actions impact other parts of society. Hence, shareholders are not the only stakeholders to be affected by the actions of an organization's management. Certainly, accountability as a model is flexible, with the result that companies can be accountable to stakeholders, employees, customers, the environment, and society, as they are typically affected by their firm's behavior (Gray et al., 1996).

Robinson (1971) argues that the foundations of accountability are threefold. Robinson (1971) lists these foundations as (i) program accountability, which focuses on goal achievement as measured relative to the actual work performed; (ii) process accountability, whereby the effectiveness and efficiency of the work process is examined; and (iii) financial accountability, which is concerned with financial deviations from planned expenditures. Stewart (1984) further developed the understanding of accountability by developing a so-called 'ladder of accountability'. The ladder consists of several rungs, the first of which is accountability for integrity and legality, which generally means ensuring the proper use of financial funds. The second of the rungs is process accountability, which refers to the use of appropriate producers by managers to achieve the firm's goals. Next is performance and program accountability, whereby the achievement of the firm's goals is measured. The final rung is policy accountability, which deals with accountability issues in the case of poorly defined goals and objectives.

Messner (2009) further contended that accountability should provide explanations, justifications and responsibility for actions that have been taken to fulfil the interests of shareholders and other stakeholders. This implies accountability involves a nexus of two parties, the accountee (i.e. principal) who deputizes a duty to the accountor (i.e. agent), who is then obliged to enlighten the accountee of the status of the deputized duties to discharge their accountability. An accountee or accountor can be either a person, an organization or a group. Additionally, depending on the shape of the relationship, an accountee could also be an accountor and vice versa. For instance, an employee is accountable to his\her manager to execute his\her duties in an adequate manner, and the manager is accountable for offering a safe and adequate working environment to the employee (Gray et al., 1996). This demonstrates how the accountability nexus can be considered as a bond that ties an accountor to an accountee in a unique relationship, and that in certain cases an accountee could hold the role of accountor to other parties.

Moreover, Stewart (1984) contends that the accountor and accountee bond is a power relationship, with the accountee having power over the accountor establishing a disciplinary role as part of this relationship. Stewart (1984) further argues that while this model was initiated for the purpose of public accountability analysis, it might also be implemented in other fields, such as those that relate to managerial and commercial accountability.

Monks and Minow (2011) point out that firms view accountability as an obligation to society, and not as a choice. Hence, accountability can be understood as a type of contract between a firm and its principal stakeholders. Furthermore, this contract is perceived as subject to two sets of laws: a public law that assures minimum requirements are met, and a private law, based on the agreements between the firm itself and interested parties (Monks and Minow, 2011; Gray and Jenkins, 1993).

Accountability seek to prevent maladministration and to ensure the efficient use of the firm's resources (Stewart, 1984). Roberts (2009) argues that accountability could be improved by better transparency. Moreover, enhanced transparency is thought to be beneficial in attracting global capital, and increasing investor confidence (Monks & Minow, 2011).

To this end, Roberts (2009) claims that greater disclosure is intended to enhance transparency, but that greater disclosure and the resulting transparency do not necessarily mean better accountability. This argument is supported by Billings and Capie (2009), who observed that the banking system in the UK was stable during the period of non-disclosure (the period prior to the publication of the financial statements of the major UK banks in 1969), and that major faults in the banking sector emerged only after disclosure of true profits and capital. Roberts (2009) therefore advocated the use of 'intelligent accountability' [2] (O'Neill, 2002), which is considered an essential aspect of ensuring companies make a genuine attempt to employ transparency in order to overcome the shortcomings of accountability. This includes active enquiry extended over time by talking, asking questions, and listening, through

2 Accountability can also be viewed as the *active* engagement of companies with their key stakeholders (i.e. investors in the case of this study).

which the relevance or accuracy of indicators can be understood in context (O'Neill, 2002).

Nonetheless, Green et al. (2008) argue that the meaning of accountability has changed, as those who were originally considered accountable were powerful managers of firms. This possession of power by those holding a high level of authority has led to individuals with less power (previously the accountee) becoming accountable to those with more power (previously the accountor). Moreover, the lack of adequate measurable standards and the absence of sufficient accountability structures within companies shed light on the importance of inducing clear accountability standards (Monks and Minow, 2011). They further assert that an effectual system of accountability is necessary to maintain a firm’s legitimacy and credibility. Perks (1993) claims that although greater accountability would be preferred by principals, agents are in general, likely to avoid any amplification of their responsibilities and the constraints imposed on their freedom by fortified accountability. The next section further investigates the principal agent relationship providing a review of those corporate governance theories that provide the theoretical foundation of this study.

2.4 Theoretical Framework

This section presents a critical review of significant and relevant theoretical literature to provide a theoretical foundation to establish the roles of independent directors.

2.4.1 Agency Theory

Agency theory can be seen as the primary theoretical source (see section 2.5) used to comprehend the IDs' performance of the control role. The theory also affirms the strategic role of IDs, specifically their participation in and contribution to a firm's strategy development, as well as the improvement to and effective application and control of those chosen strategies (Pearce and Zahra, 1989). Furthermore, the theory can be regarded as the dominant theory for interpreting CG issues (Ward & Filatotchev, 2010; King & Wen, 2011; Renders & Gaeremynck, 2012).

Agency theory is one of the principal models of corporate governance in the Anglo-Saxon framework, which is best practiced in the UK and US. Under this framework, publicly held companies largely depend on a dispersed ownership structure (Solomon, 2013). This ownership structure has created an inevitable separation between the control and ownership of wealth (Berle and Means, 1982). The fundamental principle of agency theory was therefore inspired by this separation of ownership and control (Schneider & Scherer, 2015). Indeed, Fama and Jensen (1983) identified this structural division as a chief characteristic of modern firms. Referencing this theory, managers who control companies are regarded as "agents" for the "principals" who own them (Jensen and Meckling, 1976). Owners generally strive to maximize their wealth by maintaining control of their own companies; however, this is frequently unattainable due to capital requirements of new firms (i.e. where there is a natural separation of ownership and control) (Berle and Means, 1982). One of the main reasons for the separation of ownership and control where it exists is multi-ownership. This structure arises from the relative ease of raising capital from large groups of small investors rather than from small groups of large ones, as well as the need to diversify risk by holding a small number of shares in a large number of companies (Jensen and Meckling, 1976).

Agency theory assumes that a rational person seeks to maximize his or her individual utility (Jensen and Meckling, 1976). Based on this assumption, both principals and agents would be likely to make the best decisions concerning how to maximize their individual wealth (Fama and Jensen, 1983). A clear conflict of interest occurs when principals employ agents as a means to maximize their own utility, while agents accept the need to do so for the opportunity to maximize their own utility at the expense of principals (this is known as the type I agency problem) (Jensen and Meckling, 1976).

The type II agency problem arises when controlling shareholders maximize their own interests at the expense of minority shareholders (Shleifer and Vishny, 1997; Amit and Villalonga, 2006). Both agency problems arise as potential issues in the Saudi business environment, as majority ownership occurs in almost all Saudi companies. The majority in this case is either government institutions (as in the case of a type I agency problem), or large investors (as with a type II agency problem).

In the same vein, it can be argued that a primary objective of agency theorists is to reduce agency costs utilizing the establishment and reinforcement of mechanisms intended to protect shareholder interests (Kosnik, 1987). Reduced agency costs can be achieved through various executive remuneration methods and governance structures (Jensen and Meckling, 1976). Agency theory assumes that the best way to resolve the agency problem is to ensure that the interests of the two groups are aligned (Prencipe et al., 2014). Incentives such as performance linked share options, bonuses, and remuneration packages provide both rewards and punishments for agents to ensure agents' interests are aligned with those of the principals (Jensen and Meckling, 1976).

Governance structures such as the inclusion of IDs are designed as mechanisms to reduce agency costs and protect shareholder interests (Choi et al., 2007). Fama (1980) argues that agency problems arise when managers are not held accountable when risks are associated with their decisions; in many cases, IDs are regarded as the ultimate internal monitoring mechanism within a company. Discussing this topic, Weisbach (1988) contends that IDs afford a first line of defense against incompetent management, ideally ensuring adequate monitoring to avert management oversights (Higgs Review, 2003).

Agency theory has been criticized by Donaldson & Davis (1991) on the grounds of its methodology, individualism, narrow definition, disregard for other research, organizational economics, CG defensiveness, and ideological framework, as it focuses only on individual rather than organizational behavior. Therefore, despite considerable evidence in support of agency predictions, critics of agency theory have argued that the theory lacks validity outside a specific social context. They specifically contend that agency theory relies on an assumption of self-interested managers who seek to increase their personal economic wealth while minimizing personal effort (Wiseman et al., 2012). Critics of agency theory consequently view it as being applied to settings in which managers hold little regard for others and have little concern for their own responsibilities (Davis et al. 1997).

While agency theory assumes managers have utility maximizing behavior, it ignores other non-financial motivations, which might affect their behavior, such as inner satisfaction and a need for recognition. These considerations are addressed by stewardship theory, which will be discussed next.

2.4.2 Stewardship Theory

While affirming the strategic role of IDs, stewardship theory, unlike agency theory, assumes managers are trustworthy, disagreeing on the control role of IDs. Stewardship theory views humans as motivated by their achievement of higher order needs (Davis et al., 1997). This highlights the position that managers' behavior is driven by an array of non-financial motivations, including the need for achievement and recognition, an inner satisfaction with effective performance, and respect for authority and work ethics (Argyris 1964; Herzberg 1966; McClelland 1961). Therefore, the theory assumes that managers are primarily motivated not by monetary considerations, but rather by the personal satisfaction they derive from performing the difficult tasks entrusted to them (Patrick et al., 2015). Stewardship theory also assumes the relationship between managers and investors is collaborative, as this then promotes trustworthy behavior among firms' managers (Davis et al., 1997; Haskins et al., 1998). Therefore, if any conflict of interest arises, managers, as good stewards, then favor a solution in the owner's best interest (Eddleston & Kellermanns, 2007).

Similarly, Hernandez (2012) argues that stewardship theory expects that managers place long-term group interests above short-term self-utility.

Hence, a key advantage of the theory is its assertion regarding the integrity of management decision-making (Schneider & Scherer, 2015). Davis et al. (1997) further contend that managers would be predicted to ordinarily value group goals over personal goals, perceive self-interests as inferior to the interests of the owners, and consider organizational prosperity of as their principal aim, regardless of individual service. Hence, stewardship theory assumes the role of IDs is to provide guidance instead of control to managers, in order to achieve the missions and objectives of the company (Hillmann and Dalziel, 2003; Shen, 2003). The theory also assumes managers are regarded as trustworthy, loyal, and essentially good stewards of corporate assets (Gabrielsson, 2003). Thereby, an environment of trust is expected to fuel cohesiveness, openness and generosity, as well as creativity and involvement (Huse, 2007). Tricker (2009) argues that trust-based relationships support classical ideas about corporate governance.

It is worth noting that the stewardship theory can be criticized for failing to recognize that some managers neglect the interests of shareholders and that others are guilty of malfeasance (Choo & Tan, 2007). Choo & Tan (2007) further argue that while managers are motivated to act in the best interest of the principals, it is imperative to address the question of the extent to which they are willing to maintain good corporate performance. Moreover, Albrecht et al. (2004) claimed that, based on their own moral conduct, stewards may place their trust in managers and may thus provide then with opportunities to commit fraud. This has given rise to fears that, when applied, the resource dependency theory may expose companies to the risk of corporate governance failure (Chambers et al., 2013).

Agency theory and stewardship theory emphasize the importance of IDs' control (Agency theory) and strategic (Agency theory and Stewardship theory) roles. However, they also ignore the capability of IDs as regards accessing scarce resources and utilizing them to serve their company's interest. To provide a theoretical foundation for this role, resource dependency theory is discussed below.

2.4.3 Resource Dependency Theory

Resource dependency theory emerged from economic and sociological studies that examined the distribution of power in firms, in particular when investigating board overlaps and influences on industrial competition (Pearce and Zahra, 1989). These studies concluded that new directors are usually selected to facilitate fund raising, to enhance a firm's reputation and to reduce external threats such as mergers, joint ventures and problems with contracts (Zald, 1969; Pennings, 1983; Pearce and Zahra, 1992). Therefore, the theory assumes that corporate governance mechanisms such as IDs can aid companies in generating, gaining and preserving resources (Chen & Roberts, 2010).

While resource dependence theory tackles the strategic role of IDs, it is considered the primary theoretical construct of the resource provision role. Indeed, as the theory claims, IDs might be used by firms to further cooperative objectives; they would be expected to link themselves to the external environment to gain access to vital resources to protect themselves from the external environment by nominating acknowledged members to sit on their boards (Pfeffer, 1972). Pfeffer (1972) further contends that organizations might barter for some degree of control and privacy in exchange for support and protection from external organizations.

The proponents of the resource dependency theory suggest that company resources influence its behavior (Pfeffer and Salancik, 1978). Resources are assumed to be scarce, which leads companies to compete for them (Hessels and Terjesen, 2010). Thus, the theory emphasizes the importance attached to IDs, as they are responsible for ensuring access to scarce resources and for securing them to benefit the company (Li, et al., 2012). IDs can therefore be seen as exceptionally significant in facilitating the company's access to vital resources (Issa, 2017). These resources could take the form of external financial or other vital resources (Hillman, et al., 2000; Mizruchi and Stearns, 1994), information about competitors, industry (Lang and Lockhart, 1990), management advice (Westphal and Zajac, 1995), and improved reputation and legitimacy (Daily and Schwenk, 1996). While resource dependency theory provides an interesting interpretation of corporate governance, it does not comprehensively explain the effect of different CG structures (Christopher, 2010). For example, the theory has been criticized for its inability to identify or explain the influence non-board of director factors have on a company's success (Chen & Roberts, 2010).

2.4.4 Theoretical Framework in the Saudi Context

Agency theory probes conflicts of interest between shareholders and managers, highlighting the agency costs that such conflicts produce and proposing remedies to mitigate them. Conflicts of interests could arise when agents seek to maximize their own utility at the expense of a principal's wealth (type I agency problem), or as a result of majority shareholders seeking to maximize their own wealth at the expense of minority shareholders (type II agency problem) (Jensen and Meckling, 1976). While both these problems exist in the Saudi context, the type II problem is arguably more common due to the prevalence of majority ownership (either private or state) amongst listed firms in the country (Baydoun et al*.,* 2013).

As will be discussed in Chapter 3, the government of Saudi Arabia has made notable efforts to address the above issues, in order to protect existing shareholders and attract new local and foreign investments. For example, the issuance of the Saudi Corporate Governance Code in 2006 marked important progress in the country's endeavor towards corporate reform (Alnodel and Hussainey, 2010; Robertson et al*.,* 2013). The code, in general, aims to mitigate the agency problem by enhancing corporate governance (Alshehri and Solomon, 2012). It further emphasizes the roles and responsibilities of corporate boards of directors and their independent elements (SCGC, 2006, articles 10, p.10).

Agency theory, resource dependency theory and stewardship theory provide a theoretical foundation, explicating the strategic, resource provision and control roles performed by IDs. Despite all three theories agreeing the strategic role, agency theory is considered a key theoretical foundation of the control role, and resource dependency theory emphasizes the importance of the resource provision role. Furthermore, while some managers can be deemed good investor stewards, they might nevertheless value the potential resources ID's can bring to a firm. The next section will further probe the roles of IDs.

2.5 Roles of Independent Directors

This section reviews the roles of IDs and is structured into four parts. It commences by elaborating the strategic role of IDs. Then follows an explanation of the control role and the resource provision role. Finally, empirical evidence related to the presence of expectation gaps in IDs' roles will be discussed.

2.5.1 The Strategic Role

Elevated activism and public surveillance, along with increased pressure for corporate accountability has urged further examination of the strategic roles in corporate boards (Judge and Zeithaml, 1992). Mace (1979), and Lorsch and Young (1990) argue that although IDs are generally willing to play a strategic role, they have been constrained from doing so, or given the chance to do so only in troubling times. Furthermore, Stiles and Taylor (2001) contend that strategy building is not part of the board's strategic role in large corporations. Their role is rather to set out the strategic context, which can be achieved by defining the firm's purpose, effectively reviewing strategic proposals, supporting and motivating managers with good records when realizing strategic goals, and by choosing directors to send messages regarding the standards employees should meet if they are to succeed.

Arguably, the strategic role is thought to be the defining characteristic, differentiating corporate boards from corporate management (Lorsch and Young 1990). IDs assist in formulating the firm's strategy, allocate its resources and set out its policies (Tricker, 1994). The strategic role of IDs incorporates the corporation's business sector, formulating its vision and mission, evaluating strategic threats and opportunities, reviewing strategic strengths and weaknesses, and choosing and employing strategies (Tricker, 1994; Pearce and Zahra, 1991; Hilmer 1993a). Mintzberg (1983) and Parkinson (1995) contend that the strategic role of IDs is a chief factor aligning the interests of a corporation's managers, with its shareholders and when enhancing its competitiveness. Similarly, Andrew (1980) claims that actively identifying the future prospects of a company is an important feature of IDs' strategic role.

Agency theory (Eisenhardt, 1989a), resource dependency theory (Pfeffer, 1972) and stewardship theory (Donaldson and Preston, 1995) agree on the strategic role of IDs. Agency theory allocates significant importance to their strategic role, particularly their contribution to setting out the company's mission, its strategy development, and when establishing effective execution and control procedures (Pearce and Zahra, 1989).

Researchers (e.g. Pfeffer and Salancik, 1978; Pearce and Zahra, 1991; Goodstein and Boeker, 1991) argue that stewardship theory considers the strategic role of IDs is part of their stewardship of the firm. They further argue that resource dependency theory views the increase in size and diversity of corporate boards when securing scarce resources that contribute positively towards more updated strategic information.

2.5.2 The Control Role

Berle and Means (1932) argue that control is in the hands of those who select the board members. Similarly, Herman (1981) contends that those who have the power to select company executives exert influence over critical decisions.

Corporate boards have a legal obligation to oversee managers to guarantee the alignment of their interests with those of their shareholders (Stiles and Taylor, 2001). Hence, control forms a key role for all board members, including IDs (Krause et al., 2013). IDs are also viewed as the first line of defense against nonconformist management practices (Weisbach, 1988). All IDs are expected to meet minimum levels of knowledge, care and skill (Parkinson, 1995). Parkinson further claims that executive directors have a duty to devote their consideration to a firm's affairs full-time, while IDs primary obligation is to monitor firm's management and detect fraud, if any exists. Wang et al. (2015) confirmed that IDs are an effective mechanism of control. It can thus be argued that an important part of an IDs job is to monitor (and understand) the actions of managers, in order to be able to evaluate the impact of such actions on the company (Khanna et al., 2014). Similarly, Samaha and Dahawy (2011) asserted that IDs constitute a primary internal mechanism for monitoring management in Arab countries.

Agency theory views IDs as a mechanism of control; IDs are charged with mitigating the agency problem by monitoring management decisions and evaluating their impact on shareholder's wealth (Fama and Jensen, 1983). Resource dependency theory argues that the control role can be implemented by IDs; they provide important information, securing vital operational resources, and delivering beneficial transactions to companies through their enmeshment with the board (Pearce and Zahra, 1989).

2.5.3 The Resource Role

Stiles and Taylor (2001) claim that resource dependency theory provides the main theoretical backdrop to IDs resource provision role. Resources are assumed to be scarce, which leads companies to compete for them (Hessels and Terjesen, 2010). Thus, resource dependency theory underlines the importance attached to IDs, as they are responsible for ensuring access to scarce resources and for securing them to benefit the company (Li, et al., 2012). For instance, IDs minimize environmental uncertainty by forecasting and responding to environmental threats and their impact on the firm is considered a chief factor in a board's function (Stiles and Taylor, 2001). Moreover, utilizing IDs as instruments of cooperation reveals their capacity to encourage long-term affiliation with major external players, in order to secure additional information and improve the firm's association with external challenges and opportunities (Pearce and Zahra (1992); Faleye et al., 2014). Similarly, new directors may be selected to facilitate fundraising, to enhance a firm's reputation, and to reduce external threats such as mergers, joint ventures and problems with contracts (Zald, 1969; Pennings, 1983; Pearce and Zahra, 1992).

2.5.4 Expectations Gaps in the Roles of Independent Directors

The term "Expectations gap" initially emerged in auditing research to describe the situation whereby investors expect audited accounts to be accurate; whereas the reality is that auditors evaluate whether audited accounts reflect a true and fair, yet not necessarily accurate, view (Bernnan, 2006). Liggio (1974) offers one of the first definitions of the audit expectations gap, stating that an expectations gap arises when there is a variation in the level of predicted performance between auditors and financial user groups. More recently, Deegan and Rankin (1999) defined the expectations gap as the outcome of differences in opinion or perceptions amongst two or more groups.

Porter (1993) indicates that the expectations gap comprises two elements: (i) A reasonableness gap (the gap between what is expected to be achieved and what can sensibly be expected to achieve), and (ii) a performance gap (the gap between what can reasonably be expected to achieve and perceived actual achievements).

Research on the expectations gap as it impacts on IDs' roles is a relatively sparse. Keasey and Wright (1993) state that "Third parties have a key role to play in ensuring the accountability of directors and management, especially auditors and non-executive directors. This in turn raises the question of what their roles are expected to be and the difficulties in carrying them out. The existence of a gap between what auditors are legally required to do and what they are expected to do by society in general is one manifestation of the problem". (p. 293)

Moreover, they review the role played by non-executive directors in ensuring the accountability of managers, but only underlining the expectation gap in the auditors' role. Thus, expectations gaps in the roles of IDs were overseen (Brennan, 2006).

While many studies have examined the relationship between corporate financial performance and the characteristics[3] of IDs (e.g. Ezzamel and Watson, 1993; Firth et

Namely, the proportion of IDs on corporate boards.[3]

al., 2006; Pearce and Zahra, 1991; Peng, 2004), few have directly investigated the desirability, reasonableness, and effectiveness of IDs' roles (e.g. Li, et al., 2012). Reay (1994) indicates that only 41% of British institutional investors consider that IDs perform an effective monitoring role, despite all agreeing on the importance of this role. However, other independent director roles and the perceptions of other parties were not examined in this study. Another pioneering study surveyed 1000 IDs, employee representatives, and institutional investors in the Netherlands (Hooghiemstra & Van Manen, 2004). Hooghiemstra and Van Manen (2004) reported expectation gaps in stakeholders' satisfaction with IDs' actual performance, their roles in directors' compensation and the interests they sought to protect. Nevertheless, they reported no gaps in the separation of responsibilities between executives and IDs.

Although the studies by Reay (1994) and Hooghiemstra and Van Manen (2004) produced interesting findings, they do not differentiate the reasonableness gap from the performance gap, which partially obscures their findings. In an attempt to mitigate this issue, Brennan (2006) differentiated the reasonableness gap from the performance gap in relation to the board of directors and firm performance. It should be noted that Brennan's study is based on a literature review only, and is concerned with boards of directors in general, rather than IDs specifically. Another study differentiating the reasonableness gap from the performance gap, Li et al. (2012) explored whether an expectations gap exists in the roles of IDs in listed Chinese companies, reporting influential factors. However, previous research has predominantly focused on developed (Reay, 1994; Hooghiemstra & Van Manen, 2004; Brennan, 2006) or transitional economies (Li, et al., 2012). While such findings might not be relevant to developing economies, they certainly lay the groundwork for future studies to contribute to the existing gap on developing economies (e.g. in this research, Saudi Arabia).

2.5.5 Independent Directors in Saudi Arabia

Although Saudi Arabia is one of the important economies in the world (as discussed in the next chapter), few studies have focused on IDs in the country. Some of these studies are outlined in the following paragraphs.

Prior to the introduction of the Saudi corporate governance code, Al-Harkan (2005) attempted to investigate the nature of corporate governance in Saudi Arabia. His findings indicated that large companies, particularly banks and petrochemicals companies, tend to adopt additional corporate governance practices, such as separating the chairperson and CEO positions, and encouraging the appointment of more IDs to their boards. He further indicates that business skills and professional qualifications are the most important factors considered by large listed Saudi corporations when nominating non-executive directors (NEDs). However, he argues that the lack of corporate governance regulations affects the overall status of shareholder and stakeholder protection in the Kingdom.

Investigating the perceptions of different stakeholder groups regarding corporate governance practices in Saudi Arabia, Falgi (2009) can be considered as the first scholar to investigate corporate governance in the Kingdom after the introduction of the corporate governance code in December 2006. His findings indicated limited awareness of corporate governance among Saudi business groups, including board members, arguing that this undermines the effectiveness of corporate governance procedures in the country.

More recently, Al-Malkawi et al. (2014) studied corporate governance practices in five Gulf Cooperation Council (GCC) countries. They used an un-weighted corporate governance index to catalogue listed non-financial firms in the GCC. They found the United Arab Emirates has the highest level of corporate governance compliance, followed by Oman, Saudi Arabia, Qatar and Kuwait respectively. However, the use of a single index to evaluate corporate governance in different countries that adopt different corporate governance codes led to some research limitations. For example, the Omani index ignores certain aspects describing the board of directors, such as board composition and number of board meetings.

Al Amri (2014) investigated the institutional factors that influence corporate governance practices in Saudi Arabia. His findings indicated that due to the "comply or explain" nature of the Saudi code of corporate governance (the Saudi code became mandatory in 2018), government controlled companies are more likely to adopt voluntary corporate governance practices than family-controlled listed companies. He further argues that family-controlled companies typically adopt voluntary corporate governance practices, which do not undermine their control over the firms.

Gashgari (2017) explored the implications of corporate governance practices and frameworks for large-scale businesses in Saudi Arabia. The study used a mixed-methods approach involving a questionnaire distributed to a sample of 25 executive management personnel from three organizations, and interviews conducted with 15 executive management members from four organizations. The empirical findings presented in the study showed good compliance with the Saudi code of corporate governance. Gashgari (2017) argues that the overall status of corporate governance is relatively weak, based on the corporate governance practices suggested in the literature. However, this may not necessarily be the case, as the corporate governance practices suggested in the study may not be of relevance to the Saudi Arabian business environment. Furthermore, the sample chosen for this study might not be a good indicator of the status of corporate governance in Saudi Arabia. For example, out of the study's sample of 7 organizations, only two are companies publicly listed in the Tadawul.[4]

Reviewing some of the important corporate governance studies conducted on Saudi Arabia (e.g. Al-Harkan, 2005; Falgi, 2009; Al-Malkawi et al., 2014; Al Amri, 2014; Gashgari, 2017) indicate a lack of research in investigating expectation gaps in the roles of IDs in listed Saudi companies. Thereby, this research intends to fill this gap by investigating the existence of expectations gap in the role of IDs in the country which could make it the first study to do so in an emerging economy as discussed in the previous section.

The Saudi stock market.[4]

2.6 Research Aims and Questions

As discussed in the next chapter, Saudi Arabia remains heavily dependent on its oil exports. The Ministry of Finance estimates that Oil revenues accounted for 90% of the country's revenue in 2014. This percentage indicates Saudi Arabia's high level of vulnerability to oil price fluctuations, underscoring the need for a stronger, more diversified, investor-attractive economy, as stated in the Saudi 2030 vision (see section 3.2). Good corporate governance practices, such as the inclusion of IDs reduce investment risk by lowering monitoring costs for managers and contributing to an economy that is more appealing to investors (Shleifer and Vishny, 1997; Bebchuk and Weisbach, 2010). Attracting additional investors creates a more diversified economy; one that is less dependent on oil revenues. Considering this, the Saudi authorities have endeavored to improve corporate governance practices in the Kingdom (see section 3.4).

Although the development of corporate governance in Saudi Arabia is experiencing continual progress towards better practices, earlier research (e.g. Al-Harkan, 2005; Falgi, 2009; Al-Malkawi et al., 2014; Al Amri, 2014) indicates that the status of corporate governance in the country is not yet ideal. The Saudi authorities are engaged in attempts to impose additional corporate governance regulations to enhance the reliability of the monitoring mechanism and attract foreign investment. Corporate governance monitoring mechanisms, such as IDs reduce risk to investors by reducing the monitoring cost of managers and provide a more attractive investment environment (Shleifer and Vishny, 1997; Bebchuk and Weisbach, 2010).

Jensen and Meckling (1976) argue that agency theory highlights the separation between ownership and control. They note that the theory also emphasizes the agency costs that can arise as a result of this separation, suggesting a need for a monitoring mechanism to mitigate this issue (Jensen and Meckling, 1976). While stressing the control role of ID's, this view of the principal agent relationship lessens the positive effects of trust within the board, as it suggests managers are largely driven by self-interest. Stewardship theory in contrast undertakes a contrasting view of managers (see section 2.4), considering them good stewards, observing that their interests are aligned with those of owners. While agency theory and stewardship theory both confirm IDs have a strategic role to fulfill, the theories neglect to examine overlaps in the relationship between IDs and the company's external environment. These relationships can be of great importance as means to secure vital resources for a firm based upon the assumptions of resource dependency theory (see section 2.4). Such resources, when utilized to their full potential might be expected to positively influence the firm's strategic decision-making processes.

With the growing importance of the roles ID's play, comes considerable expectations concerning their performance. This study concerns how ID's and other board members perceive the roles and responsibilities of ID's. What are the roles ID's are expected to play? The study also questions how reasonable it is for ID's to play such roles under current circumstances? And, how well they fulfill them. Hence, the study intends to delineate clearly between the performance gap and the reasonableness gap. Finally, the study intends to bring attention to those factors/aspects that affect IDs when performing their reasonable duties, in order to contribute towards a better understanding of the corporate governance mechanisms in Saudi Arabia, and to provide useful insights to legislators and policy makers in the Kingdom as well as other emerging economies.

IDs are arguably among the most important aspects of corporate governance regulations. Nevertheless, mega corporate scandals suggest inadequacies in IDs and their roles. Thus, it is important to uncover the expectations gaps associated with IDs' roles and to identify remedies to address them to provide a more in-depth understanding of monitoring mechanisms in Saudi Arabia.

Theoretically, IDs are expected to perform three roles, namely: control, strategic, and resource provision roles. As will be discussed in the next chapter, the Saudi Corporate Governance Code (2018) confirms these roles of IDs. Therefore, the first research question is posed to identify what roles board members, executives, regulatory officials, and institutional investors expect IDs to play in order to discharge their accountability to investors:

RQ1. What roles are IDs expected to play?

By identifying the roles IDs should play, RQ1 acts as the first step of shedding light on the existence of an expectations gap in their roles. Indeed, as Porter (1993) asserts that the expectations gap includes two elements: (i) A reasonableness gap (the gap between what is expected to be achieved and what can sensibly be expected achieve), and (ii) a performance gap (the gap between what can reasonably be expected to achieve and perceived actual achievements).

Thereby, RQ1 is designed to identify what is expected to be achieved. However, in order to identify the reasonableness gap, the study intends to establish the reasonableness of the roles which IDs are expected to play. Hence, the next research question is posed to reveal whether IDs have been provided with the necessary resources and authority to execute their expected roles to act as stewards of the shareholders (as argued under stewardship theory):

RQ2. Under present conditions, is it reasonable to expect IDs to fulfill their roles?

As discussed above, RQ1 and RQ2 distinguish the reasonableness gap. Consequently, they separate out the reasonableness gap from the performance gap. However, to identify the performance gap (the gap between what can reasonably be expected to achieve, RQ2 and the perceived actual achievements, RQ3, the third research question aims to assess the effectiveness of IDs in the performances of their reasonable roles:

RQ3. Do IDs perform their reasonable roles effectively?

The findings of the above research questions will uncover and help assess the nature of expectations gap. However, in order to provide a better and more in-depth understanding of the effectiveness of the IDs' roles, the main aspects that contribute to the formation of expectations gap need to be identified and highlighted. These aspects are important as they can impede the IDs from fulfilling their roles effectively and acting as stewards of the shareholders (Davis et al., 1997; Haskins et al., 1998) and in linking themselves to the external environment to gain access to scarce resources that would protect the company from the external environment or capture new opportunities that would benefit the company (Pfeffer, 1972; Hessels and

Terjesen, 2010; Li, et al., 2012). The identification of such aspects can play a significant part in improving the Saudi monitoring mechanisms and consequently reducing the existing agency costs (Jensen and Meckling, 1976; Weisbach, 1988; Choi et al., 2007) and hence facilitate a more effective governance mechanism and result in much more productive board performance. Hence, the fourth research question is posed as follows:

RQ4. What factors/aspects aid or hinder IDs in the execution of their roles?

2.7 Conclusion

The literature review presented in this chapter revealed that IDs play three key roles: control role, strategic role, and resource provision role. However, in fulfilling these roles, it is argued that there exist an expectations gap that impede governance mechanisms from operating efficiently, in general, and the IDs from fulfilling their roles, in particular. As a result of the expectations gap, boards are less able to serve the best interest of their shareholders and act as a catalyst to reduce agency costs. A closer examination of the literature revealed two types of gaps, namely a reasonableness gap (the gap between what is expected to be achieved and what can sensibly be expected achieve), and a performance gap (the gap between what can reasonably be expected to achieve and perceived actual achievements) (Porter, 1993).

The theoretical framework utilized in this study comprises agency theory, stewardship theory and resource dependency theory. All the three theories concur regarding the strategic role of IDs. However, while agency theory is considered as the main theory assessing the control role for IDs, stewardship theory assumes managers are good stewards and that their behavior is driven by an array of non-financial motivations, including the need for achievement and recognition, the inner satisfaction of effective performance, and respect for authority and work ethics.

Resource dependency theory, on the other hand, highlights IDs' capacity to access scarce resources and utilize them in order to serve the best interest of the shareholders and improve board performance. Thereby, resource dependency theory is seen as the key theory when examining IDs' resource provision role. In this research, it is argued that the existence of expectations gaps can impede IDs from fulfilling their various roles including acting as stewards of the shareholders as well as bringing in different resources and when monitoring the management functions.

Reviewing the related empirical literature reveals that previous research on the expectation gap in the roles of IDs is predominantly focused on developed or transitional economies, and that to date there is a lack of research in emerging economies such as Saudi Arabia. To the best of the author's knowledge, it is thought that this study could be the first to investigate this issue in an emerging economy. The next Chapter presents an overview of the Saudi Arabian context.

Chapter Three: Saudi Arabia, an Overview

3.1 Introduction

The Kingdom of Saudi Arabia has witnessed a dramatic evolution since its relatively recent coming together as a country. The Kingdom has experienced rapid political, social and economic changes. This chapter offers an overview of Saudi Arabia, in order to help understand the study context. It does so by considering four issues. First, it offers a brief historical background describing the political, financial, and legal systems in Saudi Arabia. This is followed by an introduction to the corporate governance model used in Saudi Arabia. Thirdly, a review of historical developments affecting the Saudi financial system is presented in order to illuminate corporate governance developments in the country. Following this, a detailed overview of the Saudi corporate governance code is presented to provide the regulatory foundation for the appointment of IDs and the roles they play. Finally, the chapter is concluded in section 3.6.

3.2 General Overview

On 23 September 1932, King Abdulaziz Al-Saud (1880-1953) founded the Kingdom of Saudi Arabia after expending extensive efforts to unite most of the land mass of the Arabian Peninsula (see Figure 2.1) under one flag (World Atlas, 2015; Saudi Ministry of Foreign Affairs, 2015). The Kingdom is recognized as the largest country in the Middle East and the fourteenth largest country in the world, occupying 2.25 million square kilometers of land (World Atlas, 2015). The most recent government statistics indicate that the country had approximately 30.8 million inhabitants in 2014 (*Central Department of Statistics and Information, 2015*).

Figure 3.1 Map of the Kingdom of Saudi Arabia

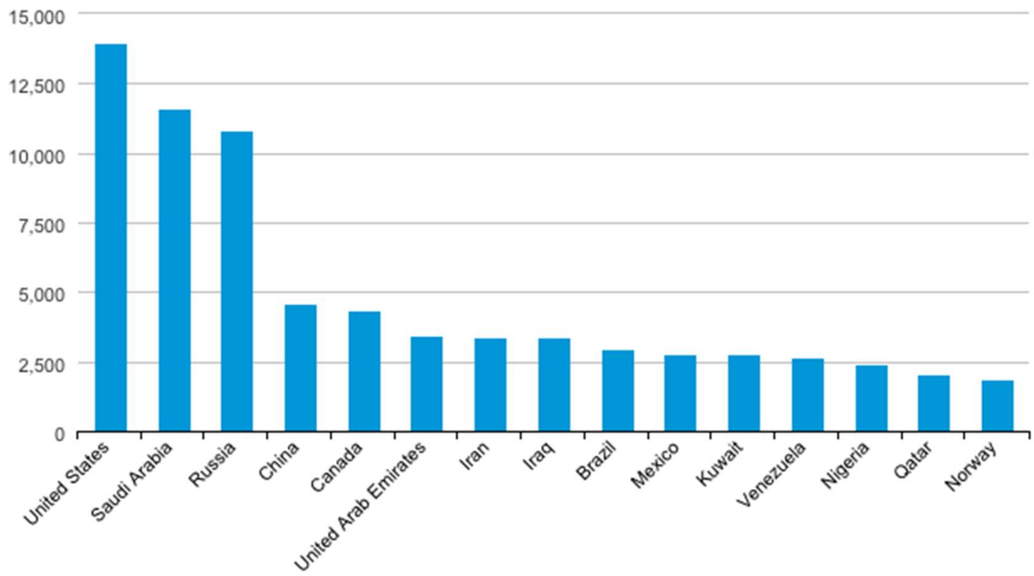
As the land of the two holy mosques (in Makkah and Al-Madeenah), Muslims see the Kingdom of Saudi Arabia as the holiest country in the world. Islam is the official and only religion in the country, and almost all Saudi citizens are Muslims.

The country's legal system is quite unique as it is based on the legal rules set out under Islam (Sharia). The rules of Sharia law are derived from the Quran (the holy book of Islam) and the Sunnah (the sayings and teachings of Prophet Mohammad peace be upon him). The Holy Quran provides for the foundation of the constitution of Saudi Arabia. Therefore, all Judges are graduates of the Sharia School and are selected based on their knowledge of Sharia Law.

The lack of a written constitution jointly places legislative, executive, and judicial powers under the jurisdiction of the King. Moreover, although Saudi Arabia is regarded as an Islamic country, Sharia law is not consistently followed in the Kingdom. An example of this is the Saudi financial sector, where the majority of operating banks and insurance companies are commercial financial institutions offering services that are non-compliant with Sharia law.

The economic system in Saudi Arabia is mainly based on the free market system and is subject to limited government intervention and regulation. Hence, individuals and enterprises are invited to participate in most economic activities. The national currency of Saudi Arabia is the Saudi Riyal (SR), where 1 US$ is about 3.75 SR.

Saudi Arabia is estimated to have the world's largest proven crude oil reserves, with an approximate 260 billion barrels of oil and 288 trillion cubic feet of gas (Saudi Aramco, 2015). The Kingdom is also the second largest oil producer in the world after the United States (see Figure 2.2; EIA, 2015).



Measured by thousands of barrels per day, top 10 oil-producing countries in 2014, EIA, 2015. Figure 3.2

The discovery of oil in 1933 brought dramatic social and economic changes to the country. When King Abdul Aziz United the Kingdom in 1932, Saudi Arabia was one of the poorest countries in the world (Yergin, 2009), yet today, the Saudi economy is the largest in the Middle East and Africa, as measured by GDP (World Bank, 2013). The kingdom is also a member of the G20 group.[5]

Successive Saudi governments have utilized the country's income from its natural resources to improve the welfare of their citizens. For example, the Saudi government spent more than $100 billion providing free education and health services to its citizens in 2014 (Ministry of Finance, 2015). Illiteracy figures fell from 95% of the population in 1932 to under 3.75% among men and 9% amongst women in 2014

[5] A group of the world's major 20 economies, which collectively represent 85% of global GDP (G20, 2014).

(Alyaum, 2014), and there are more than 150 thousand Saudi students on government scholarships at leading universities worldwide (Yergin, 2009; Al-Amari, and Al-Ghamdi, 2013).

Despite the rapid economic developments, the Saudi economy is still heavily reliant on its oil exports. Oil revenues accounts for 90% of the country's actual revenues (Ministry of Finance, 2014), leaving the country highly vulnerable to fluctuations in oil prices. For example, the fiscal deficit reached $130 billion (19.5% of GDP) in 2015, due to the expectations of a significant drop in oil prices (IMF, 2015). This scenario highlights the need for a more diverse economy. Indeed, as Prince Mohammad Bin Salman[6] stated in his 2030 vision for Saudi Arabia:

> We are determined to reinforce and diversify the capabilities of our economy, turning our key strengths into enabling tools for a fully diversified future. As such, we will transform Aramco from an oil producing company into a global industrial conglomerate. We will transform the Public Investment Fund into the world's largest sovereign wealth fund. We will encourage our major corporations to expand across borders and take their rightful place in global markets. (The Council of Economic and Development Affairs, 2016, P. 7)

For these reasons, the Saudi government intends to introduce a comprehensive privatization program to diversify the Saudi economy to attract new local and international investors. However, for this goal to be realized, appropriate corporate

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[6] The Crown Prince of Saudi Arabia and Chairman of the Council of Economic and Development Affairs.

governance practices must be in place.

Corporate governance mechanisms, such as IDs, have been introduced with the expectation that they will reduce the monitoring cost of managers, thereby lowering the investment risk to foreign and local investors (Shleifer and Vishny, 1997; Bebchuk and Weisbach, 2010). Although managers are considered good stewards of company owners according to stewardship theory, reputable IDs with relevant backgrounds might still deliver valuable resources to the company. The following section discusses the implications of Saudi culture on the Saudi corporate context in general, and in particular on the board.

3.3 Saudi Culture

Islam exerts a considerable influence on the fundamental belief system of the inhabitants of Saudi Arabia (Algarni, 2018). It forms the basis of all aspects of life, including: (1) values; (2) beliefs; (3) behaviors; (4) rules; (5) morals; and (6) community and business relationships (Aseri, 2015). The teachings of Islam confirm equality between individuals, who are only differentiated based on good virtues:

> "*O mankind, indeed we have created you from male and female and made you peoples and tribes that you may know one another. Indeed, the most noble of you in the sight of Allah is the most righteous of you. Indeed, Allah is Knowing and Acquainted*"
>
> (The Holy Quran, Alhujurat, Verse 13)

However, Saudi Arabian culture is also influenced by embedded Bedouin and tribal values (Al-Ghathami, 2009) and can therefore be seen as a blend of both these influences (Alghamdi, 2012). This has resulted in a number of researchers (Al-Twaijry et al., 2002; Haniffa and Hudaib, 2007; Alshehri and Solomon, 2012) claiming that the Saudi corporate context contains a number of distinctive cultural features, including strong hierarchical social norms. It is therefore possible to argue that the corporate context is significantly influenced by informal social relationships, including family, tribe and personal (Hussainey and Al-Nodel, 2008). Consequently, Baydoun et al. (2013) argued that these tribal norms (along with ownership of Saudi listed companies being concentrated in the hands of a few) results in boards often being dominated by family members, relatives and close friends. This can result in board members not always being elected on merit, but rather based on their loyalties and informal/personal relationship with the owners of the firm.

The following section examines the Saudi corporate governance model.

3.4 The Saudi Corporate Governance Model

Previous researchers (e.g. Seidl et al., 2013; Al-Abbas, 2015; Al-Bassam, 2014) have argued that the corporate governance model in Saudi Arabia is based on an Anglo-Saxon one, because it emphasizes the protection of shareholder interests and adopts a unitary-style board of directors comprising executive, non-executive, and independent directors. This is arguably due to the fact that Saudi corporate law and legislation is derived primarily from British corporate law. Indeed, the Companies Act issued in 1965 was mainly derived from the British Companies Act (Hussainey and Al-Nodel, 2008; Al-Matari et al., 2012). Similarly, Seidl et al. (2013) argue that the Saudi corporate governance code was influenced by the 1992 Cadbury Report due to the unitary board style and the initial comply or explain basis. However, there are contextual differences between the two models, specifically the prevalence of majority ownership and state ownership in Saudi Arabia (Al-Twaijry et al., 2002; Haniffa and Hudaib, 2007; Al-Nodel and Hussainey, 2009; Baydoun et al., 2013).

The remainder of this chapter discusses the development of the Saudi stock market, and the evolution of corporate governance and the Saudi corporate governance code to provide a better understanding of the Saudi business environment.

3.5 The Development of the Stock Market and the Emergence of Corporate Governance in Saudi Arabia

The Saudi Stock Exchange (Tadawul) was founded as a joint stock company by the Public Investment Fund in 2007, with the intention that it be the sole body authorized to carry out trading in Saudi Arabia. However, the origins of the Saudi stock market date to the establishment of the first joint stock company in the 1930s, the Arabian Automobiles Company (Tadawul, 2015). By 1975, the number of informally traded firms had increased to 14. Currently, the Saudi stock market has 200 listed companies in 21 indices, as shown in Figure 3.3.

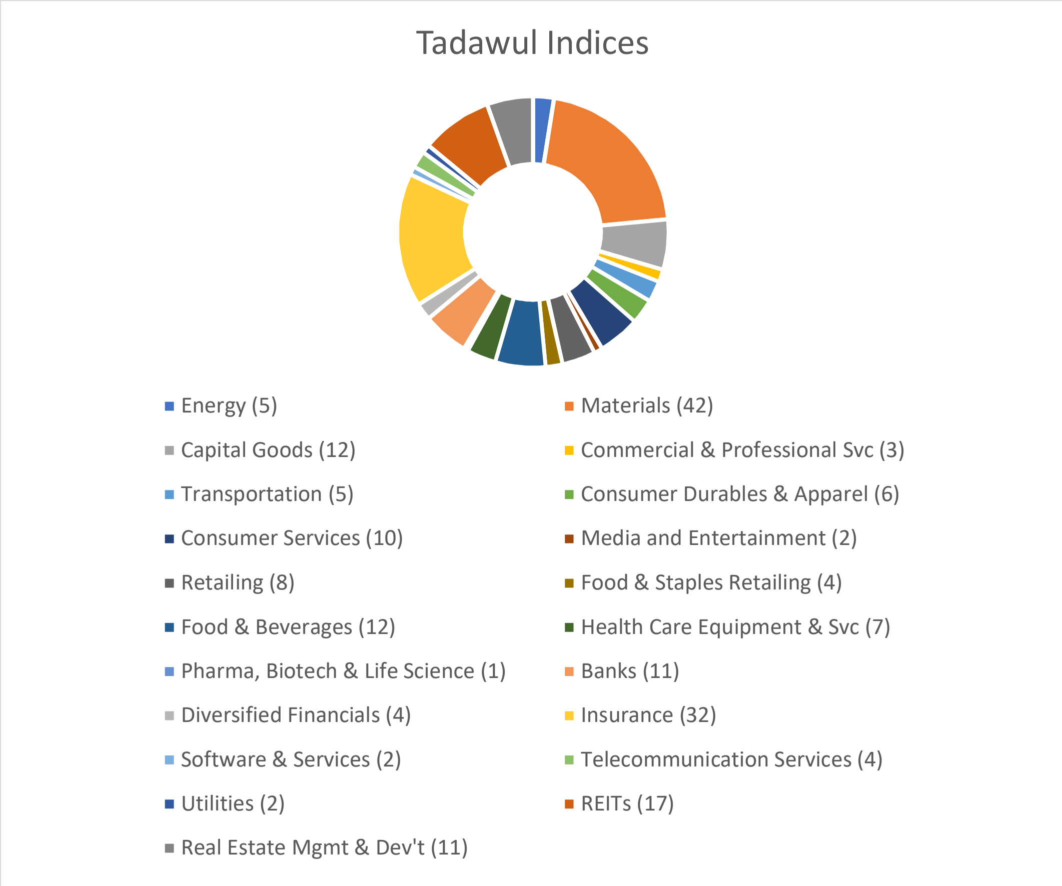

Figure 3.3 Number of companies per each Tadawul index.

Initially, listed companies were regulated by the Companies Act 1965, which was the first piece of legislation to regulate and organize the operations of all companies in the country. It comprises 15 chapters, along with 234 articles, and contains provisions relating to listed companies, covering: company formation, company management, conducting general shareholder assemblies, accounting and auditing, and increasing or decreasing capital (Al Harkan, 2005). The act also introduced a number of corporate governance provisions to protect shareholder interests. The Act defines the responsibilities of the board, its proper composition, and shareholder rights. However, shareholder protection under the Act was weak, due to the continuing informal trading of company shares (Al-Nodel and Hussainey, 2010; Al-Matari et al., 2012).

Formal trading commenced in 1985, enhancing the reliability of trading and allowing a more standardized approach (Tadawul, 2013). Nevertheless, companies were still only regulated by the Saudi Companies Act 1965, which is insufficient in terms of corporate governance mechanisms, due to the lack of dedicated corporate governance regulations (Al-Nodel & Hussainey, 2010; Al-Matari et al., 2012).

In an effort to improve corporate governance procedures, worldwide international organizations, such as the World Bank, the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) spurred emerging countries to adopt more effective governance practices and regulations (Rwegasira, 2000; Clarke, 2004). Accordingly, the Capital Market Authority (CMA) was established in 2003 as a mechanism to further regulate the country's stock market (Al-Matari et al., 2012; Al-Nodel and Hussainey, 2010; Tadawul, 2015). The CMA reports directly to the Prime Minister. This indicates the importance of the capital market to the government, and allows the CMA the authority to regulate the stock market and accelerate corporate governance reforms. Hence, some scholars (e.g. Hussainey and Al-Nodel, 2009; Al-Matari et al., 2012) cite the founding of the CMA as the most significant corporate governance reform in the country to date.

The establishment of CMA in 2003 was synchronized with the beginning of a strong hike in the Saudi stock exchange. Public shareholders realized massive profits as share prices increased by up to 725% of their original values between 2003 and 2006. These fast profits prompted a rise in the number of traders, from 50 thousand in 2002 to 2.6

million traders by the end of 2005 (Alyaum, 2013). However, this boom was unsustainable. Thus, although the Saudi Arabian Monetary Authority released reassuring statements in early 2006, the Saudi stock market had lost 51% of its value by May that year, with estimated losses of around 2 trillion Saudi Riyals (Alriyadh, 2011). The collapse encouraged the CMA to introduce the Saudi corporate governance code in 2006 and the Saudi stock market company (Tadawul) in 2007, with the primary aim of restoring investor confidence and protecting shareholders' interests (Al-Matari et al., 2012; Al-Nodel and Hussainey, 2010; Al-Abbas, 2015; Tadawul, 2015).

Since its establishment, the CMA has introduced four regulatory measures to ensure improvements to corporate governance practices: the 2004 Market Law, the 2004 Listing Rules, the 2005 Investment Funds Regulations, the 2005 Merger and Acquisition Regulations, and the Saudi Corporate Governance Code on December 2006. As noted earlier (see Section 1.1), the Code initially started with a "comply or explain" basis to ensure a gradual adaptation of the newly introduced Code. The capital market authority regularly updates the Code by introducing minor amendments. For example, in 2010 the definition of IDs was updated; in 2017 the capital market authority updated the provisions on the composition of Board of Directors and committees in terms of competencies, responsibilities, meetings, members' rights and duties; and in 2018 the Code became mandatory. Hence, penalties were used to assure the full enforcement of the Code.

3.6 The Saudi Corporate Governance Code

The Saudi Corporate Governance Code, issued at the end of 2006, sought to ensure the implementation of good corporate governance practices across all the listed firms in the country to reduce the extent of rumors, fraudulent practices and insider trading (Capital Market Authority, 2015). The code is revised regularly and is consisted of the following four components: (i) preliminary provisions, (ii) rights of shareholders and the general assembly, (iii) disclosure and transparency, and (iv) board of directors.

The preliminary provisions provide the necessary definitions to explain the relationship between the code and other legislative documents. They indicate that the main purpose of releasing the code is to regulate the management of listed companies, to ensure their compliance with best governance practices to guarantee shareholders' rights are protected. The article also explains that the code provisions are the main principles guiding all public firms listed on Tadawul, and that all such companies must disclose their level of compliance with the code in board of directors' reports.

Shareholders' rights and general assembly provisions are discussed in the second part of the code (article 4). Here, the facilitation of shareholders' exercise of rights and access to information (the required information is discussed under disclosure and transparency in article 8) are principal concerns. The shareholders' rights relate to general assembly rights and are discussed in article 5. Here it is stated that the general assembly should be held within six months of the end of the company's financial year (article 5a); that the company's management is required to facilitate the participation of the largest number of shareholders in its general assembly; and that requirements are to be laid down concerning shareholders' participation in the preparation of the meeting's agenda. It is further specified that the board of directors must consider the items proposed by any shareholder owning 5% or more of the company's shares (article 5f).

The code also takes smaller shareholders' interests into consideration. For example, it indicates that the cumulative voting method shall be applied to the nomination of board members in the general assembly (article 6b). In this method, every shareholder is entitled to issue one vote per share, multiplied by the number of directors to be elected, which maximizes the effectiveness of individuals' votes since they can apply all votes towards one candidate. The code further states that the board of directors should lay down a clear dividends policy and present it for approval by shareholders in the general assembly (article 7).

Corporate disclosure and transparency within firms listed in the Saudi stock market are also addressed in the code (Part Three). It states that listed companies should write down disclosure rules, policies and procedures (Article 8). Disclosure and transparency in the board of director's report are the principal concerns of article 9. The code requires disclosure of the names of other listed companies in which board members act as board members. It also demands clear classification of board members into executive directors (EDs), NEDs, and IDs. It further requires that the report provide a brief description of the jurisdictions and duties of board sub-committees, such as the audit committee, nomination committee and remuneration committee, naming chairmen and members, and the aggregate number of meetings. The compensation for board chairmen and members, and the top five paid executives (including the CEO and CFO compensation, if not among the top five executives) must also be disclosed. These compensations may take the form of fixed salaries, attendance allowances, and/or a certain percentage of the firm's profits.

Furthermore, companies are further required to disclose the punishments, penalties or preventive restrictions imposed by the CMA or other regulatory authority, supervisory or judiciary bodies, and to disclose the results of the annual audit of the company's internal control system. Corporate governance provisions linked to the board of directors are discussed in the final part of the code (articles 10-18). These cover: the board's main functions, its responsibilities, formation of the board, board committees, mortgage meetings, remuneration of board members, and any conflicts of interest within the board of directors.

As discussed in the previous chapter, theorists suggest that the three chief functions of board members are the strategic role, the control role and the resource provision role. The Saudi code of corporate governance confirms all these in relation to the roles of IDs (article 10).

The code indicates the strategic role of the board involves: (i) establishing a comprehensive strategy for the company; (ii) identifying the firm's financial objectives, such as determining its capital structure and approving the company's annual budget; (iii) overseeing the main capital expenses of the firm; (iv) setting out performance objectives; and (v) periodically assessing the organizational and functional structures of the company.

In terms of the control role of the board of directors, the code requires board members to disclose and annually review rules for internal control systems (including conflicts of interest between the company's management and its shareholders, financial integrity and risk management). Furthermore, it obliges the board to draft corporate governance codes for the company; outline policies, standards and procedures for board membership; and identify policies to ensure the company's compliance with the provisions of the Saudi corporate governance code. The resource provision role of the board of directors is also addressed; for example, it recommends that IDs outline and supervise resource-based policies, such as networking and communication.

The responsibilities of the board members are introduced in Article 11. They include carrying out all duties in a responsible manner, working in the best interest of all shareholders, not only the shareholder group that member represents, determining powers to be delegated to the company's management, ensuring the proper training and orientation of new board members, and ensuring the availability of sufficient information to board members.

Article 12 discusses the board's formation. Its provisions indicate that board members should not number fewer than three, or more than eleven. The code also indicates that: members should be appointed by the General Assembly, that NEDs should represent the majority of members; that IDs should account for the greater proportion, ideally comprising two thirds of the board; no member should act as a board member for more than five listed companies simultaneously; and that the CMA and Tadawul should be notified whenever a board-member resigns or is terminated. The code further requires the separation of the chairman and Chief Executive Officer (CEO) positions.

Board committees are discussed in Articles 13, 14 and 15. While Article 13 indicates that the board should set up a suitable number of committees, and that a sufficient number of NEDs are to be appointed to these committees, articles 14 and 15 are concerned with the mandatory audit and remuneration committees respectively.

The duties and responsibilities of the audit committee are outlined in article 14. Their duties and responsibilities include: (i) supervising the company's internal audit department; (ii) reviewing its procedures; (iii) recommending the appointment, dismissal and remuneration of external auditors; (iv) supervising auditors, reviewing their audit plans and reviewing their comments on financial statements; (v) and advising the board of directors concerning any accounting recommendations based on their review of the company's accounting policies.

The duties of the nomination and remuneration committee are to: (i) annually review the suitability and skill requirements of board members; (ii) review board structure and composition; (iii) determine the board's strengths and weaknesses, and recommend remedies for those weaknesses, if any (article 15).

It is noteworthy that while executive directors are permitted to serve on nomination and remuneration committees, only NEDs are allowed to join the audit committee.

Procedures for board meetings are addressed in article 16. The provisions of the article assert that members of the board shall be afforded ample time to perform their roles, and that the chairman should consult other members when preparing the meeting's agenda, and when ensuring meetings are documented. Article 17 is concerned with the remuneration and indemnification of board members. It indicates that their remuneration could be in the form of a lump sum, an attendance allowance, or a named percentage of profits.

Finally, provisions regarding conflict of interests within boards are set-out in article 18. These provisions indicate that board members should be notified if any member is engaged in the company's business and its contract procedures, and that members should not participate in any activity that is likely compete with those of the company, and not be granted cash loans under any circumstances.

3.8 Summary

This chapter has set out details of the study context to provide a clearer understanding of the national context in which the study is being conducted to ensure meaningful answers are provided by the research questions posed. It began with a brief overview of the political, social and economic environment in Saudi Arabia. This was then followed by an overview of the Saudi corporate governance model. The chapter also tracked the emergence of corporate governance and the evolution of the Saudi stock market, before finally discussing the Saudi corporate governance code in detail.

Established in 1932, the Kingdom of Saudi Arabia is a relatively young country, which has humble mainly agricultural origins. However, with the discovery of oil, successive Saudi governments undertook great leaps toward achieving economic reform and modernizing the economy. Although these rapid developments would have been difficult to achieve without oil revenues, maintaining oil as the principal backbone of the Saudi economy poses substantial risks to financial stability in Saudi Arabia. Thus, there is recognition of a need for a better-diversified economy.

Attracting more local and international investments could be one way to achieve this aim. However, in order to appeal more to investors, the country requires an effective corporate governance mechanism.

The origins of the Saudi stock market date back to the establishment of the first joint stock company in the 1930s. Stock shares were informally traded until the development of the Saudi stock market in 1985 and companies were regulated by the company act issued in 1965. Shareholder protection was relatively weak due to lack of dedicated corporate governance regulations. Corporate governance reform in the Kingdom started with the establishment of the Capital Market Authority in 2003. The Saudi corporate governance code was introduced by the CMA in 2006 and was later updated in 2010, 2014, 2017 and 2018. These reforms indicate the commitment of the Saudi authorities towards better corporate governance practices.

Chapter Four: Methodology and Methods

4.1 Introduction

Having reviewed the literature related to this present study and outlined the theoretical framework in Chapters 2 and 3, this chapter will provide a detailed discussion of the research methodology and methods that are to be employed, including the grounding necessary for understanding the methodology that has been adopted. The chapter commences with a discussion of the research philosophy followed by approaches and strategies employed in this study, together with the reasons for their selection. It then addresses the research design by discussing the data collection method chosen for this study, including the design of the interview guide, and the pilot study. Finally, the chapter provides a conclusion at the end of the chapter.

4.2 Research Philosophy

Research philosophy as a term refers to a system of beliefs and assumptions relating to the development of knowledge (Saunders et al., 2015). These assumptions are connected with the way in which scholars view the development of knowledge, and how this impacts their approach to research (Wilson, 2014). Johnson and Clark (2006) argued that research philosophy should form the basis of any study, since it greatly impacts what is affected, and how it is understood.

The process of evaluation and selection of a philosophy can also be of great importance, as it enhances the way in which scholars approach their research within their fields of activity (Saunders et al., 2015). Easterby-Smith et al., (2015) suggested three reasons behind the importance of understanding research philosophy. First, it improves the understanding of a research design, as it considers the type of data required, and how that data will be collected and analyzed. Second, research philosophy helps the researcher to choose the appropriate design for the study at hand. Finally, philosophical knowledge may aid scholars in adapting research designs to suit the constraints of their research. Ontology and epistemology constitute the two main ways of thinking about research philosophy, and these are discussed in the next sub-section.

4.2.1 Ontology

Ontology is the philosophical study of the nature of reality, which questions how the social world is perceived, and what is real (Wilson, 2014). As abstract as this may initially appear, the assumptions of ontology shape the way in which scholars perceive their research (Saunders et al., 2015). Bryman (2015) contended that there are two main ontological positions: objectivism and constructionism.

Objectivism is closely connected with natural science, and with the positivist approach of epistemology, which is discussed in the next sub-section (Maxwell, 1992). Objectivism as an ontological stance implies that social phenomena are established by external realities that are beyond individuals' reach or control (Maxwell, 1992) In contrast, subjectivism, also known as constructivism, takes the stance that social actors possess an active role in creating social phenomena (Bryman, 2015). Scholars adopting constructivist assumptions investigate the meanings that people convey upon their own and others' actions (Parker and Roffey, 1997). Within this approach this study aims to understand the own subjective perceptions (constructions) of board members, institutional investors, and regulators towards the roles IDs play in order to investigate the existence of expectations gaps in their control, strategic and resource roles. The constructivist approach is closely connected to the interpretative epistemological approach adopted in this study. The imperative research philosophy of epistemology is discussed in the next section.

4.2.2 Epistemology

Epistemology is the theory of knowledge. (Hofer and Pintrich, 1997; Gray, 2009). The term 'epistemology' means knowledge, and how knowledge is generated (Tellis, 1997; Silverman, 2010). Therefore, understanding epistemology is crucial, as it relates to assumptions about knowledge; what constitutes acceptable, valid, and legitimate knowledge; and how knowledge is conveyed to others (Burrell and Morgan, 1979). The variety of epistemological approaches in terms of positivist, interpretative, and pragmatist, broadens the choice of methods from which a researcher can select.

When employing a positivist approach, the researcher must be independent of their research (Creswell, 2009). For this reason, a positivist approach is only relevant for controlled experiments and quantitative research, wherein the researcher maintains minimal interaction with the research participants (Wilson, 2014). Bryman (2015) contended that positivist researchers conduct research in order to test hypotheses by means of empirical approaches, and to analyse data objectively. Consequently, a neutral process is pursued by the positivist researcher in order to discover a truth, which then proceeds to the development of a theory. Researchers who criticize the positivist approach argue that important insights can be lost when adopting positivism, as reality can never be fully grasped (Guba, 1990). Furthermore, the positivist approach is less likely to provide rich and complex insights of organizational realities (Saunders et al., 2015) and is therefore not suitable for the purpose of this study.

In contrast, interpretivism is an epistemology that advocates the view that the scholar should engage in the social world of the topic under examination (Wilson, 2014). Thus, supporters of this approach consider that knowledge can be gained by studying social phenomena in diverse ways (Dessler, 2008). Wilson (2014) argued that interpretivists support the view that the researcher should enter the world of their topic of study, and thereby analyse the social actors involved within their natural setting. Consequently, interpretivists are usually interdependent with their research, which better facilitates their interaction with their study participants, as the case of interviews. Therefore, this approach is more likely to offer rich and complex views of the organizational reality, and to account for dissimilar personal contexts and experiences through methods such as interviews (Saunders et al., 2015).

Pragmatism is an epistemological approach that promotes the importance of the research problem over the method that is employed to solve that problem. Therefore, pragmatists do not align themselves with any specific research philosophy and recognize the relevance of both the physical and social world (Rossman and Wilson, 1985). Creswell (2003) argues that pragmatist scholars largely focus on the 'how' and 'what' of the research with which they are concerned. Furthermore, pragmatism is viewed as a principal epistemological approach for combining qualitative and quantitative methods (Greene, 2008). Hence, this approach is more likely to be adopted in studies similar to that at hand, since it offers both the reliability of positivist research, and the depth and richness of qualitative methods, such as interviews. Table 4.1 below summarizes the key philosophical assumptions.

Questions	Positivism	Interpretivism
What is the nature of reality? **(Ontology)**	External	Socially constructed
	Objective	Subjective
What is considered acceptable Knowledge? **(Epistemology)**	Observable phenomenon	Subjective meaning
	Law-like generalisation	Details of specifics

Table: 4.1 Assumptions of the research philosophy. Source: Saunders el al. (2015, p.119).

Having examined the relevant key philosophical paradigms, this chapter will now discuss the issue of the research approach.

4.3 Deductive and Inductive Approaches

Two chief means of developing research questions exist in terms of the research approach, namely deductive and inductive (see Figure 4.1).

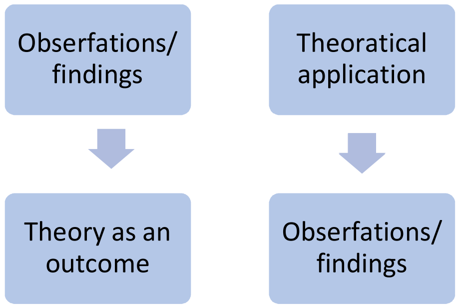

Figure 4.1 Research approach.
Source: Wilson (2014, p.13).

The deductive or 'top down' approach of reasoning commences with the development of research hypotheses that are based on the assumptions and key arguments of a well-known theory, and these hypotheses are then studied empirically (Ali and Birley, 1999). Hence, the researcher employing the deductive approach commences with the general ideas concerning the selected topic, and progresses to develop the research questions (Punch, 2014). This means that the researcher undertakes the development of a hypothesis, or hypotheses, based on an existing theory (or a combination of theories), and then designs research strategies in order to test the theories (Wilson, 2014). Consequently, the research hypothesis, or hypotheses, and its underlying theory greatly influences the research process (Ghauri and Grohaug, 2006). Hence, the deductive approach is often correlated with scientific and quantitative research (Saunders et al., 2015).

Conversely, the inductive approach commences with a specific question, and progresses to develop more general questions regarding the topic under investigation (Goddard and Melville, 2004). Hence, the inductive approach is generally termed a 'bottom-top' approach, wherein a theory is not applied at the early phase of the research process, as it is normally generated as the outcome of the research itself (Hyde, 2000; Goel and Dolan, 2004; Elo and Kyngäs, 2008).

As Saunders et al. (2015) suggested, several practical criteria assist in selecting an appropriate research approach, indicating that when a significant amount of literature already exists concerning the topic under investigation, from which a scholar is able to outline a theoretical hypothesis, a study lends itself to the deductive approach. Conversely, the inductive approach is more suitable when there is little existing literature concerning the research topic under investigation, thus data generated in the course of the study is analysed and evaluated in terms of the theoretical themes it suggests. The inductive approach was therefore more suitable for this present study, since this research focused on expectations gaps in the role of IDs and, as highlighted in Chapter 2, there is a paucity of extant literature in this area, thus forming and testing a theoretical hypothesis was not an option. The inductive research approach adopts both qualitative and quantitative research strategies, which are discussed in detail in the next section.

4.4 Research Strategy

Maxwell et al., (1998) identified three research strategies normally considered by scholars when they are embarking on their research: qualitative, quantitative, and the combination of both. The appropriate definition and differentiation of qualitative and quantitative research strategies is important, as this strategic research choice can affect the meaning of the data collected (Myers, 2013).

The term ‘qualitative’ suggests an emphasis on the qualities of entities, and on processes and meanings that are immeasurable in terms of quantity, amount, intensity, or frequency (Denzin et al., 2008), while quantitative studies emphasize the measurable analysis of causal relationships between variables. Thus, quantitative research asks the questions ‘how many?’, and ‘how much?’, whereas, qualitative research is normally designed to answer enquiries such as ‘how?’, and ‘what?’ (Wilson, 2014).

Strauss and Corbin (1990) argued that a piece of research does not need to be exclusively qualitative or quantitative, as a researcher can employ qualitative data to clarify quantitative data, or vice versa, as was the case in this present study. The explorative nature of this study lent it to a qualitative strategy. Hence, this was designed as a piece of qualitative research that employs interviews as the sole source of data collection, with quantitative analysis used to further clarify the findings of the qualitative strategy.

4.5 Approach Chosen for this Research

Succeeding the discussions in the previous sections, it is now appropriate to clarify the research methodology that has been adopted in this thesis. Thus, the important points related to the methodological issues of this research project are stated below:

- The present study adopts the constructivist ontological assumptions and a pragmatist epistemological approach to investigates the perceptions of board members, institutional investors, and regulators of the roles played by IDs in

Saudi Arabia to investigate the existence of expectations gaps in their control, strategic and resource roles.

- This study implements an inductive approach as there is little existing literature concerning the research topic under investigation, thereby forming and testing a theoretical hypothesis was not an option.
- The study is explorative in nature, as there is lack of prior work on expectations gaps in Saudi Arabian companies in particular and in developing economies in general. As discussed in chapter two, while the work of Li et al., (2012) provides groundings for this study, china is a transitional economy and consequently their findings may not be of relevance to this study.
- The study implements a qualitative research design that adopts in-depth semi-structured interviews as its method of data collection (see the next sections), with quantitative analysis used to further clarify the findings of this chosen data collection method.

4.6 Data Collection Method

Research methods are the methods employed for the collection and generation of data (Oppenheim, 1992). Saunders et al. (2015) explained that the collection and interpretation of qualitative data must be undertaken in a methodical way, in order to positively contribute to achieving the research aims. Hence, this section presents the method employed for gathering data in this present study.

There are primarily two types of research data: primary and secondary. Whereas secondary data can be found in existing data sources, such as annual reports and government-printed sources, primary data, such as interviews and questionnaires, is generated by the researcher, and thus is unique to the researcher's study (Wilson, 2014). Wilson (2014) further contended that the use of primary data sources can constitute the only choice for studies that are exploratory in nature, and which have little or no secondary data available, which was the case with this present research. However, this raises the question of the more appropriate primary data collection method to be selected.

In this present study, the use of in-depth semi-structured interviews, rather than a questionnaire survey, was deemed to be the more suitable choice, since in-depth interviews allowed the researcher to gain deeper and richer insights, as the participants were more likely to elaborate on, and to clarify ambiguous answers, while maintaining a focus on the key issues under discussion (Nachmias et al., 2015). Hence, the most important reason for selecting the approach of in-depth interviews for this study was that the board members were unlikely to complete questionnaires concerning sensitive issues, such as expectations gaps in the roles of fellow IDs (Li et al., 2012).

Sekaran and Bougie (2016) argued that three types of interviews exist: structured, semi-structured, and unstructured, which are discussed in detail in the next sub-section to justify the reason for the chosen data collection method.

4.6.1 Semi-Structured Interviews

The present study uses in-depth semi-structured interviews to collect the required data for this research investigation. which is one type of interview method in social sciences research; other interview methods are structured, unstructured and focus group interviews. Interviews are considered to be useful methods to enable interviewers to obtain a rich insight into interviewees' biographies, experiences, opinions, values, aspirations, attitudes, and feelings (May, 2005). As discussed later in this section, Semi-structured interviews are viewed as a hybrid of structured and unstructured interviews. Accordingly, the section commences by discussing structured and unstructured interviews to offer a thorough understanding, and thereby justification for the chosen data collection method.

Structured interviews are based on a fixed set of interview questions that are pre-planned, in order to ensure that the same questions are posed to all of the respondents (Tashakkori and Teddlie, 2010). This allows for better comparative analysis between interviewees (Wilson, 2014). Wilson (2014) further argued that, while this approach allows for an increased number of interview questions, due to the short answers typically related to this type of interview, meaningful insights may be lost, as the participants are unable to elaborate on their answers. Therefore, some researchers, such as Ekinci (2015) have considered that structured interviews, such as questionnaires, should be completed by the interviewer instead of the interviewee. For these reasons, this study did not employ structured interviews, since the potential interviewees involved in the research were possessed of a high degree of expertise, and not allowing them to elaborate on their answers may have engendered the loss of important data.

In contrast, unstructured interviews do not require fixed questions, and do not reflect any theories or ideas (Polkinghorne, 2005). The unstructured interview usually commences with a general question, with the subsequent questions based upon the response (Wilson, 2014). Hence, the unstructured interview recognizes that the interview participant guides the interview, process rather than the interviewer (Cassell, 2015). However, this highlights the main disadvantage of this form of interview structure, as the dissimilar interview questions mean that it is not possible to conduct a comparable analysis between the different interviewees (Gill et al., 2008).

Meanwhile, semi-structured interviews can be considered a hybrid of structured and unstructured interviews, as they involve certain key questions that help to guide the interview, while also providing scope for the interviewee to further elaborate on important issues (Longhurst, 2003). Despite providing a grounding for analytical comparisons, this approach is deemed to be more flexible than the structured approach, since its more flexible structure provides the potential to uncover further information (Barriball & While 1994). Consequently, while this type of interview structure provides the grounds for a comparative analysis, and also grants more flexibility to the interviewees by allowing them to elaborate on and respond to the questions posed by the interviewer on their own terms, compared with those of the structured interviews (Gill et al., 2008).

Since this present study sought to explore the perceptions of participants with a high degree of expertise, such as EDs, NEDs, and IDs, in order to investigate expectations gaps in the roles of IDs, it was vital to employ a method that allowed the participants to elaborate on important issues, where applicable, while maintaining a suitable level of comparability in terms of the data analysis. Therefore, this study adopted the semi-structured interview approach for the purpose of data collection. The design of the interview utilized for this study is discussed in the next section.

4.6.2 Designing the Interview Guide

When designing the interview, it is important to be mindful of the fact that the research data should be collected in a manner that addresses the specific needs of the research's purposes (Malhotra and Birks, 2017). Consequently, it is imperative to develop a plan for the data collection, based on the study's area of interest (Ritchie et al., 2014). In semi-structured interviews, an interview guide is normally employed to organize the research questions (Corbin and Strauss, 2015). This guide is constituted of a brief list of questions that are designed to properly address the research problem (Bryman, 2012).

In this present study, the researcher designed three sets of questions, aside from the demographic questions section, for each role of the IDs; namely, the control, strategic, and resource roles. The questions employed in the interview guide were derived from the existent literature and were designed to investigate and uncover the expectations gaps, if any, in the IDs roles in Saudi Arabia (see section 2.6). As illustrated in Figure

4.2, an expectations gap possesses two elements: a reasonableness gap, and a performance gap. The reasonableness gap can be considered to be the gap between what the interviewee expects to achieve, in terms of their expectations, and what can reasonably be expected, in other words, reasonable expectations, whereas the performance gap is the gap between what it can reasonably be expected to achieve, in other words, reasonable expectations, and the perceived actual performance (Porter, 1993). Figure 4.2 also shows how the research questions (RQs), and their corresponding interview guide questions (IGQs also see the Interview Questions in Appendix I), are designed to distinguish the reasonableness gap from the performance gap. Answering these questions will subsequently lead to the identification of the expectations gap in the roles that IDs play. The fourth research question and it's corresponding interview guide question are designed to identify the aspects/factors that aid or hinder IDs when executing their roles.

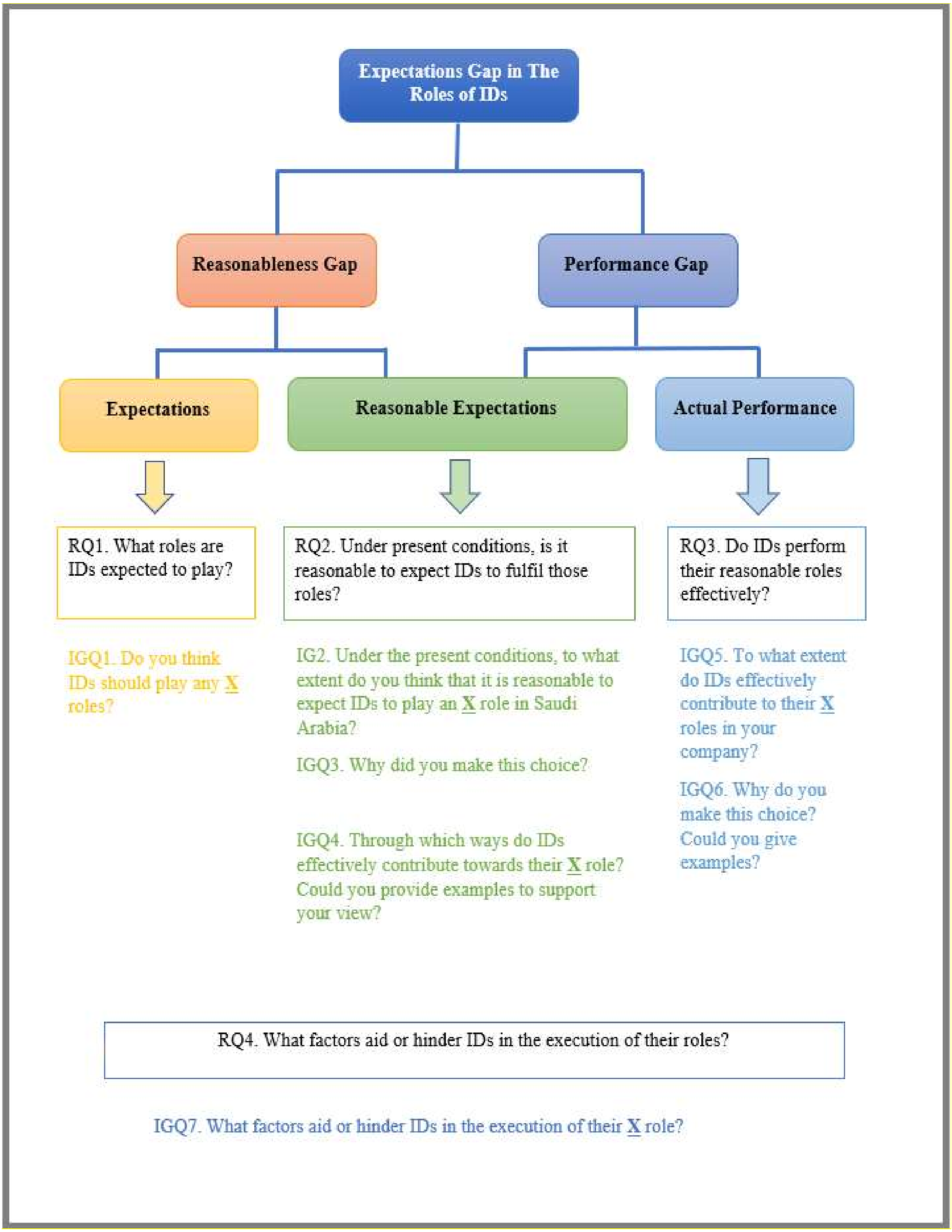

Figure 4.2. The Design of the interview guide.

Where:

X: represent each of the IDs roles in turn (the control, strategic, and resource roles).

RQ: research question.

IGQ: interview guide questions.

A Likert scale was also employed in the interview guide, in order to gain quantitative measures of the existence of a reasonableness, or performance gap, in the control, and the strategic and resource roles of the IDs. Likert scales are often used to measure the strength of agreement, or disagreement, concerning a statement as an attempt to measure attitudes or opinions (Hair Jr. et al., 2011). Hence, a five-point Likert scale was employed in the following form to measure the interviewees' opinion concerning whether they consider their role to be reasonable:

Very reasonable	Reasonable	Does not make any difference	Unreasonable	Very unreasonable
..	..	..	..	..

A five-point Likert scale was also employed in the following form to measure the interviewees' opinion concerning whether they consider their role to be effective:

Not very effective at all	Not very effective	Medium	Effective	very effective
..	..	..	..	..

Both the English and Arabic versions of the interview guide are presented in Appendix I.

The next section discusses the research population and sample.

4.7 Research Sampling

Data is essential for any piece of business research. In an ideal situation, researchers are able to collect data from the entire research population, which is known as a census (Sekaran and Bougie, 2016). However, as this is often unattainable, in many cases researchers tend to employ a relatively small subset of the population, or a sample, which is drawn using either probability or nonprobability procedures (Hair Jr. et al., 2011).

Probability sampling involves selecting elements from the study population at random, in order that all of the population elements have the same probability of being selected (Saunders et al., 2015). Saunders et al. (2015) further posited that probability sampling usually involves employing large representative samples of the population in question, in order generalize the findings to the target population.

In contrast, non-probability sample selection does not necessarily require the sample units to be statistically representative (Hair Jr. et al., 2011). An example of nonprobability sampling is the convenience sampling approach, wherein the sample elements are chosen based on availability, and the findings may not be generalized to the wider population (Hair Jr. et al., 2011).

In this thesis, the convenience sampling approach was employed, rather than random sampling, due to the difficulty of accessing the necessary high-profile participants. Furthermore, the study was explorative in nature, as there is a lack of prior work on Saudi Arabian companies (see section 2.5.5) and acquiring a random sample of interviewees can be extremely difficult, due to the access challenges. As the case in most studies of this nature (e.g. Li et al., 2012), a convenience sample can be considered to be appropriate for use in an explorative study, since the majority of behavioral and social science studies employ this sampling approach when it is not possible to obtain a random sample (Randall and Gibson, 1990). The richness and depth of interview data generally compensates for any weaknesses of the study's convenience sample.

This present study adopted the four-factor approach used by Li et al. (2012) to generate the investigation sample. The first factor concerned accessibility, as it can be challenging to gain access to top-ranking individuals in the business environment in Saudi Arabia. In the context of this study, the researcher's professional and personal contacts in Saudi Arabia assisted in facilitating the process. The second sampling approach employed in this study concerned the selection of the potential interview participants from companies of varying size, industry, and region. The third factor sought to facilitate the interviewing of a variety of EDs, NEDs, IDs, institutional investors (IIs), and regulators (Rs), in order to increase the diversity, richness, and reliability of the interviews. The reason for the selection of these five groups is that they ether work directly with IDs, such as EDs and NEDs, or have a direct effect on the functions of IDs. For example, IIs generally hold access to company boards, including IDs, and regulators are the reason for IDs' inclusion on the board in the first place. The fourth factor sought to select interviewees from different professional backgrounds, for example, the background related to IDs and NEDs might include accounting professionals or professors, industry specialists, and senior managers of other companies.

Humphrey and Lee (2004) underline the importance of documenting the data collection process in detail. Arguing that qualitative research requires much of the researcher’s attention and focus as he or she is the key research instrument. This entails that a qualitative researcher may be directly responsible for gaining access to sites and interviewees, maintaining good field relations, analysing the data and finally writing up the research. In this research a view similar to that argued by O’Dwyer (2004) is taken.

A total of 29 interviews were conducted from March to July 2018. Initially, pilot interviews were conducted by telephone, since the researcher was in the UK and the pilot participants in Saudi Arabia. In April, the researcher travelled to Saudi Arabia to conduct the main interviews. These took place in the cities of Riyadh, Al Ahsa, Al Khobar, and Dammam. This required the researcher to travel between these cities and stay overnight because of the vast distances between them. For example, it would take four hours to travel the 260 miles from Dammam to Riyadh. Participants were contacted before the interview to obtain their permission to be interviewed and to arrange a convenient time. It is worth noting that all participants were either personal contacts of the researcher, or had been contacted by an existing contact of the researcher. In some cases, at the end of an interview the participant felt comfortable about contacting someone he or she personally knew on behalf of the researcher. All interviewees were given reassurance and clarification of the ethical principles implemented in this research, with the researcher underlining the participants’ anonymity and confidentiality and stating that the data would only be used for research purposes.

Overall, the sample included interviews with seven IDs, four Institutional Investors (IIs), eight regulators (Rs), seven NEDs and three EDs (see Table 4.2). The majority of the interviews (16) took place in the participants offices; although, four interviewees were conducted over the phone, four participants preferred to meet in their homes, and another five chose to be interviewed in public hotel lounges/coffee shops. A further point is that only twenty-three of the interviews were recorded, as six participants refused to be recorded but allowed the researcher to take notes. The interviews were all an hour on average.

The study adopted the procedure for content analysis suggested Easterby-Smith et al. (2015). Firstly, as all the interviews were conducted in Arabic, they were translated and then transcribed into English. After this the major themes for each research question were identified in order to shape the flow of analysis. Finally, the content of the interview transcripts was analysed to establish the emerging factors that appeared relevant to answer each research question.

Table 4.2. Information about interviewees

No	Code	Industry
		Regulators
1	ID1	Banking, Chairman
2	ID2	Banking
3	ID3	Agriculture
4	ID4	Telecom
5	ID5	Industry
6	ID6	Insurance
7	ID7	Agriculture
		Institutional Investors
8	II1/ID	General Organization for Social Insurance/ also an ID in the Capital Goods Industry
9	II2/ID	General Organization for Social Insurance/ Also an ID in the Industry Sector
10	II3 ID	Public Pension Agency/ Also an ID the Real estate Industry
11	II4	General Organization for Social Insurance
		Regulators
12	R1	Capital Market Authority
13	R2	Saudi Monetary Authority
14	R3	Capital Market Authority
15	R4	Capital Market Authority
16	R5	Capital Market Authority
17	R6	Capital Market Authority
18	R7	Capital Market Authority
19	R8	Capital Market Authority

	Non-Executive Directors	
20	NED1	Materials
21	NED2	Utilities Chairman
22	NED3	Cement
23	NED4	Insurance
24	NED5	Retailing
25	NED6	Health care
26	NED7	Real Estate
	Executive Directors	
27	ED1	Banking
28	ED2	Insurance
29	ED3	Materials

4.8 Piloting the Interviews

Having discussed the research sample in the previous section, this section examines the pilot study, and the method of semi-structured interviews that was employed for the purpose of data collection.

In the context of exploratory research, a pilot study is a research project that pre-tests the research methods selected, such as semi-structured interviews, on a smaller scale (Zikmund, 2010). Therefore, the purpose of a pilot study in a piece of qualitative research is to identify and address logical and analytical problems in the research design, such as unclear questions (Scott, 2014). Consequently, conducting a pilot study is considered to be an important phase of qualitative research, because undertaking a trial run of the selected method enables the researcher to recognize any weaknesses, and to address them appropriately (Arksey and Knight, 1999).

For these reasons, the researcher of this present study conducted two pilot interviews with professional individuals within the Saudi business environment. The interviews were conducted over the phone during February, 2018. The first participant was a high ranking official in the Chamber of Commerce in one of the major cities in Saudi Arabia, where he works closely with the board members of listed companies. The second participant was a management level professional working with the Saudi Capital Market Authority. These two participants were chosen as representatives of the professional, and the regulatory backgrounds of the potential research participants. The interview guide questions were pre-tested on these two participants in order to assess whether the guiding questions (IG) were clear, understandable, and unambiguous.

Pilot interviews prepare the researcher for the actual interview process (Arksey and Knight, 1999). Piloting the semi-structured interview offers the opportunity to modify or change interview guide questions before the actual data collection stage. The possible rebuttal questions can also be located, and appropriate measures taken (Vogel and Draper-Rodi, 2017).

The Pilot interviews enabled the researcher to prepare for the actual interviews. For example, the interview with the first participant was relatively short taking approximately 20 minutes. However, the participant agreed to undertake another interview three weeks after the initial interview. The interview lasted about an hour and uncovered interesting findings as can be seen in the next section. Also, the researcher noticed that the participants were not familiar with some of the terminology used in the interview guide. Namely, participants did not comprehend the meaning of the control, strategic and resource roles at first. However, their meaning became clear when the roles were defined by the researcher. Consequently, a preface was introduced to familiarize the participants with the meaning of each IDs role. Furthermore, when going through the activities related to the control, strategic and resource roles of IDs (section E of the interview guide), the participants expressed that "yes" or "no" were somewhat limiting. Thereby, the researcher decided to introduce a Likert scale so that for the main round of interviews, interviewees are able to choose a score for each activity. The findings of the pilot interviews are discussed in the next sections.

4.9 Findings of the Pilot Study

The current study employs the data analysis framework (as discussed below) to examine the expectations gap in Saudi Arabia concerning the control, strategic and resource roles played by Independent Directors.

As previously discussed (see section 4.6.2), and as demonstrated in Figure 4.2, an expectations gap consists of both a reasonableness gap and a performance gap where by definition: (1) A reasonableness gap takes place when a role is considered desirable (yes to RQ1), however, under the present circumstances, it may not be reasonable to expect IDs to undertake this role (no to RQ2). (2) A performance gap occurs when it is considered reasonable to expect IDs to perform a given role (yes to RQ2), but they fail to perform this role in an effective manner (no to RQ3). In order to identify the factors/aspects both aiding and hindering IDs in the performance of their roles, the responses to RQ4 will be integrated into the analysis of the causes of these gaps in expectations. The following sections analyse each role in turn.

4.9.1 The Control Role

This section discusses the expectations of the interviewees concerning an ID's role in company control, in order to establish whether this role is desirable by answering the first research question.

RQ1. Are IDs expected to play a control role?

The two interviewees agreed that they expected IDs to play a control role. The first interviewee (I1) indicated that "an ID, being an independent member of the board, is more able to practice functions related to control". The second interviewee (I2) stated that "the issue of control forms a vital aspect of the roles played by an ID". This is in agreement with the existing literature. Agency theory views the existence of IDs as a mechanism of control, capable of mitigating the problem of agency by monitoring management decisions and safeguarding the interests of the company's shareholders (Fama and Jensen, 1983). Stiles and Taylor (2001) further argued that corporate boards have a legal obligation to oversee managers, and so guarantee the alignment of their interests with those of their shareholders.

However, the interviewees in the current study expressed mixed views concerning the protection of the interests of minority shareholders. While I2 agreed that IDs should protect these interests, I1 disagreed. I1 accepted the existence of the Type II agency problem (i.e. controlling shareholders choosing to prioritize their own interests at the expense of minority shareholders) (Jensen and Meckling, 1976; Amit and Villalonga, 2006), but also stated that: “by default, board members focus on the interests of large controlling investors. This has resulted in the recent improved awareness of (and consequently greater focus on) safeguarding the interests of minority shareholders. However, my view is that all shareholders should be treated equally”. I2 stated that IDs were obliged to enhance transparency. I1 agreed, noting that: “I think an important part of an ID’s role is to enhance transparency, as this ensures the protection of shareholders’ interests”. This is in agreement with Article 22 of the Saudi Corporate Code (2018), which indicates that IDs are, as members of the board, required to ensure the accuracy and integrity of any information disclosed.

However, the issue of overseeing management activities elicited mixed views from the participants. I1 indicated that “part of the job of an ID should be to oversee management activities, in order to detect any incompetent practices”. I2, however, disagreed, indicating that an ID should only oversee company managers if he/she is a member of the auditing committee: “I don’t think this is part of an ID’s role. In my opinion, this is the responsibility of the auditing committee. Therefore, an ID should not play a leading role in this matter, unless he or she is part of the auditing committee, and he or she certainly should have no responsibilities for the supervision of the executive management".

Although the interviewees expressed different views regarding the activities of the role of control, both agreed on the desirability of a role of control. The following section discusses the reasonableness of the control role.

4.9.1.2 Reasonableness of the Control Role

The perceived reasonableness of the control role is determined by answering the second research question.

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil a control role?

The interviewees considered that it 'reasonable' to expect IDs in Saudi Arabia to play a control role. Both interviewees suggested that the main reason for their support of the reasonableness of such a role as the presence of existing regulations. This is consistent with the findings of Reay (1994) and Li et al. (2012). I1 stated that: "in my opinion, regulatory conditions are the most important factor facilitating the effectiveness of IDs, as the current regulatory conditions strongly support the control role of IDs." I2 agreed, stating that: "current government regulations aid IDs to perform a control function within the company's board, by empowering him/her with adequate terms of reference. This being said, the economic conditions in terms of market maturity are currently strengthening. Hence, I chose the expression 'reasonable', as opposed to 'very reasonable'."

These findings indicate a consensus when it comes to the reasonableness of the control role. When this is added to the consensus (as discussed in the previous section) concerning the desirability of this role, it indicates a lack of any obvious reasonableness gap in the control role. The following section discusses the perceived effectiveness of the IDs' control role.

4.9.1.3 Effectiveness of the Control Role

While the two previous questions addressed the reasonableness gap, the answering of the third research question in this section addresses the issue of a performance gap, i.e. the gap between what can reasonably be expected (RQ2) and the actual perceived achievements (RQ3).

RQ3. Do IDs perform their reasonable control role effectively?

The answers to this question revealed a difference of opinion between the interviewees. I1 declared that IDs are highly effective, whereas I2 was neutral, defending his views concerning the effectiveness of ID control role by noting that: "basically, IDs are under the indirect influence of management as a result of their relationship. This can therefore have an influence on the independence of IDs. This is why I think that it is the actual practice of the control role that fails to achieve an appropriate standard, rather than the regulations."

In comparison with their consensus concerning the reasonableness of the control role, this lack of strong evidence for its effectiveness suggests the presence of a performance gap. This is consistent with the occurrence of a number of corporate scandals in Saudi Arabia, i.e. that of the Saudi French bank in October 2017, during which the bank's investors were shocked to learn that the Saudi Arabian Monetary Authority (SAMA) was investigating the bank for the embezzlement of approximately 500 million Saudi Riyals (Alsubhi and ALabdullah, 2017). The following section discusses the aspects impacting on the effectiveness of the control role.

4.9.1.4 Aspects Influencing the Effectiveness of the Control Role

The findings reported in the previous sections identified the existence of a performance gap, but a lack of any reasonableness gap. The answer to the fourth research question provides a more in-depth understanding of the main aspects hindering IDs in the performance of their control role.

RQ4. What factors/aspects aid or hinder IDs in the execution of their control role?

The pilot interviews resulted in the identification of three relevant aspects influencing the ability of IDs to perform their control role.

Firstly, there is the issue of a lack of independence, with I1 noting that "socio-cultural elements have a relatively negative influence on the control role of an ID". This is particularly important due to the extended-family/tribal and top-down socio-cultural norms and therefore, as suggested by I1 “the ID can only fully play a control role if he/she has no relationship (i.e. that of family or friendship) with individual members of the management. Thereby, the higher the level of an ID’s independence, the greater is his/her ability to play the role, while the closer the relationship between the ID and the company’s management, the less effective the ID will prove in performing this role” (I2).

Secondly, there is the issue of a clear definition of the control role, due to the need for “the proper understanding of the role an ID is expected to play, as the clearer the ID’s job description, the more effective he/she will prove in performing their control role” (I1). The first two aspects are consistent with the findings of Li et al. (2012).

Thirdly, there is the issue of the availability of information, as “effective monitoring of management cannot be achieved unless management is transparent. Without transparency, and cooperation from management, IDs will be unable to perform their control role. Thus, IDs will prove highly effective whenever the management of a company is transparent” (I1).

Overall, the analysis suggests that the control role is perceived as being both desirable and reasonable, but its performance can prove ineffective. The evidence of this pilot study suggests the existence of a performance gap, but no reasonableness gap. The following section discusses the findings concerning an expectation gap in the strategic role of IDs.

4.9.2 The Strategic Role

This section discusses the expectations of the interviewees, in order to investigate whether the strategic role is desirable by answering the first research question.

RQ1. Are IDs expected to play a strategic role?

Both interviewees agreed that they expected IDs to play a strategic role. This is consistent with Article 22 of the Saudi Corporate Governance Code (2018), which states that IDs should participate in establishing a company's plans, policies, strategies and main objectives. This finding is also consistent with the existing literature, i.e. Lorsch and Young (1990) argued that the strategic role is a defining characteristic, differentiating corporate boards from corporate management (Lorsch and Young 1990). IDs assist in formulating the firm's strategy, allocate resources and set out its policies (Tricker, 1994).

The participants in the current study also provided a number of further comments. For example, I1 indicated that "being an outsider ensures the importance of IDs' views concerning issues including reviewing strategic proposals and evaluating strategic threats and opportunities, as they tend to be impartial". However, despite the consensus between the interviewees in relation to the need for a strategic role, they considered that it is more effective for some strategic functions to be undertaken by executives, as in many cases: "IDs are not chosen for their expertise in the specific industry of the company, but rather for their general experience of management and business. The further they are from the company's industry, the more independent they prove to be" (I2). Additionally, "IDs can participate in defining the company's purpose, but, in general, executive board members are better qualified for this role, due to being closely related to the company's operations. I also do not believe that, as outsiders, IDs should be engaged in formulating a company's vision and mission" (I1).

Furthermore, the findings of the pilot study suggest that IDs are more capable of assessing strategic threats and opportunities. For example, I1 stated that "being in the position of an outsider gives particular importance to the opinions of IDs regarding issues such as reviewing strategic proposals and evaluating strategic threats and opportunities, as their view is generally unbiased". The following section discusses the reasonableness of the strategic role of IDs.

4.9.2.2 Reasonableness of the Strategic Role

The perceived reasonableness of the strategic role is determined by answering the second research question.

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil their strategic role?

The participants of this pilot study demonstrated a general consensus concerning the reasonableness of the strategic role of IDs, considering this role to be either 'reasonable', or 'very reasonable'. Consequently, there was no obvious reasonableness gap observed regarding the strategic role. This resulted from two factors: firstly, the regulatory support for the strategic role of IDs (I1) and secondly, that "the situation here is different from the control role. While the control role is imposed by the regulators, companies require the strategic role the inputs of the ID" (I2). The following section discusses the perceived effectiveness of the strategic role of IDs.

4.9.3.3 Perceived Effectiveness of the Strategic Role

The two previous sections focused on addressing the reasonableness gap. The current section answers the third research question, which concerns the performance gap.

RQ3. Do IDs perform their reasonable strategic role effectively?

Both interviewees were of the opinion that IDs are effective in their performance of the strategic role. This result is evidence of the lack of any performance gap in the strategic role of IDs. I1 suggested that "IDs generally tend to function under less pressure in comparison to other board members, such as EDs. They therefore have more time to review and evaluate strategically related issues". The independence of IDs also contributes to the effective performance of their strategic role, i.e. "executives can, under some circumstances, be under pressure to focus on short-term profits, whereas (due to their independent status) IDs can encourage the consideration of long-term prospects" (I1). I2 further noted that "because IDs are generally chosen for their expertise, they can possess experience as directors and owners of other companies. Hence, they are generally effective in performing this role. Therefore, IDs have the expertise, and the management desires to make use of their strategic opinion." These findings contrast with those of Li et al. (2012), which suggested the existence of a performance gap in the strategic role of IDs in China.

The following section examines aspects leading to the adequate performance of IDs in Saudi Arabia.

4.9.2.4 Aspects Influencing the Effectiveness of the Strategic Role

The findings reported in the previous sections failed to establish any gaps in reasonableness or performance. However, the answer to the fourth research question offers a deeper understanding of the main aspects assisting IDs in the performance of their strategic role.

RQ4. What factors/aspects aid or hinder IDs in the execution of their strategic role?

The most important aspect emerging from the pilot interviews relates to the cooperation of the company's management, with I2 noting that "an open informal channel with the management can be of particular importance". I1 further added that the support of other board members (EDs) forms a key aspect, with a positive influence on the capacity of IDs to perform their strategic role.

Overall, the current analysis suggests that the strategic role is perceived to be desirable and reasonable, and to be performed in an effective manner by IDs. The evidence of this pilot study suggests that there is neither a reasonableness gap nor a performance gap in the strategic role of IDs in Saudi Arabia. The following section discusses the finding concerning the expectation gap in the resource role of IDs.

4.9.3 The Resource Role

This section commences with a discussion of the interviewees' expectations concerning the desirability of the IDs' resource role by answering the first research question.

RQ1. Are IDs expected to play a resource role?

The participants agreed that they would expect IDs to play a resource role. The findings from both interviews indicate the desirability of the resource role of IDs, including utilizing their relationship with external environment, in order to: (1) encourage a long-term affiliation with major external players; (2) mitigate the impact of external challenges; and (3) capture potential opportunities. This accords with the views put forward in the existing literature. For example, Pearce and Zahra (1992) argued that utilizing IDs as instruments of cooperation reveals their capacity to encourage long-term affiliations with major external players, and so minimize environmental uncertainty and improve a firm's relationship with external challenges and opportunities. Furthermore, Stiles and Taylor (2001) viewed the resource role as being the key aspect in the function of a board.

In addition, the participants raised the issue of conflict of interest, as can be seen in I2's assertion that "the ID should have no conflict of interest (i.e. any personal benefit) in the opportunities that he/she provides, i.e. when an ID identifies an opportunity for the company with a degree of personal financial benefit". The following section discusses the reasonableness of the resource role of IDs.

4.9.3.2 Reasonableness of the Resource Role

The perceived reasonableness of the resource role is determined by answering the second research question.

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil their resource role?

I1 and I2 revealed an overall consensus concerning the reasonableness of the strategic role, and viewed the role as being 'very reasonable'. Accordingly, there was no obvious reasonableness gap observed in relation to the resource role.

The participants provided two reasons for this. I1 noted that "due to an ID being originally an outsider, he/she should be able to provide positive tangible communication and networking with the exterior environment". I2 noted that playing a resource role is "very reasonable, because the country's business community is very small". This finding suggests that the ability of IDs to play a resource role is negatively linked with the size of the business community, i.e. the smaller the business society, the more reasonable it is to expect an ID to play a resource role. The following section discusses the perceived effectiveness of the IDs' resource role.

4.9.3.3 Perceived Effectiveness of the Resource Role

The two previous sections indicated a lack of any reasonableness gap. The answer to the third research question assesses whether there is a performance gap.

RQ3. Do IDs perform their reasonable Resource role effectively?

The participants considered IDs' performance of their resource role to be 'very effective' (I1) and 'effective' (I2). This result evidenced the lack of any performance gap in the resource role of IDs. The findings of this pilot study further indicated that companies select IDs after taking into account their reputation, existing networks and expertise. Both participants stated that their agreement with this statement was 'very high'. I1 noted that "IDs can, as outsiders, originate from different backgrounds and, in some cases, are considered as assets of the company. A company is an economic entity, focusing on utilizing its assets to maximize its profits. It is therefore logical that companies value the expertise, networks and reputation of their IDs". Similarly, I2 remarked that "when we think of what we want from an ID (apart from his/her expertise), it is his/her connections that can be of potential advantage to the company, with such relationships capable of opening locked doors and securing opportunities". These findings contrast with those of Li et al. (2012), which suggested the existence of a performance gap in the resource role of IDs in China.

The following section examines the aspects resulting in the adequate performance of IDs in Saudi Arabia.

4.9.3.4 Aspects Influencing the Effectiveness of the Resource Role

Similarly, the findings reported in the previous sections revealed a lack of any reasonableness gaps or performance gaps. However, answering the fourth research question offers further understanding of the main aspects assisting IDs to perform their resource role.

RQ4. What factors/aspects aid or hinder IDs in the execution of their resource role?

Two supporting aspects have emerged from the findings of this pilot study: firstly, "the qualities of the ID in terms of his/her personality, qualifications and relationships" (I1); and secondly, "the cooperation of the executive management and support from other board members" (I1). This is due to, as noted by I2, "the wider the ID's circle, the more he/she is able to utilize his/her contacts for the advantage of the company".

The findings of the present pilot study also suggest that the major aspect hindering the performance of the IDs' resource role is a conflict of interest between IDs and the company, as identified in I2's statement that "the most negative impact on this role results from any conflict of interest".

To summarize: the analysis of the findings indicates that the resource role is perceived to be both desirable and reasonable, and that it is considered to be performed in an effective manner by IDs. The evidence from the current pilot study suggests the absence any reasonableness gaps or performance gaps in the resource role of IDs in Saudi Arabia.

4.10 Conclusion

This chapter discussed, described, and justified the methodology and methods employed in this present research study. The two chief philosophical paradigms of ontology and epistemology were discussed, in order to present the philosophical background, and the justifications for selecting the pragmatist philosophical approach were provided.

This study sought to explore the expectations gaps in the roles of IDs in Saudi Arabia. There is a lack of prior research in this area, especially in the context of an emerging economy such as that of Saudi Arabia, a fact that meant this research was exploratory in nature. This study therefore adopted an inductive qualitative approach, in order to investigate the perceptions of board members, regulators, and institutional investors of the roles played by IDs, namely those of control, strategic, and resource, in order to identify any expectations gaps in these roles, and to propose appropriate remedies. The chapter also discussed the use and design of the data collection method adopted and provided a justification for the use of semi-structured interviews, together with presenting the sampling method and the findings of the pilot study employed. The next chapters will discuss the analysis and findings of the research.

Chapter Five: Findings, The Control Role

5.1 Introduction

This Chapter analyses the interview data gathered to address the four research questions with a focus on the control role. As indicated in the previous chapter, twenty-nine interviews (see table 4.1) were conducted to investigate the expectations gaps associated with the IDs' roles. The interviews targeted five different groups: independent directors, executive directors, non-executive directors, regulators, and institutional investors.

As demonstrated in Chapter four, the expectations gap is a combination of the reasonableness gap (i.e. the gap between expectations of achievements and what would be reasonable achievements), and the performance gap (i.e. the gap between what is reasonably expected and perceived achievement) (Porter, 1993). Thus, this chapter is continued by exploring the desirability of a control role for IDs working in Saudi listed companies to address the first research question (RQ1: Are IDs expected to play a control role?) in section 5.2. This is then followed by section 5.3 addressing the second research question (RQ2), which explores the interviewees' perceptions of whether it is reasonable to expect IDs to fulfil this role, consequently identifying any reasonableness gap present in their control role. The chapter continues in section 5.4 where the interviewees' perceptions concerning the perceived actual effectiveness of IDs (RQ3) are evaluated. This is followed by section 5.5 where the fourth research question (RQ4), which involves a process of probing those aspects that aid or hinder IDs as they execute their control role is addressed. The chapter concludes in section 5.6.

5.2 The Desirability of the Control Role

This section discusses the expectations of the interviewees concerning the ID's role in company control, aiming to establish whether it is desirable that IDs play a control role, and thereby answering the first research question.

RQ1. Are IDs expected to play a control role?

As illustrated in Table 5.1 below, all twenty-nine interviewees affirmed that they would expect IDs to play a control role.

Table 5.1 The desirability of the control role.

	Interviewees					
	ID	**NED**	**ED**	**II**	**R**	**Total**
Is it a desirable role for IDs?						
Yes	7	7	3	4	8	29
No	0	0	0	0	0	0
Total	**7**	**7**	**3**	**4**	**8**	**29**

Note: These figures represent the number of interviewees

NED5 for example, indicated that "the control role is an essential part of an IDs job", a view shared by all the interviewees. Similarly, R8 opine "the issue of control forms a vital aspect of the roles played by an ID". R6 also agreed, adding "in my opinion, this is the role of the board in general not just IDs. Thus, we expect all board members, especially IDs, to perform a control role". Likewise, R4 shared similar views about the control role being incumbent on all members of the board, while placing greater emphasis on IDs in particular, due to their independent status. R4 explained:

> “we do expect all board members to play a control role. However, given their independence, we expect they will be leaders in this matter, as conflicts of interest are less prevalent for them than other board members. Undoubtedly, this is the key reason behind the requirement that IDs be included on boards. Currently the CMA requires that at least two, or one third of the board members (whichever is greater) need to be IDs. Thus, the introduction of IDs is intended to mitigate agency problems that might arise from conflicts of interests between minor and majority stock holders”.

Expressing a similar view, ID2 also indicates that the purpose of IDs is to play a control role, noting that “the importance of playing a control role differs amongst IDs even in the same company. If an ID is the Chairman of the board or a member of the audit committee he/she will have greater control responsibilities than normal IDs”. Therefore, ID2 explains the importance of playing a control role might potentially differ amongst IDs serving on the same board. ID5 further highlighted the importance of IDs control role by comparing IDs and the other members of the board responsible for performing this role. Thus, when ID5 was asked if he would expect IDs to play a control role he agreed, further clarifying that “IDs potentially are more effective at playing a control role than other board members because of their independent status. EDs, for example, will generally be inclined to cover up for management as they are part of it”. NED7 also shares the view that company managers tend to cover up for themselves. Therefore, NED7 explains, “IDs should definitely play a control role, but there is a challenge here. In most cases management tend to conceal company problems from IDs. Accordingly, the greater transparency there is, the more it is possible for IDs to practice a control role.” This view highlights the importance of ensuring a transparent flow of information from management to the board, to allow IDs to perform their control role effectively. This also raised the question of whether IDs should be expected to contribute to enhancing transparency as part of their control role? The next sections therefore provides a thorough investigation of each interviewee’s perceptions about the objectives of the control role. These objectives include enhancing transparency, safeguarding the interests of shareholders, and overseeing management activities; each are discussed in turn in the following sub-sections.

5.2.1 Enhancing Transparency

Twenty-five of the twenty-nine interviewees stated that IDs should strive to contribute to enhanced transparency. For example, R8 and II2 indicated that the Saudi corporate governance code requires IDs to improve board transparency. ED1 explained, “all IDs should participate in this as it is a righteous demand”. This view is shared by R2, who generalized this demand to include all members of the board, stating “all members of the board should push for enhanced transparency”. Again, NED1 confirmed that heightening transparency is a goal required by the CMA’s corporate governance code, adding that “as IDs are another CMA regulatory tool, they must ensure proper transparency policies are in place. Similarly, R1 additionally notes, “IDs function under less pressure in terms of transparency thereby they should actively contribute in enhancing transparency".

Those interviewees who favored greater transparency further explicated this view by clarifying that enhancing transparency serves as a key function of IDs control role. For example, ED2 indicated "transparency clearly reflects the actual status of the firm, and without it problems can endure undetected by board members and shareholders. Thus, the poorer the transparency the less effectively the members of the board, especially IDs, are able to do their job". ID2 also underlines the importance of transparency and ensuring a good flow of information regarding the decision-making process by the board, indicating that "as an ID, you only have the information provided to you by management. Consequently, you must ensure this information is sufficient for proper decision making". ID2 also mentioned how an ID could deliver on this issue, by indicating that "this can be done in response to a request for further information on specific issues for instance". Also confirming this function, ID3 stated "this is mainly the job of the compliance officer in the company. Nonetheless, the IDs monitors him/her".

Furthermore, the interviewees expressed the view that IDs should enhance transparency for current and/or future investors of the company as an innate part of their control role. For example, II4 asserted that in order to have a fair and healthy investor environment, "adequate information should be available to all investors" and "the CMA's regulations try to eliminate insider information through penalties". NED7 also confirms the significance of transparency for all investors, as "larger investors generally have greater access to information. Especially when they are represented on the board. I feel that it is crucial that all investors should have access to the same level of information". This view is elaborated upon by ID7, who supports the idea of enhancing the transparency function of the control role of IDs, but highlights circumstances where transparency should be limited, as the interviewee explains:

> "enhancing transparency is very important. Any information which can potentially aid investors in their investment decision making must be available to the public lest it harm the company's operations in terms of patents or other areas that fortify the status of the firm amongst its competitions".

NED2 also highlights IDs' contribution to enhancing transparency, while indicating that "it is important to know what to disclose and what not to mention, as some disclosures could harm the company's competitive status".

In the same vein, some interviewees disclosed mixed views with regard to the IDs' function of enhancing transparency. For example, II1 claimed that transparency is ideally limited to the company's financial information: "what is meant by transparency. If it is transparency about the company's financial statements to shareholders. Then yes". Furthermore, NED6 indicates that enhancing transparency "is of lesser importance in developing markets, such as the Saudi stock market, as there are fewer educated investors. This is especially the case for smaller shareholders. Thereby, there is no point in adding more transparency if investors do not know what to do with sophisticated information. That if they read it in the first place". ID1 however underlines the subjective nature of transparency concept: "the issue with transparency is that this concept is very subjective. What A views as transparent B may not think is transparent at all. Every business society has its own definition of transparency. We believe that we adopt the regulators view of transparency and in my opinion the transparency regulations in Saudi Arabia is currently very robust". The next section discusses the participants' perceptions about whether IDs should ensure the alignment of managements' interests and those of their shareholders.

5.2.2 Safeguarding the Interests of Shareholders

The vast majority of the participants (twenty-eight out of twenty-nine) apparently expect IDs to safeguard the interests of shareholders. Nevertheless, the interviewees held mixed views regarding protecting the interests of minority shareholders. NED2, for example, asserted that this is why IDs are required to serve on corporate boards: "Small investors must be given a priority. This is the reason for having an ID on the board". ED1 underlines the protection of minority shareholder interests, reasoning that smaller investors might not have adequate investment experience, or access to the knowledge or tools that larger investors typically have available to them: "this is very important. It is critical to protect the interests of small shareholders as they may not be professional investors". This view was echoed by ED3, who indicated that "the main control role of an ID is to represent the interests of minority shareholders".

NED 7 explains: "whenever a conflict of interest exists, management will try to maximize their own on the expense of shareholders." NED7 further clarifies: "I view this as a great danger that needs to be eliminated. Accordingly, an ID is on the board to protect the minority investors". While affirming that IDs should protect the interests of smaller shareholders, NED6 expresses an interesting viewpoint: "Protecting minority rights are very important but I don't see an issue here. The interests of management and shareholders are aligned naturally. Shareholders are typically interested in profits, and management is incentivized to make larger profits by playing by the rules". However, NED6 further illuminates the situation, thus: "The problem arises when the management use illegal means to maximize profits. This is where IDs should intervene. Thereby, IDs should guarantee that management is not abusing the system in any way, including through corruption, registering manipulated profits figures, or concealing mistakes".

Along similar lines, NED3 perceives that: "one of the governance goals is that investment should be a fair game. large shareholders have advantages that smaller investors do not have. Thus, IDs should mitigate this in the interest of equality. Today, regulators' governance framework has aimed specifically to protect minority shareholders. This is done by acknowledging that the interests of the company are more important than those of individual large owners. Apparently, the issue of protecting the interests of minority shareholders arises when individuals are voting on decisions that might embed conflicts of interest between the firm and some of its large owners. Large investors, who are represented by NEDs, for example, do not get to vote on such decisions". R7 opines that having IDs on the board: "provides extra comforting in the alignment of interests between the management and the company's investors". R7 also contends that "it can be said that, as the regulations insists, all investors should be treated equally". Nonetheless, R7 insists: "IDs have a responsibility to ensure large investors are not given extra privileges. Consequently, you need to protect minority shareholders”.

The previous view slightly dominates the scene (fifteen participants). However, almost half the study’s interviewees (fourteen) disagreed; indicating that all shareholders should be treated equally. For example, ID2 observed that: “when an ID joins the board he/she should not distinguish between majority and minority shareholders. An ID should focus on what benefits the company as a whole”. While NED5 affirms that IDs should aim to align the interests of management with those of the shareholders, he insists that all shareholders, small or large, should have access to equal treatment from IDs: “certainly, one of the main responsibilities of an ID is to ensure that investors get what they are looking for. Small shareholders are equal to large shareholders in terms of their rights and responsibilities. Thus, they should be treated equally”. This view was shared by II2, and ID2 further adds that “An ID should ensure a healthy environment in the company through macro level monitoring. Any ID that tries to engage in executive activities will lose ultimately”. II4 also contends that IDs should not distinguish between a company’s investors based on their shareholdings, and when concentrating on the interests of the company as a whole, IDs will successfully align management and shareholders’ interests: “we believe that all shareholders are important and neither small nor large shareholders should be privileged. When IDs focus on what is best for a company, they, by default, ensure that the interests of all shareholders are protected”.

In the same vein, ID7 emphasized: “as for the smaller shareholders these should be evaluated case by case”. ID7 further highlighted that: “IDs should focus on what is good for the company, disregarding whether this favor's small or large shareholders". R2 also agrees, making a similar statement. ID4 shows similar support for this view and provides further insight to help clarify his support. Hence, when asked whether IDs should ensure the alignment of management interests with those of shareholders, especially smaller shareholders, he stated: "this should be implemented by holding the long-term prospects of the company in mind. Some IDs are always pro-profit distribution, considering this approach to serve the best interests of minority shareholders, whereas others prefer prepayment of banking loans for example. Each one claims that he/she is prioritizing the interests of shareholders. Company managers will always favor prepayment of finance loans, as they are in the company long term". ID4 further asserts: "All investors should be equal in the eyes of the IDs; an ID must not distinguish between majority and minority investors". This view is also supported by II1, who again, underlines that all shareholders must be treated equally because smaller investors are normally short-term investors/traders, and as such are inclined to develop the short-term prospects of the company, rather than long-term ones: "all shareholders should be treated equally. Small shareholders in many cases are short term investors. We as IDs must prioritize the long-term successes of the company. Short term investors are interested in stock prices, with the expectation that their decisions may affect the share price negatively in the long term; this interest can prove to be of great value supporting the company's future successes".

However, while some study participants opine that minority shareholders should receive equal treatment to majority counterparts, the participants also cite issues that arise when controlling shareholders choose to prioritize their own interests at the expense of minority shareholders. For example, NED1 stated: "there should be no difference between the interests of large and small shareholders. In cases where a stock owner wants to exploit the resources of a company to achieve his/her own interests, the ID must step in. An example of this is when a majority owner pushes for an unfair contract with a company and another company of his own. This will not only harm minority shareholders, it will compromise the interests of other majority shareholders". Correspondingly, R3 states, "We think of IDs as a governance mechanism to safeguard the interest of all shareholders, and the interests of the company as a whole, in a way that achieves the company's goals". Nevertheless, R3 also confirms the existence of the type II agency problem, pointing out that the independent status of IDs facilitates the safeguarding of the interests of all shareholders, both small and large: "As independents, IDs do not have a direct interest in the company. Consequently, IDs are the best positioned board members to play a control role to create profits and ensure the long-term prosperity of the company, which is what shareholders ultimately seek as investors. Theoretically, this should be true for large and small investors alike, but in practice this is not necessarily the case. Large shareholders are persuaded by the amount of control they have over the company to exploit it in a way that maximizes their interests at the expense of other smaller shareholders". Consequently, it is argued that by perceiving that IDs should safeguard the interests of all shareholders, and that IDs must ensure all shareholders are treated equally.

The participants also imply that IDs should direct more attention towards smaller shareholders, because larger investors are privileged by default. Also, it is apparent from some of the previous comments (see II4, R3, NED1 for example) that disagreements among IDs focus on minority investors, and whether they are inferior to larger investors. The next section discusses the participants' perceptions regarding the responsibility, if any, of IDs to oversee management activities to identify incompetent practices as part of their control role.

5.2.3 Overseeing Management Activities

The majority of the interviewees (twenty-seven of twenty-nine) perceived that IDs should oversee management activities, to identify any incompetent practices. NED5 indicates that it is critical for IDs to monitor management activities, to successfully detect incompetence. This view is shared by the majority of participants. ED3 for example notes that "this is very important. IDs should be actively involved in this task". Furthermore, nine of those twenty-seven participants who believe that IDs should monitor firm's management, suggest this is a key part of the IDs control role, as the Audit Committee must be chaired by an ID as specified in the corporate governance code. For instance, R6 indicates this serves to empower IDs to play a control role, by stating that: "capital market authority regulations require that an ID chairs the audit committee, reflecting the emphasis of CMA on the IDs control role". ID7 replies that "This why IDs are in the board in the first place" when answering the question of whether an ID should oversee management activities. ID7 further observes: "if the committee is not headed by an ID, how can he/she be effective in the control role". Similarly, ED2 asserts that as the auditing committee is chaired by an

ID, and because the functions of that committee include internal auditing and monitoring responsibilities, it is expected that IDs engage in the previously mentioned management activities as part of their control role. II4 confirms the importance of this ID function, especially as IDs chair the audit committee, asserting "most corporate scandals in the Saudi stock market resulted from a weak audit committee, which led to weak corporate governance practices".

The issue of preventing misuse of company resources was also raised. For example, R3 stated: "IDs should also ensure that the company is not exploited to achieve personal gains for a few controlling people, in terms of corruption or illegal activities and violations". II1 offered the example of management maladministration; explaining that the ID should strive to prevent this, by indicating that the function of IDs "is very important, as incompetent managers may want to find ways to increase accounting revenue when actual cash flow is weak In addition, some executives might choose to use the company's resources for their own interests. Hence, appropriate monitoring and control is crucial." NED1 sets out another example, whereby IDs have a responsibility to oversee a company's management structure, to ensure there are no violations of regulatory rules or company policies and procedures. ID4 states that overseeing management activities to detect incompetent practices is only possible if an ID is part of the audit committee: "This is a must. Still, as an ID I cannot oversee management activities if I am not part of the audit or risk committees".

ED1 also confirms this is part of the IDs control role, calling for a clear distinction between IDs and management: "of course, this is a must. However, there should be a clear line between the role of the board and that of the executive management".

Similarly, NED 5 shares the view of ED1, who states that IDs should not be involved in micro level controls: “by control I mean top management level control not micro. However, an ID might see that it is beneficial for him/her to practice macro level controls. This is very rare though”.

R8, however, disagreed, indicating that an ID should only oversee company managers if he/she is also serving as member of the auditing committee: “I don’t think this is part of an ID’s role. In my opinion, this is the responsibility of the auditing committee. Therefore, an ID should not play a leading role in this matter, unless he or she is part of the auditing committee, and he or she certainly should not take on responsibilities for supervising the executive management”. R7 shares the view that IDs should not engage in this function: “this is to a lesser extent true, as it is done by all members of the board. However, having an ID provides extra comfort”.

Along similar lines, NED3 explained “all of these control functions are important”. NED3 further argues that corporate governance practices were rather weak in the Kingdom until the introduction of the Capital Market Authority, which has rapidly developed governance regulations since its establishment: “Corporate governance is growing rapidly in Saudi because it was not given the attention that it deserves. However, the CMA has directed a lot of effort towards putting the Saudi Stock market amongst the best in terms of corporate governance practices, and this is not an easy task. The majority of companies are family or government owned, which in the past paid no attention to smaller parties or stakeholders in general. Part of the ID control role is to ensure better transparency to make sure proper procedures and policies are in place”.

The overall findings indicate that all twenty-nine participants believe IDs should play this role (i.e. the control role is desirable). However, to identify the existence of a reasonableness gap, if any, the next section probes the reasonableness of the control role by investigating whether IDs have the necessary means to exercise it.

5.3 Reasonableness of the Control Role

The perceived reasonableness of the control role can be analysed by answering the second research question.

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil a control role?

Consistent with the consensus regarding the desirability of the control role, the findings reveal that twenty-three of the twenty-nine participants perceived it is “reasonable” or “very reasonable” for IDs to play a control role, as can be seen in Table 5.2, which illustrates the results from the five-point Likert scale employed to measure the interviewees’ opinions regarding the reasonableness of the IDs control role.

Table 5.2 The reasonableness of the control role.

	Interviewees					
	ID	NED	ED	II	R	Total
Is it reasonable to expect IDs to fulfil this role?						
Very Reasonable	4	2	1	1	3	11
Reasonable	1	3	1	2	5	12
Neutral	1	1	0	1	0	3
Unreasonable	1	1	1	0	0	3
Very Unreasonable	0	0	0	0	0	0
Total	7	7	3	4	8	**29**

Note: These figures represent the number of interviewees

The average level of agreement among the interviewees was 4 out of 5 (i.e. reasonable). This shows a good level of agreement concerning the reasonableness of the IDs control role. Consequently, no reasonableness gap was observed for the control role. Three types of aspects that support or impede the reasonableness of the IDs control role emerged from the interviews. These; regulatory, socio-cultural and economic influences are discussed sequentially in what follows.

5.3.1 Regulations

There was an overall agreement amongst interviewees that the robustness of the capital market authority regulations, and the Saudi corporate governance code were key reasons backing the reasonableness of the IDs control role. For example, NED4 indicates that “the current corporate governance code is very supportive”. In particular, “the Saudi corporate governance code is being actively revised and improved continuously. With the latest update to the code, IDs have a means to perform their control role effectively," as R6 indicated. This view is shared by the majority of interviewees (all except ED2, NED6, and ID1).

Four main regulatory related issues emerged from the interviews. The first concerned the empowerment of IDs. NED1 and II3 underline the important role the audit committee plays in empowering IDs in listed Saudi companies, noting that regulations mandate the committee be led by an ID: "if you think of the structure of the internal audit system of companies, you can clearly see the internal auditor is linked directly to the audit committee (not management), thus IDs are on solid ground when it comes to performing control duties", as NED1 explains. II3 agrees, adding "the current corporate governance code indicates that the Chairman should not be in the audit committee and that it should only be headed by an ID". Correspondingly, R8 holds the view that it is reasonable for IDs to perform this role in an emerging market, as he explains when asked to provide further clarification for his choice: "Because current government regulations aid the ID with performing a control function on the company board by empowering him with adequate terms of reference. This being said, the market maturity is not yet ideal, but is getting there. Hence, I selected reasonable rather than very reasonable".

Similarly, NED6 argues that despite IDs potentially encountering elevated pressure from a company's board, especially from its Chairman, strong regulations have been put in place to aid IDs to overcome this issue: "I think regulators have done a good job empowering IDs, as they are weak by nature, due to the tremendous amount of power the Chairman of the company has, whether it is a family listed company, or a government owned listed company. Thus, IDs find it very difficult to challenge a Chairman of the board. Therefore, regulators have made an excellent attempt to empower IDs and maximize the span of their responsibilities". NED 6 further offered an important perspective here, one in which he explains that increased authority should be accompanied by greater responsibility to ensure IDs take their control role seriously: "This means that when IDs fail to deliver on their responsibilities they will be punished. Consequently, when faced by tough challenges they get to choose between going to jail and doing their jobs, i.e. playing a control role. Any rational person will choose the latter". ID4 also contends that it is very reasonable for IDs to play a control role, and that there is nothing that hinders IDs from playing this role, adding: "Regulations are very strong. IDs have a huge responsibility according to the new corporate governance regulations. This makes IDs strive to ensure proper control in the company and on the board by ensuring proper control procedures are in place".

The second regulatory aspect to have emerged from the analysis relates to the power of resignation. II4, ID5, NED7 and R3 underline ID resignation and explain how IDs can utilize resignation, or the threat of resignation, as a powerful tool for enforcing control, because regulators take it very seriously when an ID resigns for a control related issues. For instance, ID5 indicates that: "An ID must do his job and if he/she cannot, then it is best that he resigns". ID5 illuminated this view by explaining what had happened to him in another company: "Let me give an example. In one company, where I was an ID chairing the audit committee, we found the company's capital was not fully paid. Thus, we did dig deeper and found the Chairman of the company knew about the issue and did nothing, because those individuals that did not actually pay for their shares were his relatives, and he indirectly asked the accounting department to cover this up until they had paid for their shares in the company. I then chose to document this for the audit committee and when the board met. As a result, those individuals paid for their investment". ID5 further argues that "Regulation is very strong and supportive. After that issue the owners of the company, represented by the Chairman and NEDs, tried to dismiss me from the board. They even hired a lawyer to do so. However, they could not due to the robust regulations". Although ID5 was able to play an effective control role in that situation, he highlights that this was not easy, but still stood behind his view that it would be reasonable to expect IDs to play a control role: "So, answering your question. Yes, IDs can play an effective control role if they want to. However, there is a price to pay. You can see after this event that I was uncomfortable in the company, so I left at the end of the three-year cycle". Another interesting case is that of NED7, who shared his experience working with a difficult Chairman/owner of a family listed company: "In most cases they show their discomfort when we act as IDs. Some owners prefer dummy IDs. Frankly speaking I am considering resigning from the board for that reason". Nevertheless, NED7 considers the role a reasonable one, indicating that: "the regulators of the capital market authority are very supportive". II4 also emphasizes the challenges that IDs might face in exercising their control role, but insists that the role is a reasonable one, reflecting upon the strong regulations: "there will always be challenges but the ID, backed by the current corporate governance regulations has the ability to perform his/her control role effectively". II4 further adds: "when he is obstructed from doing this role he should resign".

In the same vein, improved board membership opportunities are possible when an ID resigns for good reason. This is further supported by R3: “well established majority owners have a tendency to choose only the best IDs, as they understand the important roles that IDs play. Consequently, when an ID is chosen based on his/her qualifications and reputation, majority shareholders will expect the professional execution of the ID’s control role, even when his/her opinions contradict those of larger owners”. R3 provides insight into why an IDs resignation is so significant, indicating that: “Whenever an ID writes a reason for his/her resignation, a full investigation is carried out”. R3 also indicates how an ID should approach the director position to maintain independence: “An ID should not act as if he/she is desperate for the position. Meaning that should an ID find himself/herself in a position where they cannot add value to the board then they should resign. Maintaining this level of professionalism might ultimately ensure he/she will be asked to join another company. We have a relatively large capital market and a shortage of highly qualified IDs able to add value to boards”.

The third regulatory aspect is that IDs comprise one third of the board. Perceiving a control role to be very reasonable, ID1 indicates: “The current regulations mandate that IDs are one third of the board and I assume that owners will only want professional and qualified IDs to join their company’s boards. Therefore, a professional and qualified ID will strive to fulfil his control responsibilities”. ID1 further adds that this view is based on his 12-year experience in company boards: “I cannot generalize of course, but this is based on my over 12 years’ experience as an ID at several companies”. ID1 further underlined that, in some cases, majority owners, or their representatives on the board, find it difficult to work with IDs as they are generally viewed as the opposition; i.e. "IDs are always thought of as the antagonistic members of the board. This is because in general they have a different agenda from owners (represented by NEDs and the Chairman) and management (represented by EDs). This is because IDs independent status means that he or she will generally be abstract and self-interest free when exercising decision making".

ID1 further contended that while nothing prevents an ID from playing his/her role, there is a difference between having a say on an issue and enforcing what they perceive to be best for the company: "IDs cannot fully influence the implementation of their control related decisions, as they only form one third of the board". This view that IDs are a minority on the boards of listed companies was extended by R7: "Of course, there are challenges for IDs in playing their control role. firstly, look at their number. As one-third they are a minority in the board". However, although this might create some pressure, strong corporate governance regulations mitigate the problem: "yes, it is a challenge, but it should not be an obstacle for IDs, as there are tools available that empower IDs to perform their control role".

The final regulatory matter is the issue of ID independence, as raised by the interviewees (NED2, R1, R2, ED3 and NED6). For example, while also perceiving their role to be reasonable NED2 states: "The question that I always ask is: Is there ever really an independent ID? From my experience, there is never full independence. In the end, the shareholders of companies form competing election lists in the general assembly (also known as an annual general meeting or AGM in the UK). Each list includes selected IDs. Consequently, one way or another an ID appears as a part of someone's list. Someone must have voted for him/her, right? Large shareholders will always be of greatest influence". R1 disagrees, indicating that the corporate governance code s is very strict regarding the issue of director independence: "The corporate governance code is currently very robust. CMA is also very strict regarding the definition of ID independence".

Although the majority of the interviewees agreed that it is reasonable for IDs to play a control role given the current corporate governance regulations, a few (ED3, NED6 and ID1) expressed a contrasting opinion. ED3 agrees: "the situation greatly improved after the introduction of cumulative voting in 2017". Further explaining that: "prior to this date, one large investor could elect the whole board. Now minority shareholders have a say in the board's formation". Despite agreeing that the situation has improved, ED3 takes the view that it is not reasonable to expect IDs to play this role indicating that: "IDs are generally loyal to those who elected them". ED3 further contended that the matter predominates in family listed companies: "Large investors nominate and elect IDs and in return demand their loyalty. In family companies this is very apparent". Undoubtedly, "in most cases large investors elect friends, relatives and family members".

ID1 also viewed the role as unreasonable, asserting that control is the responsibility of owners and managers: "in a nutshell, the responsibility of control is mostly with the owner. On the other hand, the CEO is responsible for operational control. Consequently, if control is weak across these two departments, there will be no room for the ID to play a control role. Therefore, we could state that the role of an ID is to ensure the owners and CEO maintain good control, through internal and external audits. However, this is the responsibility of the board in general, not the ID specifically". NED6 also agreed that the role is unreasonable, indicating that this mainly results from socio-cultural aspects, as are discussed below.

5.3.2 The Socio-Cultural Aspects

The majority of the participants perceived that it is reasonable to expect IDs to play this role, as indicated earlier in section 5.3. Nevertheless, some interviewees underlined the socio-cultural aspects that have a negative effect on the IDs control role (ED2, R4, II2, NED4, NED7, ID7, II1, II3 and NED1), while still viewing the role as reasonable, due to the strength of the regulatory aspect.

Three main socio-cultural aspects emerged from the interviews. The first relates to being in the minority on the board. Although participants viewed that comprising one-third of the board is a strong regulatory pillar elevating the reasonableness of the IDs control role, some participants state that even at one-third of the board IDs are still a minority. An example of this is given by ED2. While considering that it is 'reasonable' to expect IDs to play a role, ED2 indicates that IDs typically conform to the view of the majority of EDs and NEDs, as they account for two thirds of the boards' composition, and mainly represent the owners' view: "a strong obstructing influence is the social aspect, as in some cases larger investors lobby for a decision through EDs and NEDs. Consequently, IDs prefer not to offer a contrasting opinion to the one proposed and supported by the majority of the board. It is interesting that a view that he/she was reluctant offer could in fact be the right decision for the company”. Reluctance might result from the fact that: “the ID places a great deal of care to the party which voted for him/her” as II2 explains. II2 further clarifies that: “in many cases the owners do not search for qualified IDs. Instead they look for IDs who are loyal to them and/or IDs with good relationships with the business, society, banks and regulators”. NED4 indicates this is particularly true in: “family companies and in companies where the Chairman is very powerful”.

The second socio-cultural aspect discussed related to the board’s Chairman, who in many cases is the largest investor in the company. For example, NED7 believes the Chairman to be most responsible for impeding IDs from performing their control role, explaining that: “the Chairman of the board sees him/her self as the undisputed leader of the company”. NED7 further adds that in some cases, the Chairman is always the last to arrive at board meetings, as if it is not appropriate for him/her to attend too early. Thus, the Chairman only arrives at a meeting when every other board member has arrived and taken their place”. This again underlines the tribal and hierarchical norms is Saudi Arabia. Furthermore, NED7 also highlights an important issue that might incumber IDs ability to play a control role on the board; i.e. although a person might be an ID at a certain company, the Chairman of that company: “may sometimes have personal business relations with the IDs outside the company. For example, the Chairman may have several companies in which he does business with the ID, which are outside the listed company where the he/she is an ID”. NED7 further provides an example of this based on his personal experience as an ID on another board: “I have personally faced such an issue in the past, where the Chairman of the board approached me saying he has a good job proposition for me in one of his non-listed companies, and wants me to join the team. I knew that this offer was to assure my loyalty to him in my role as an ID".

Another interesting example concerning the significant role that a Chairman of the board plays in empowering, or impeding, IDs control role is provided by ID7: "I have previously worked as a board member in a company where the Chairman of the board owned a majority of the company shares (25%) and was very active. After his death we noticed that his sons were not as committed to the company as he was. Consequently, the IDs had much greater freedom to serve usefully on the company's board than when their father was Chairman. At that time, you could describe how the board was run as a one man show. Thus, it is unfair to judge IDs' performance without recognizing the role of the board's Chairman. One could argue that approximately 90% of the time, the Chairman of the board is responsible for the effectiveness of the IDs and the board in general". ID7 offers an interesting example, whereby the Chairman is a major owner of a listed company, had his son is on the board as a NED (which is commonplace according to ID7). Nonetheless, ID7 adds "the Chairman, as a large shareholder, had two of his son's friends join the company board as IDs, which I do not necessarily disagree with because it is in line with the CMA regulations as long as they have the necessary qualification and expertise. However, if they do not! Then this is a problem as these IDs will feel very lucky and do whatever it takes to remain on that board". ID7 continues: "Which may be exactly why they were chosen in the first place". In the same vein, II3 indicates that: "if a certain family holds 30% of a company, then the board IDs would be careful not to question the owners' status, as they might be compromised and lose all the related remuneration and benefits as a result. Regardless, a few well established IDs might choose to resign, rather than compromise. These IDs generally have a good reputation and are often likely to be asked to join other boards if they do leave".

Conversely, II1 argues that having a strong Chairman with a majority ownership, such as is the case in many family-listed companies is advantageous, and thus is thought to support the IDs control role. The argument of II1 is based on the reasoning that as a majority owner, the Chairman will endeavor to ensure the company's management is not engaging in incompetent practices that could jeopardize his/her investment. Thus the Chairman of such a company would then value the IDs control contributions: "In family companies the IDs monitoring role is mainly focused on monitoring management to counter any incompetent practices. As larger shareholders, the family who owns the company will by default strive to achieve what is best for the company. It is thus illogical to assume the owners represented by NEDs and EDs will engage in any activities that would jeopardize the company". Furthermore, although this view may appear to prioritize protecting large investors' interests, and not those of minority investors, II1 further argues: "in this case what is best for the company is what is best for all shareholders including small ones".

The last socio-cultural aspects relates to the difficulty IDs experience blending in. R4 underlines that in the case of family dominant boards, or in companies where the structure of boards has been unchanged for a long period, a new ID might find it problematic to play a control role, due to difficulties experienced accessing important information: "in some cases IDs may find it difficult to acquire information. This is particularly true when an ID is new to the board and finds him/herself working with an established group unwilling to welcome the new ID. Hence, although the regulations are designed to be strong and empowering, some socio-cultural issues might relatively impair IDs from performing a control role, as cooperation and access to information is key". NED1 underscores other information related issues, contending: "in some cases, friends and families try to get insider information out of the ID". Nevertheless, NED1 views the current role as 'very reasonable'.

Despite the above consensus concerning the adverse effects of socio-cultural aspects on the reasonableness of the IDs control role, only a few interviewees (ED1, R5, R7 and ID3) claimed that socio-cultural aspects have no effect on the reasonableness of the control role. For example, ID3 noted: "an ID can discharge his control responsibility no matter the conditions". ID3 correspondingly provided an example to support this view: "one time I opposed a certain board decision; I wrote down the reason behind my decision. This pressured other members of the board to revise their approvals to non-approvals, because I linked the risks arising from that decision to the long-term performance of the company". Finding the control role of IDs 'very reasonable' ED1 indicates: "There is a great level of maturity in the Saudi business internment" and further observed that: "In most cases there is no mixture between social relations and the IDs professional role". ED1 further contends that even though it may not be easy: "IDs can have full access to the company's information if they want to".

In the same way, R5 asserts that it is 'very reasonable' to expect IDs to play a role as socio-cultural issues should not limit IDs from playing this role: "I don't see any obstruction. Generally, I believe that outward socio-cultural conditions have nothing to do with what happens in companies or on their boards in terms of IDs performing a control role". While agreeing that there may be some degree of cultural politeness among Saudis, R7 insists this has no effect on IDs' ability to play a control role, due to strong regulations and the consequences of such behavior: "Naturally, there are a lot of courtesy in the Saudi society. However, it is not expected that an ID would violate a rule and risk being punished in order to please someone". The next section discusses economic conditions, the third aspects affecting the reasonableness of the IDs control role.

5.3.3 Economic/Financial Aspects

Seven interviewees, II1, NED5, NED6, R3, II2, II3, NED7, R2 and ID6, identified that economic conditions can affect the reasonableness of the IDs control role. However, all the participants, except for NED6 perceived that it is reasonable to expect IDs to play a control role, due to the details and intent of the regulations.

Three economic related aspects influencing the reasonableness of the IDs control role emerged in the analysis. The first related to the general condition of the economy; "During economic upturns and when revenue is high it is much easier to be transparent. However, in economic downturns, IDs can face difficulties in pushing for more transparency," as II1 explains. Along the same lines, NED5 emphasizes the effect of economic conditions on board meetings, explaining how this may affect IDs: "in downturns in the economy and in companies experiencing financial distress the IDs will be working under exhausting pressure. Meetings will triple or quadruple.

Also the opposite is true. In rising economies and when companies are making good profits, meetings can last as little as 30 minutes. Board members including IDs meet, smile have something to eat and that is it". NED6 shared a similar view: "This is the work of audit committees. The issue here is that in good times everybody is happy, and meetings are typically short and smooth. The opposite happens in bad times for companies, they sometimes overdo it". Likewise, NED7 expressed similar views regarding the effects of economic conditions. However, NED7 finds it "reasonable" that IDs play a control role on the board: "in the case of a booming economy, it is difficult to open control related issues because the board will be focused on good results and not want to discuss issues perceived as less exciting. In addition, when the company is generating low profits, the board will make increasing revenue a top priority. Consequently, when an ID asks for information, then he/she will not receive a prompt response from management as they will be busy aiming to uplift the current economic status".

While contending that it is reasonable for IDs to play a control role, R3 rationalizes that: "an ID should have a certain level of flexibility". R3 further elaborates that an ID: "should not always be in disagreement with majority shareholders. Economic conditions are never stable; at times the economy is losing and at others it is recovering or booming". Offering a further explanation R3 explains: "In harder times, the ID should be flexible, as there is a lot at stake and there is less opportunity for corruption. Of course, this does not occur in a way that jeopardizes board independence or shareholder interests. In better times, on the contrary, IDs should push as hard as they can to play out a control role". R3 justifies this by observing that, "the rationale behind this is that although IDs represent minority shareholders. They (minority shareholders), want the company to succeed and have promising future. A view which is shared by majority shareholders as well”.

The second aspect relating to economic/financial aspects affecting the reasonableness of this role is directly related to IDs remunerations, as some IDs contemplate that IDs pay is simply not enough. For example, II2 explains: “I believe that the personal benefits do not motivate IDs to put in the necessary effort”. II3 stresses that this is particularly true of IDs serving at smaller companies where ID remuneration is low, and there is not much to be gained in terms of reputation for joining such a board: “Small companies will generally find it difficult to attract the very best IDs, because these IDs usually have many companies to choose from and will most likely prefer serve on the boards of much larger and reputable companies”. However, this reality should not deter IDs from playing a control role according to ID6, who indicates that “it is their duty to do so”. ID6 further clarifies that this is what IDs are paid to do: “When someone agrees to be an ID, he/she will know what the remuneration is, and the responsibility attached to it. Thus, it is not acceptable that an ID who has agreed to join a board and receives remuneration should perform in a manner that is below average, because he/she feels underpaid or has a busy schedule. If an ID thinks that he/she is unable to do their work, then they should resign or should never have accepted the nomination in the first place.

The last influential economic aspects is one identified by R2, who provides an interesting perspective. Claiming that the economic vision for 2030 created momentum for increased ID participation in control related issues in the board: “under the direction of the 2030 Vison and the desire to conquer corruption in the Kingdom of Saudi Arabia, we are witnessing positive effects on social conditions in the Kingdom. Because the rooting out of corruption did not exclude anyone, no matter his level of influence or his relations, this serves as a message to everyone including IDs". R2 further elaborates: "We believe this is positive news, not negative, and this is what we underline to foreign investors to help them take the right investment decisions".

As indicated previously, the expectations gap comprises two elements: a reasonableness gap and a performance gap. The strong level of agreement concerning the reasonableness of the IDs control role reveals no reasonableness gap in the IDs control role (see the beginning of section 5.3). Thereby, the next section investigates the effectiveness when IDs exercise their control role to assess the performance gap (i.e., the gap between what IDs reasonably expected to be achieved and actual perceived achievements).

5.4 Effectiveness of the Control Role

While the two previous sections presented questions addressing the reasonableness gap, the answer to the third research question in this section addresses the performance gap; i.e. the gap between what can reasonably be expected (RQ2) and actual perceived achievements (RQ3:

RQ3. Do IDs perform their reasonable control role effectively?).

The responses to this question revealed differences of opinion between the interviewees, as apparent in Table 5.3.

Table 5.3 The effectiveness of the control role.

	Interviewees					
	ID	NED	ED	II	R	Total
Do IDs play this role effectively?						
Very Effective	0	0	0	1	1	2
Effective	3	1	0	0	2	6
Medium	2	3	1	0	5	11
Ineffective	2	3	2	3	0	10
Very Ineffective	0	0	0	0	0	0
Total	7	7	3	4	8	**29**

Note: These figures represent the number of interviewees

The average perception of the effectiveness of the IDs control role was "medium" suggesting the presence of a performance gap due to the lack of strong agreement on the effectiveness of IDs in this role. This section is arranged in three sub-sections, based on the interviewees' perceptions of the effectiveness of IDs playing this role.

5.4.1 Strong Effectiveness

Firstly, in contrast with the interviewee consensus concerning the reasonableness of the control role which suggest that it is reasonable for IDs to play a control role, there was a lack of strong evidence for IDs' effectiveness, suggesting the presence of a performance gap. Only eight interviewees (ID5, R4, R5, R6, R7, II1, NED1 and ID2) indicated that IDs are either "effective" or "very effective" at playing a control role. For example, ID5 asserts that IDs are effective when playing this role: "From what I have seen, IDs are effective". ID5 further clarifies: "although the critical role played by the Chairman of the board may hinder the IDs in performing the control role effectively, corporate governance regulations are very supportive". Similarly, R4 contends that currently IDs are typically chosen based on their expertise, and thus, it is very likely that they are effective at playing a control role: "From what we have observed, a significant portion of new IDs have been selected based on their expertise and personal qualities. The majority have strong professional backgrounds. 10 years ago, boards merely consisted of families and friends. This has all changed now".

While ID7 shares similar views regarding the effectiveness of the IDs control role, by considering that IDs effectively play this role based on his experience on corporate boards, he interestingly alludes to the belief that: "From what I have seen, the vast majority of IDs consider themselves lucky to be on a board. Accordingly, they try to do what it takes to remain on the company's board. For example, words like (yes sir, of course sir, and whatever you say sir) are very common sentences among board members engaged in conversation with the Chairman of the company, including IDs". ID7 provides another interesting insight, claiming that other directors of boards, i.e. EDs and NEDs, are much more active in their control roles than IDs. ID7 further explains: "this could be because they are actually invested in the company. Ultimately, it is their money and investment that is on the line. IDs generally have no interest in the company other than the desire to continue as board members". ID7 also contends that owners choose different IDs for different reasons. They indicate that in good times, owners, mainly the Chairman and NEDs, are more inclined to choose IDs who are more flexible regarding control issues. In contrast: "This changes in cases of disaster, here you will see a new board with IDs chosen to rescue the company and guide it to safe shores. They will be chosen based on skill and experience, rather than out of friendship or as yes-men"; this view is also shared by NED5 and NED6. Nonetheless, ID7 contended that IDs are effective in general, because playing an active control role in the case of strong regulations indicates that playing this role effectively: "provides self-protection for IDs".

II1 also perceived IDs as "very effective", explaining that they, as IDs, represent the whole board at a company where they are an ID: "In our case, the board is entirely independent, which facilitates the IDs control role. Management is very supportive of this, especially when we as IDs have the support of the owners".

However, this is not always true. The current corporate governance code mandates that at least two individuals, or one third of the board, whichever is greater, should be IDs. Thus, in most cases IDs are a minority on the board, as most companies listed on the Saudi stock market implement only the minimum requirements, according to ED3 and R7. ED3 indicates that: "Comprising only one third of the board means that IDs avoid coming into conflict with owners and executives. Thus, they agree to whatever the majority proposes. In most cases, IDs simply attend meetings and that is all that they do. They call up, saying 'are you going to meet?' and that's it". ED3 further elaborates: "If an ID actively participates in the firms' control issues, and addresses the company's decisions professionally he well be replaced. Therefore, knowing themselves to be a minority in the board, makes no difference to IDs, as that they will lose their privileges as board members, if they don't get along with the majority". R7 further agrees that IDs encounter challenges when playing a control role. As a result, IDs hesitate to actively engage in certain decisions because they might not be taken seriously. However, R7 argues that: “IDs comprising third of the board is in harmony with best practices in developed and well-regulated economies”. R7 further elaborates, “Yet, we are still aiming to increase their proportion on the board”. Both ED3 and R7 opine that the effectiveness of IDs playing this role is “medium”.

5.4.2 Medium Effectiveness

In total, eleven interviewees stated that IDs’ effectiveness in the control role was “medium”, including NED5, R1, ID4, R8, NED3, NED4, R2, R3 and ID3. In relation to this NED5 observes: “It all depends on the ID and his/her personality. Some appear at meetings and leave without you having heard their voice. Some attend board meetings without reading the meeting’s agenda, you can tell as they have the sealed and unopened document folder in their hands, Meanwhile, some are very enthusiastic, and attend very well prepared for the meeting. They make organized notes and ask questions, making quality contributions”. Similarly, R3 indicates that IDs effectiveness: “depends on the different cases of different individual and companies. Not all companies are equal in their expectations from IDs”. R3 acknowledges that their role is to ensure that proper control mechanisms are in place, as the IDs are outsiders, and as such have the option to spend much less time in the company compared to executives: “generally, an ID will attend six meetings of an audit committee, which will never be enough to fully engage in all the company’s problems and complexities. However, the IDs role is to ensure the existence of strong internal control systems, showing that there are no loop holes. This is how an ID should approach his control role". That being said, R3 further argues: "in some cases, very active IDs chairing audit committees conduct 12 annual meetings, which translate into better control performance".

This argument was extended by NED3: "At the end this depends on the ID. The ID should perform their control role professionally, and when they do that they will have respect. There are cases where IDs have submitted their resignations because they were unable to do their jobs". NED3 also commented on the lack of time issue that IDs face, indicating that: "Being an ID is far more than being physically at meetings, it demands lots of follow-up. For example, today I have had three phone calls with the external auditor. An ID cannot discharge his accountability and responsibility through physical meetings only. It is much more than that". Furthermore, NED3 views the effectiveness of IDs capacity to exercise their control role as "medium", rather than "not effective", due to recent empowering regulations: "Today the regulations are more stringent to authorize IDs to act".

Also perceiving IDs effectiveness as "medium", R8 underlines the pressures that IDs are subject to from owners: "Basically, IDs are under the indirect influence of management because of their relationship with them. This might affect the independence of IDs. This is why I think the actual practice, not the regulations, of the control role is not up to standard". ID3 agrees. NED3 echo this view, claiming: "Regulators view IDs as a balancing influence on the board, but I think the biggest risk that companies face is from IDs". The participant further clarifies: "when you see how IDs are elected to company boards you realize they were elected by majority owners. In my experience, these owners are in constant contact with the ID whom they elected. He/she will generally receive many phone calls, messages, etc. to ensure they are both working along the same lines regarding company issues. Naturally, IDs will want to stay on the board. Knowing this is only attainable if they do not anger the owners who voted for them, they prefer to vote with the owners at board meetings".

NED3 further supports the argument that NEDs play a more effective control role than IDs: "I believe NEDs are more effective at exercising a control role than IDs, because they joined the boards by voting for themselves; that is, their voting power originates from their ownership of company shares. Consequently, NEDs may not be independent from the company, but they are certainly independent of larger stock owners, unlike IDs who are independent from the company, but rely on the larger stakeholders for their board membership status. Consequently, when it comes to decision making, IDs are under greater pressure than NEDs". The participant further elaborates on this by providing an example: "This cannot be more true than in situations where certain large owners (owning five percent or more of a listed company) are at the company for the short term only. These investors always push for maximum profit distribution, disregarding any future expansion or the prospects of the company. They even block annual employee bonuses to maximize their short-term profits. As a result, the IDs elected by these investors will vote to uphold such decisions, whereas NEDs who are at the company long term will oppose them. Similar issue have arisen whereby some IDs pushed for loans they wanted in order to distribute profits. The reason for this is that the IDs and the owners that voted for them wanted to increase the company's share price and be released from the company by selling it.

I was in conflict with the majority of that board, which led me to resign from that company”.

5.4.3 Weak Effectiveness

Ten interviewees, ID1, ED1, ED2, ID6, II2, II3, II4, NED2, NED6 and NED7, perceived IDs were “not very effective” at exercising the control role. For example, ED1 indicated: “The concept of independence is relatively new, and thus it is misunderstood by many”. The participant further explained: “an ID needs no less than 30 work days to be an effective member of the board”. II4 underlines that although regulations are very robust, IDs are ineffective because reputable experts generally turn down ID nominations due to the imbalanced risk/reward ratio with the result that individuals who are less qualified take their place: “the regulations are very strong. However, although this is a positive thing in general, some experts tend not to except ID nominations, because of the high risk (e.g. penalties) and low rewards associated with remunerations”. II2 agrees, underlining that IDs are “not very effective”, due to a lack of qualified IDs and low financial incentives.

NED7 and II3 also perceived that IDs are “not very effective” at playing a control role, emphasizing the influence of the board’s Chairman on their effectiveness. “The Chairman of the board pretty much controls the effectiveness of the IDs control role”, according to II3. II3 further clarify: “in most listed companies the Chairman of the board is the largest owner. Consequently, the Chairman can facilitate the control role of IDs or impede it. Although, the Chairman of our board is very supportive, from what I see and hear, IDs are not very effective". Correspondingly, NED7 argued: "Other board members, Chairman, EDs and NEDs, act for the board of directors as if the IDs opinions and contributions are not important, as he/she as an ID would not have been here if it was not for the regulations".

Overall, in contrast with the interviewees' consensus concerning the reasonableness of the control role (i.e. it is reasonable for IDs to play a control role), the absence of strong evidence for IDs' effectiveness suggests the existence of a performance gap. Consequently, in order to provide a better and more in-depth understanding of the nature of this gap, the main underlying aspects are identified and highlighted in the next section, whereby the interviewees discuss some of the key aspects that impact the effectiveness of the IDs control role.

5.5 Aspects Influencing the Effectiveness of the Control Role

The findings reported in the previous sections identified the existence of a performance gap, noting the absence of a reasonableness gap. The interviewees explained why there was an absence of a reasonableness gap, and the existence of a performance gap in the control role. As will be discussed in this section, the findings for the fourth research question (RQ4: *What factors/aspects aid or hinder IDs in the execution of their control role?)* offer additional explanations for the lack of any reasonableness gap (i.e. aspects that aid) in the IDs control role.

The analysis of the interviews revealed seven relevant aspects suspected to have an impact on the ability of IDs to perform their control role. These aspects are discussed in the following sub-sections.

5.5.1 Regulations

A dominant view amongst the interviewees was that current corporate governance regulations are very strong. For example, R3 argues: "the current corporate governance regulations in the Kingdom are amongst the best and very supportive of IDs". R3 further elaborates; "we have a very sophisticated corporate governance code". R2 agrees: "The regulations in the country are amongst the best worldwide". Nevertheless, while R2 perceives that regulations enable IDs to perform their control role effectively, the interviewee indicated that: "there is always room for improvements, and this is what we endeavor to achieve". Indeed, as some interviewees (ID3, ID7, ID5, II2, ID2, II3, NED4 and NED7) observed; although the regulations are very supportive, there are a number of modifications recommended to further improve them. For example, ID3 suggests assigning: "a confidential channel between the ID and the CMA, especially in the case of ID resignations". R7 agrees, underlining the importance of writing out the reasons when an ID resigns, indicating that "the ID should write out the reasons for his/her resignation from the board". However, this is not always possible; as ID7 clarifies: "During my more than a decade long experience as an ID, and before that as a regulator, I have never seen an ID submit his resignation because he or she could not do what they are supposed to do as IDs due to strong and controlling shareholders". ID7 further elaborates that: "the only way for an ID to lose his position on a board is because his/her supporter (majority owner) lost his majority ownership status, or simply because he/she was unable to get along with whomever nominated him in the first place". This raises the issue of the actual independence of IDs. ID5 contended that: "Some IDs might have been on a company's board for many years, to the point that he/she loses independence in my opinion". ID5 further adds: "Currently, there is no restriction on how many board cycles an individual needs to pass through to be an ID. I think that after two or three cycles, IDs lose their independence and should be considered NEDs". II3 agrees with this, commenting: "Change in a board is necessary to maintain the independent status of IDs. In some companies you might see the board is mostly unchanged and IDs remain as IDs for more than 15 years". II2 also agrees underlining that: "there should be a limit to the number of terms of an ID". II2 further argues that: "the current regulations indicate that an individual can be a board member in as many as five listed company boards". Which can be "too much" as the interviewee explains. ID2 disagrees: "I believe that being an ID on several boards is an advantage when it comes to the control role", as "not all companies are equal and thereby some companies have better control policies and procedures than others, which provides the ID with a good reference point".

5.5.2 Large Shareholders and The Boards Chairman

The second influential aspect to remember is the issue of large shareholders, and the board's Chairman. "The Chairman of the board has a significant obligation in terms of enabling the ID to play his control role effectively", as ED1 explains. ID7 agrees, adding: "The boards Chairman is the most hindering or aiding aspect in terms of the effectiveness of IDs", as the Chairman has the means to: "direct the board meetings towards what they want" as NED5 indicates. ED1 elaborates on this issue, indicating that the board's Chairman, who is the largest investor in most cases: "does not distinguish between ownership and management, as they view that they, as owners, are the best directors of the company. This of course is not true. Some owners have led their companies to failure, due to their lack of management skills". NED4 underlines the effect of large shareholders on the independence of IDs, indicating that: "the independence of the ID is significantly affected by the implicit power of large shareholders, because he/she were elected by them. Thus, in many cases, it is difficult to be independent, as IDs tends to be diplomatic about maintaining their attractiveness, in order to be re-elected". NED2 observed that; "It all comes down to how that ID became a member of the board. If an ID feels that he/she has joined the board because of a particular stock owner, his independence would be compromised".

5.5.3 Minority Status on the Board

The third affecting aspect is the reality that IDs serve as a minority on the company's board. For example, ED2 argued that: "an insufficient number of IDs on a company's board can pressure the effectiveness of IDs, as even when an ID holds a certain opinion, it might not be relevant in cases where it was opposed by the majority of the board". ED2 further emphasized that: "this is particularly true when large investors hold the power to appoint IDs through cumulative voting". II1 similarly observes that: "The greater the board independence is, the better the control capacity of the IDs". ED3 agrees and suggests a solution whereby: "Large investors should not vote for more than 5 members". However, II3 offers a contrasting opinion, asserting: "Being a third of the board strengthens the position of IDs, although, they are not in the majority. The Chairman and other members of the board still do not feel comfortable if all the IDs oppose a certain decision".

5.5.4 Adequate Training

The fourth aspect is the issue of training. "Every ID should attend training courses" ID3 asserts. On this point, ED3 explains that in most cases IDs do not fully comprehend their duties on the company's board: "There is no adequate training for IDs. Most IDs are not familiar with what their real role on the board is". Thereby, ID3 proposes: "Every ID should attend training courses". R2 agrees, asserting that: "The full understanding and comprehending of the regulation is a must for IDs to perform their control role in an effective manner". Nonetheless, R2 further argues that training is not always enough, emphasizing the role played by: "The personal qualities of IDs, such as their ability to lead, as this has a significant impact on their effectiveness as an IDs".

5.5.5 Lack of Qualified IDs

The fifth affecting aspect is the difficulty finding suitable IDs. ED1 indicates: "Previously, IDs view their board membership as a way to make easy money and elevate their social status". ED1 further elaborates, observing that this has recently changed significantly, leading to the difficulty finding IDs with a good reputation: "however, nowadays being an ID is correlated with significant responsibility. Thus, it is difficult to find IDs who are willing to join the board". ID1 agrees, indicating: "we face a major issue in attracting qualified personnel as IDs, due to current regulations that cap board members' pay. Especially when we demand that IDs play an active role on the board rather than extending mere prestige status or membership of an elite club. Ironically, companies can pay millions to that same individual in consulting fees if he is not a member of the board. Hence, sometimes when there is a 'heavy weight' ID on a board, this does not automatically deliver added value".

Along similar lines, ID7 agrees with regard to the challenge of finding fit IDs, but disagrees over the arguments about insufficient remuneration, indicating that companies sometimes over compensate IDs: "although remuneration is limited by regulations, IDs are sometimes indirectly over compensated. Things like cars, personal drivers, VIP healthcare insurance for the ID and his family, personal secretaries and lavish training abroad could alter an IDs independent status". Further, when acknowledging the problem of finding suitable directors, R1 asserts this is due to the ineffectiveness of the remuneration and nomination committee, rather than a shortage of qualified ID candidates: “The main role here is played by the remuneration and nomination committee, as they are responsible for nominating ID candidates”.

5.5.6 Management Cooperation

The sixth affecting aspect relates to managements’ cooperation and governance structure. ED1 emphasized: “The governance structure of the company, and management’s cooperation are crucial to the effective execution of the IDs control role”. Similarly, NED1 argues: “Whenever a company is under professional management IDs will be more capable of doing their job”. In the same vein, NED5 underlines the fact that: “The company should be organized, having adequate policies, procedures and job descriptions. How can an ID effectively play a control role if it has no internal policies in place? How can an ID flag a violation if there are no guidelines”? ID4 provided an example, highlighting the importance of having an effective audit committee, establishing how an ID can improve the overall control of the company through his/her role as the Chairman of that committee: “One of the issues that we face is that the board sometimes receive reports of hundreds of pages a single night before a board meeting, which leaves no time for the IDs to read them. As the head of the auditing committee, I have introduced a new policy requiring that all reports must be sent to the board 5 working days before meetings, and that every report has a cover page, or pages, summarizing it”. R3 shared this view, underlining the importance of competent management, especially human resource management, and employees: “The first and foremost aspect is having a good human resource department at the company. The IDs judgment will only be as good as that of the employees who wrote the reports. In this case the audit report".

5.5.7 Small Investor Involvement

Finally, there is the issue of less effective minority shareholders. ID5 asserts: "Minority investors should play a more effective role in the general assembly. Especially in the election of IDs" II4 concurs: "The ID should be certain required corporate governance measurements are in place, and should monitor each company's key performance indicators (KPIs) and key performance targets (KPTs). Additionally, minority shareholders, through the general assembly, should monitor the board as a whole, including the IDs". NED2 also agrees, adding: "The capital market authority should ensure that there is good communication between IDs and small investors of the company. Currently, there is no communication other than that which takes place in the general assembly and normally follows a fixed schedule that does not allow for discussion topics outside it. We need to have open discussions and meetings between IDs and smaller shareholders at least once a year". In relation to this, NED6 observed that: "this can only be achieved through improved small investor education".

To summaries, the findings revealed seven emerging aspects that are suggested to negatively hinder IDs when performing their control role including; regulatory aspects, the issue of large shareholders, being a minority in the board, inadequate training, lack of qualified IDs, management cooperation, and under active minority shareholders.

5.6 Conclusion

This chapter reported the findings obtained from interviews with the twenty-nine research participants, exploring whether there is an expectations gap in IDs control role in the context of Saudi Arabia. An expectations gap comprises two gaps: a reasonableness gap and a performance gap, as discussed previously in section 4.6.2. The overall evidence suggests that there is a performance gap but no reasonableness gap in the IDs control role. Furthermore, there were no notable variations observed between the different groups of interviewees.

Is the control role desirable? the interview findings indicate a strong consensus among participants with regard to the IDs control role. Indeed, all the interviewees perceived that the role is desirable; underlining that it forms a key aspect of an IDs job. This is largely attributed to their independent status, which makes IDs less prone to the conflicts of interests than other board members. The findings also suggest the importance of the IDs control role can vary for different IDs. For example, the control role of an ID who chairs the audit committee will have greater control responsibilities than that of normal IDs. Furthermore, the interviews showed strong agreement over control functions, such as enhancing transparency, overseeing management activities, and safeguarding the interests of shareholders in general, and minority shareholders in particular.

For example, twenty-five of the twenty-nine interviewees believed that enhancing transparency should be part of the IDs control role. Also, many of the participants agreed that they expect IDs to safeguard the interests of shareholders. However, the interviewees expressed mixed views over protecting the interests of minority shareholders. The prevalent theme was that all investors should be treated equally. Nevertheless, the findings of this research further clarified that small investors should be considered and assisted to a level that equates them with larger investors, without privileging them over larger investors. Along similar lines, twenty-seven of the twenty-nine participants believed that IDs should oversee management activities as a way to detect incompetent practices.

Is the control role reasonable? the findings point to an overall strong consensus amongst interviewees confirming the reasonableness of the control role which suggests the absence of reasonableness gap. This can be attributed to the robustness of the corporate governance regulations in Saudi Arabia, which have considerably empowered IDs to enact a control role. In general, while the majority of interviewees agree that socio-cultural and economic/financial aspects might adversely influence the IDs ability to play their control role effectively, the robustness of corporate governance regulations very much compensates for any impediments in the IDs ability to exert their control effectively.

Perceived effectiveness of the IDs' control role. Despite the lack of a reasonableness gap, the research findings unveiled mixed views with regard to the performance of IDs. Thereby, suggesting a performance gap, which can be attributed to seven *aspects that affected the performance of IDs*. The first related to regulatory aspects. While the overall findings reveal that the current corporate governance regulations are strong, there is still some room for improvement, including: (i) establishing a confidential channel between the ID and the CMA, especially in the case of ID resignations; (ii) limiting the number of board cycles in which an individual can serve as an ID as interviewees suggested that after two or three cycles, IDs lose their independence and should be considered as NEDs; and (iii) interviewees suggested that despite current regulations indicating that an individual cannot serve as a board member on more than five company boards, this limit only applies to listed companies (i.e. an ID can be a board member in five listed companies and many other unlisted ones). Consequently, it does affect the performance and productivity of IDs.

The second aspect relates to the deleterious influence of the board's Chairman and the majority owners, as they genuinely have the power to direct the board meetings as they wish. The third aspect is that IDs are in effect a minority, comprising one third of the board, which may increase the pressure upon them. However, some interviewees indicated that although a minority, the Chairman and other members of the board are never comfortable acting against them, if all IDs oppose a certain decision. The fourth aspect highlights the lack of adequate training, as the interviewees suggest that every ID should attend training courses to elevate their understating of their responsibilities as independent board members. The fifth reported aspect identifies the difficulty in finding suitable IDs, which can be attributed to a combination of the heightened level of responsibility and the regulatory limited remuneration. The next (sixth) aspect relates to managements' cooperation and governance structure within the company as interviews suggest that whenever a company falls under professional management IDs will be more capable of playing their control role effectively. The last aspect concerns underactive minority shareholders. The findings indicate that minority investors should play a more effective role in the general assembly (also known as AGM in the UK). This is particularly in reference to the election of IDs. The next chapter analyses the findings regarding the expectations gap in the IDs.

Chapter Six: Findings, The Strategic Role

6.1 Introduction

This chapter focuses on establishing the existence of any expectations gap for the *strategic role* of IDs. As discussed in section 2.5.1, It can be argued that the strategic role is the role that differentiate members of the board from corporate management (Lorsch and Young 1990). Stiles and Taylor (2001) further explain that the role entails functions that set-out strategic context including; defining the firm's purpose, reviewing strategic proposals, supporting and motivating managers with good records, and choosing directors (see Section 2.5.1). As demonstrated previously, an expectations gap is comprised of both a reasonableness gap and a performance gap (see Section 4.5.2). Similar to the previous chapter, evidence from interviews with five groups of: (1) independent directors; (2) executive directors; (3) non-executive directors; (4) regulators; and (5) institutional investors (see Table 4.1) will be analysed and presented.

This chapter continue in section 6.2 exploring the desirability of a strategic role for IDs in Saudi Arabian listed companies. This section addresses the first research question (RQ1: Are IDs expected to play a strategic role?). This will be followed by section 6.3 which addresses the second research question (RQ2), through an exploration of interviewees' perceptions of whether or not it is reasonable to expect IDs to fulfil this role. This aims identify the existence of any reasonableness gap within the strategic role of IDs. Section 6.4 addresses the performance gap in relation to the strategic role of IDs, by evaluating the interviewees' perceptions of the perceived effectiveness of IDs (RQ3). Aspects aiding and hindering IDs in the execution of their strategic role are presented and discussed in Section 6.5. Finally, section 6.6 forms the conclusion to this chapter.

6.2 The Desirability of the Strategic Role

This section discusses the expectations of the interviewees, in order to establish the desirability of the strategic role of IDs by answering the first research question.

RQ1. Are IDs expected to play a strategic role?

Table 6.1 reveals that all twenty-nine interviewees agreed that they expected IDs to play a strategic role.

Table 6.1: The desirability of the strategic role

	Interviewees					
	ID	**NED**	**ED**	**II**	**R**	**Total**
Is it a desirable role for IDs?						
Yes	7	7	3	4	8	29
No	0	0	0	0	0	0
Total	**7**	**7**	**3**	**4**	**8**	**29**

Note: These figures represent the number of interviewees

In addition, interviewees ID3, NED3, ID2, NED2, R3, NED5, NED6, NED7 R8 and ED2 provided a number of further comments. For example, ID4 stated that “IDs are full members of the board. Thereby, they have responsibility towards the company’s strategy”. This view of IDs being, in their role as board members, obliged to play a strategic role was shared by ID3, NED3, ID2, NED2 and R3. ID3 argued: “well, this is a critical role to be played by IDs. An ID must contribute to any strategic decision, as long as other members of the board are doing so, because he/she is the balancing factor in the company’s board”. NED3 agreed, adding that (due to their independence) it is important for IDs to play a greater strategic role in the company’s board: “this is the most important role of the board and IDs have a greater role to play here, compared to other board members”. Similarly, R3 perceived that a general requirement of the board consisted of a strategic role, which should thus be fulfilled by IDs, adding that: “IDs should participate in the formulation of the company’s strategy, then follow up the implementation of that strategy and re-evaluate that strategy as time goes by”. R3 further asserted that: “the ID should overview the operation of the company to ensure that it is in-line with its strategy, but without directly intervening in these operations, as this can void his/her independence”. It is notable that R3 also underlined the importance of the strategic role of IDs in safeguarding the interests of minority shareholders: “it is very important that the ID takes into consideration the strategic objectives of the company, rather than the objectives of majority shareholders. By doing so, the IDs ensure that the firm’s strategy complements the objectives of small shareholders”.

NED5 underlined that “this is an important role that an ID should play”, indicating that: “the ID should have a clear vision of where the company is going. Is the company on the right path for achieving its future prospects? Or has the company reached a stage where a merger or acquisition is required? Or should it be dissolved if it is losing money?” NED7 also agreed that IDs need to play a strategic role in the company’s board, indicating that this is of greater importance in smaller companies: “yes, especially in smaller companies, as there is generally a lack of qualified employees in these companies, due to limited resources”. However, R8 and ED2 argued that, despite IDs being expected to play a strategic role, some remain ill qualified to play such a role. Thus, R8 noted that: “in many cases, IDs are not chosen for their expertise in the specific industry of the company. Rather, they are chosen for their experience in management and business in general”. R8 also indicated that this takes place in order to ensure the independence of IDs: “the further they are from the company’s industry, the more independent they are”. ED2 shared this view, noting that: “if an ID doesn’t have the appropriate experience knowledge of what’s happening in the company, how can we expect him/her to be effective in this role?”

Along the same lines, ID2 also underlined that the strategic role is the responsibility of all members of the board, including IDs, indicating that it makes no sense for one-third of a company’s board to fail to participate in the company’s strategic decisions: “imagine that one third of any board is not active when it comes to the company’s strategic decisions. How effective will that board be?” ID2 further commented: “when you see the most effective company boards in the stock market, you will find that IDs play a strong strategic role in that board. IDs approve company strategies and follow up management to ensure its implementation”. NED2 agreed that: “this is the role of the board as whole. Thus, it is expected IDs that will play this role as directors of the board. After all IDs are a third of the board, and it is not reasonable that a third of any board does not participate in the company’s strategy”. Similarly, NED6 highlighted that, despite IDs being given greater responsibility for control than other board members, they have equivalent strategic responsibilities to members of the company's board: "There are some roles in which IDs have more responsibilities in comparison to other members (as in the control role), responsibilities in which IDs are equal with other members of the board (as in the strategic role), and roles that are not required of IDs (such as day to day executive roles)".

The following section investigates in detail the interviewee's perceptions concerning the objectives of the strategic role of IDs: (1) defining the company's purpose; (2) Formulating the company's vision and mission; (3) the Strategic Review; (4) actively identifying the prospects of the company; (5) the setting-out of policies; (6) supporting and motivating managers with good records; and (7) participating in the selection of directors.

6.2.1 Defining the company's purpose

The interviewees expressed overall agreement concerning the importance of this strategic function. In total, twenty-four interviewees felt that they would expect IDs to participate in defining the company's purpose. For example, II2 noted that "this is a prime role of an ID". ED2 agreed, further stating that any deviation from the company's purpose has the potential to generate additional risk: "This is very important. Companies should not deviate from their purpose. In many cases, companies tend to engage in high profit operations outside their original function, which may lead to increased risk". ID4 concurred that IDs should participate in defining the company's purpose, adding that (in some cases) a company may reach a point at which there is a necessary change in its purpose: “yes, some IDs have participated in companies that have changed their purpose. For example, one agricultural company changed its purpose from being an agricultural company to becoming a multi investment company”.

Similarly, NED5 and R7 agreed on the desirability of this strategic function, also noting that this is a function of the board in general and therefore, as members, a requirement of IDs. NED5 underlined that: “these are Board documents and IDs are expected to play a role here”. In the same vein, R7 commented that: “this is the role of the board in general and an ID is expected to take part in the firm’s strategic decision making as a board member”, further adding that: “if it is a responsibility of the board, then it is a responsibility of the ID as a member of the board”.

As indicated at the commencement of this section, a small number of participants (e.g., NED3, NED4, R1, R2 and R8) perceived that IDs should not engage in this strategic role. Some provided comments, with NED4 and R2 emphasizing that a company’s purpose is generally defined at a very early stage, prior to IDs joining the company. Furthermore, R1 asserted that it is management’s role to define the company’s purpose: “this should come from the management”.

The following section discusses the role of IDs in assisting the formulation of a company’s vision and mission.

6.2.2 Formulating A Company's Vision and Mission

The findings indicated a strong consensus among the interviewees, with twenty-six (i.e. all apart from ED2, R1 and R6) considering that IDs should participate in formulating the mission and vision of a company. ED1 argued this to be an essential strategic function of IDs, as members of the board, underlining that it is vital for IDs to possess some expertise in the company's industry: "this is a major function of the board. Thus, IDs should be required to have a minimum expertise in the industry in which the company operates". R4 confirmed the materiality of formulating the company's vision and mission: "these form the basis from where the firm's strategic goals are formulated. IDs should thereby ensure that the company is on track with its mission and vision". II4 concurred, noting that: "this is an important part of the IDs' responsibilities, especially the follow-up of the chosen strategy, to ensure that the management is on the right track". ED3 also agreed with this function, but noted that this primarily consists of an executive function: "important, but more in relation to executives".

On the other hand, ED2, R1 and R6 disagreed with this strategic function, offering a number of further comments. For example, ED2 asserted that: "this is the EDs' job. There should be a clear line between the IDs' role and that of the EDs". R1 agreed, adding: "IDs should have a consulting role only". R6 pointed out that this is of a lesser importance than further strategic functions, as (in the majority of cases) companies view the mission and visions as merely logos, rather than having any strategic implications: "this is less important than, for instance, strategic goals. In some companies, the mission and vision are more of a logo than a strategic tool".

The following section discusses participation in the company's strategic review as an aspect of the strategic role of IDs.

6.2.3. Strategic Review

The interviewees demonstrated a strong agreement regarding the function of a strategic review, particularly in terms of the evaluation of proposals, threats and opportunities. Thus, twenty-seven interviewees considered that IDs should participate in these strategic functions. For example, ED2 asserted the importance of the strategic review and evaluation, as: "opportunities should not be missed and risks must be avoided, even before they occur". Similarly, NED4 agreed with the importance of this strategic function, underlining that IDs should aim to "maintain the balance between profit and risk". R6 expressed similar views, emphasizing the importance of the independent status of IDs: "this is very important. It adds a new perspective, while the importance comes from being independent and having no personal interests". R3 also emphasized the important role played by independent members of the board, specifically when it comes to reviewing strategic threats and opportunities: "Definitely, as this is where conflicts of interests arise. Thus, the ID should ensure that the decisions taken here are in the best interests of the company, rather than for the few who own the majority of that company".

Along the same lines, II1 supported this strategic function, while at the same time affirming that IDs must not engage in operational level strategies: "this is the main strategic task of the ID, as he/she must not go below this to the operational level".

Moreover, although supporting this strategic function of IDs, NED4 noted that any review of company strategy is generally the role of an ED: "this is a must, but EDs play a larger role here". NED7 expressed agreement with this viewpoint, noting: "no: this is outside of the ID's job". The only other participant to disagree with this strategic function of IDs was R2, who clarified his view that: "sometimes this should be confidential information. Discussing it means that it must be documented in records of the board's meetings". The following section discusses the role of IDs when it comes to active involvement in the prospects of the company.

6.2.4. Actively Identifying the Prospects of the Company

Twenty-two participants considered that IDs should actively participate in identifying the future prospects of the company. This suggested an overall agreement with this strategic function of IDs. R6, for example, noted that this "… is an important function of the board. IDs should always be involved, to maintain integrity and ensure the alignment of interests between the management and those of the shareholders". ID7 also confirmed this function of IDs, but noted that their professional background generally tends to determine their level of involvement in this strategic task: "yes, but this depends on the background of the ID. Do not have high expectations from an ID with an auditing background when it comes to future investments, compared to an ID who has had experience as an executive, or as an investment banker, before being elected as an ID". While agreeing with the importance of the role, R4 identified a number of more important strategic functions for IDs, noting that this role was:

"important, but of lesser importance relative to other strategic activities, such as evaluating strategic threats and opportunities".

Five of the seven interviewees who disagreed with this strategic function provided further comments. For example, ED2 asserted that: "there should be a clear distinction between the IDs' role and that of EDs". In addition, R3 disagreed with this strategic task of IDs and argued that this: "… is generally the role of the executive members of the board". While ID2 and NED6 agreed with this view, NED7 disagreed, emphasizing that the potential for any engagement in such activities would undermine the independence of IDs: "this is a grey area. There should be a line that IDs do not cross, in order to maintain their independence".

The following section discusses the strategic task of setting out the company's policies.

6.2.5. Setting-Out of Policies

The findings from the interviews suggested an overall agreement with this strategic function, although to a lesser extent than in relation to other strategic tasks that emerged from the interviews (i.e. evaluating strategic proposals and strategic threats and opportunities). Only twenty-one participants agreed that they would expect IDs to perform this task. R3 noted that the setting out of policies forms a core function of the nomination and remuneration committee, for which the current corporate governance code mandates the committee to have at least one ID member: "the remuneration and nomination committee ensures ID participation in organizational structure and policies. As the committee can suggest the updating, developing or changing of the structure of the company, in order to ensure that the structure of the company is in line with its strategy, as indicated in its vision and mission". R3 further underlined that: "the company structure ensures smoother operations, improved control and diminishes any conflict of interest".

Nevertheless, eight participants disagreed with the IDs' strategic function when it came to setting out company's policy. For example, R5 noted that: "this is more of a management role than that of an ID". ED2 shared a similar view, noting that this should be the role of an ED, while at the same time disagreeing with this function and further raising the issue of maintaining ID independence: "to set out policies means that the ID needs to be involved in the daily activities of the company, which, in turn, influences his/her independence". ID7 gave a further explanation of the reasons for this disagreement with the role played by IDs in setting out policies, highlighting the time limitation faced by IDs when excising such a task: "I don't agree with this activity, although it is required by some boards". ID7 clarified this as follows: "for example, five days before our meeting, I receive twenty new policies and procedures to be approved, each of which is approximately 200 pages long. How do you expect me to read them? Then, how am I supposed to approve them? Honestly, I don't know. As a result, the corporate governance code enables IDs to delegate these issues. However, I will never be 100% confident unless I read them myself". However, while ID7 raised the issue of not having sufficient time, the participant did not disagree with delegation of some strategic duties in principal.

Showing support for successful company managers can send a positive motivating message to other company employees that their fruitful efforts will not be overseen. Hence, the following section discusses the strategic task of IDs in supporting and motivating managers in possession of good records.

6.2.6 Supporting and Motivating Managers with a Good Record

The findings identified an overall agreement regarding this function of IDs, with twenty-one interviewees stating that they would expect IDs to support and motivate those managers in possession of a good record. Several participants provided further clarification, including R5, who emphasized that "this is a key strategic function" to be performed by IDs, while R8 noted that, in doing so, IDs effectively enhance the alignment of interests between management and shareholders: "as this is part of aligning the interests of management with the interests of shareholders. Moreover, managers with a good record are viewed as assets of the company, capable of increasing its value and profits". ED2 agreed, indicating that: "IDs should be very active in this regard. Supporting managers and employees with a good record ensures that the company has, and maintains, the best human resources available". ED2 further explained the importance of efficiently managing financial remuneration: "this issue must be balanced in a way that protects the shareholders' interests. For example, when the remuneration is too low, the firm may not be able to retain managers and employees with good records. On the other hand, it would be a waste of the company's resources if the remuneration was too high. Hence, I suggest that the nomination and remuneration committee should include at least one ID”. R6 agreed with this viewpoint and confirmed the importance of ensuring the participation of an independent board member in motivating managers with a strong record, further noting that: “this is generally a board role for which the ID should play a stronger part, given his/her independence”.

ID5 agreed with this function of IDs, while at the same time asserting that this is generally a management role: “this is the role of the management, however it is good that IDs ensure proper motivation procedures are in place”. NED5 concurred, but noted that: “IDs communicate with the CEO and thereby may not know managers at lower levels”. However, the participant further clarified this point, by providing an insight into how an ID can engage with this strategic task: “yet, an ID should make sure that appropriate incentives bonuses are in place for those employees with good records. Also, an ID can request presentations from, for example, the Head of HR or production”. Similarly, ID7 perceived that: “this is very important”, noting that: “when an individual with a good record leaves a company for reasons such as personal or work-based conflict, IDs should do their best to ensure that he/she joins other companies of which they are a member”. ID7 supported this with the following example: “in one company of which I am a member, a manager with a good record submitted his resignation. I contacted him immediately, in an attempt to understand the reasons behind this resignation. He told me it was the low salary. Since the individual was leaving the company anyway, and I was unable to do anything to increase his salary in that particular company, I secured him a job in another company where I am also an ID, in order for that company to benefit from his knowledge and expertise".

II4, ED3, NED1, NED6 and R4 also perceived that IDs should perform this role, since the Saudi Code of Corporate Governance mandates a minimum of one ID on each nomination and remuneration committee. R7 agreed with this strategic function of an ID, but noted that: "this is the job of the nomination and remuneration committee. Hence, it is not a role of the board. Thus, an ID is not expected to participate, unless he/she is a committee member". ID4 shared a similar view, stating: "this is the responsibility of the nomination and remuneration committee. If the ID is part of it then yes, otherwise, no".

By contrast, eight interviewees disagreed with this ID function. NED7 indicated that IDs should avoid this task, due to having (in comparison to EDs) minimum contact with managers, thus resulting in the potential for biased decisions: "in the company, there are sometimes good employees of whom the board is unaware, while others may be less qualified, but are known to the board for various reasons. Consequently, IDs should defer this process to management". ED1 also considered that it was inappropriate for IDs to participate in motivating managers, due to this being an executive task: "IDs should not intervene in the roles of executives …there should be a clear line separating the roles of EDs and IDs, unless they form part of the relevant committees". Likewise, R3 perceived this to be an executive function ("this is executive level strategy"), while at the same time underlining the existence of a number of other ways for IDs to ensure the motivation of managers in possession of a good record: “an ID should make sure that there are clear KPIs and a proper employee evaluation system in place”.

The following section discusses the participation of IDs in the selection of managing directors.

6.2.7 Participation in the Selection of Directors

The research findings indicated an overall consensus regarding the participation of IDs in choosing company directors, with twenty-five interviewees confirming that they would expect IDs to participate in this task. A number of interviewees offered further comments, stating that IDs should ‘definitely’ participate in choosing directors, as ED2 explained: “we do not want directors to be chosen solely by large shareholders, so as to avoid fulfilling any personal interests at the expense of smaller shareholders”. ED1 also confirmed the importance of this function, but asserted that IDs: “should not go below VP levels”, while ED3 expressed similar views.

Along similar lines, ID5 stressed: “I cannot describe how important this is”, noting that IDs: “… must ensure that there is a qualified CEO capable of effectively communicating the board’s strategy and ensure that this strategy is implemented”. NED3 agreed, while at the same time stressing the relationship between the recruitment of competent company directors and the correct implementation of company strategy:, “… an important part of the IDs’ role is ensuring that the company has the best management, as they are responsible for implementing its strategies”. NED3 further emphasized that: “… the success of any company depends on its directing management. Thus, filling these positions with competent personnel is very important". II4 agreed, adding: "in some companies, IDs interview candidates before appointing the directors". Participants R5, NED4, R1 and R4 also perceived this to be an important strategic function of IDs, primarily as a result of their independent status on company boards. For example, R5 noted: "as independents, IDs play an important part here, as they are less biased". Similarly, NED4 claimed that: "IDs are more abstract and independent than other members of the board". R1 further noted that the fact of being independent and less biased ensures that: "IDs function under less pressure in comparison to other board members". R4 agreed, stating that: "firstly, given his/her independence, the ID is more likely to appoint directors based on qualifications, rather than as a result of friendship or loyalty".

Interviewees NED5 and R3 also agreed that this was a strategic function of IDs. They emphasized that it formed the prime function of the remuneration and nomination committee, i.e. in response to the Saudi corporate governance code mandating that this committee must include a minimum of one ID. Furthermore, NED5 noted: "the board is responsible for the CEO and CEO. So yes, IDs should participate in their choice. Also, the nomination and remuneration committee is responsible for choosing top level managers and when an ID is part of that committee, he/she is expected to take an active role in choosing top directors". NED5 further emphasized that: "they (IDs) must make sure that these positions are filled with the appropriate people". Similarly, R3 confirmed the importance of IDs' involvement in the selection of company directors, underlining that: "part of the role of the remuneration and nomination committee is to nominate the company's top management. Thus, the Code has ensured the participation of IDs in choosing the company's executive management, thereby making sure that these positions are occupied by qualified and competent employees". However, ID4 disagreed with this view, arguing that IDs should not be required to tackle such a task unless as part of the nomination and remuneration committee: "this is RNC responsibility. If the ID is part of it then yes, otherwise no".

In conclusion: the overall findings of this current research suggest that all twenty-nine participants agreed that IDs should play a strategic role, i.e. that their strategic role is desirable. The following section examines the reasonableness of this strategic role, through an investigation of whether IDs are in possession of the necessary means to exercise their stated responsibilities. This aims to identify the existence of any reasonableness gap in the strategic role of IDs.

6.3 Reasonableness of the Strategic Role

Interviewees' responses to the perceived reasonableness of the strategic role is evaluated in this section with reference to the second research question:

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil a strategic role?

The overall findings indicated that, in response to the consensus concerning the desirability of the IDs' strategic role, twenty-six participants perceived a strategic role to be either 'reasonable' or 'very reasonable'. This is shown in Table 6.2, which illustrates the results of the five-point Likert scale employed to measure the interviewees' opinions regarding the reasonableness of the strategic role of IDs.

Table 6.2: The reasonableness of the strategic role

	Interviewees					
	ID	**NED**	**ED**	**II**	**R**	**Total**
Is it reasonable to expect IDs to fulfil this role?						
Very Reasonable	3	2	0	1	2	8
Reasonable	4	5	1	2	6	18
Neutral	0	0	1	1	0	2
Unreasonable	0	0	1	0	0	1
Very Unreasonable	0	0	0	0	0	0
Total	7	7	3	4	8	**29**

Note: These figures represent the number of interviewees

These findings revealed a strong level of agreement concerning the reasonableness of the strategic role of IDs. Consequently, no reasonableness gap was observed in relation to the strategic role. A number of interviewees provided further comments emphasizing the importance of the IDs strategic role. ID1 noted "this is the most important role of IDs", while R5 stated that: "the strategic role is a critically important function of the board, with IDs expected to play an important role". R2 also recognized the role as reasonable, noting: "I think it is reasonable to expect the ID to play a strategic role whenever he/she has the required experience, knowledge and personal qualities". ED1 similarly stated that: "IDs should be well rounded to master the strategic role as well as other roles (control and resources)".

It should be noted that three principal aspects influencing the reasonableness of the IDs' strategic role emerged from the analysis of interviews: (1) regulatory, (2) socio-cultural, and (3) economic. These aspects are discussed sequentially in the following sections.

6.3.1 The Regulatory Aspect

The findings suggested an overall agreement between interviewees that governance regulations form the dominant aspect, particularly when it comes to the empowerment of IDs. For example, R5 viewed the strategic role as 'very reasonable', noting that: "the Code provides IDs with the means to perform this role". Similarly, ID7 agreed that it is 'reasonable' for IDs play a strategic role, indicating that regulations have proved highly supportive: "the regulations are currently very good and enable the ID to play a strategic role". This view was shared by R6, as follows: "the regulatory part enables IDs to play a strategic role". Furthermore, ID3 underlined that: "there is nothing to restrict IDs from playing a strategic role. However, current corporate governance regulations are stronger when it comes to supporting the control role of the IDs than the strategic role". ID3 further explained that, as an ID, he felt able to discuss any strategic matters with the company's board, even when this involved criticizing the top management: "for example, if I consider the current CEO of the company to be ineffective, I can discuss this in a board meeting". R1 agreed with this statement and offered the following example: "a small manufacturer went public and thus benefited from the corporate governance regulations requiring the appointment of IDs to the board. This step has broadened the strategic horizon of the board, particularly by including industry experts rather than being formed entirely by the owners". R1 further noted that: "this move has helped the company to increase its profits".

NED6 also considered it 'reasonable' to expect IDs to play a strategic role, noting that IDs are required to play a strategic role: "an ID is identical to any other board member, except that he/she has no direct interest in the company and therefore lacks any conflict of interest with the shareholders. Thus, IDs play a strategic role as members of the board". II2 also perceived the role to be reasonable as a result of strong regulations (i.e. "the regulations are very supportive"), but added that, in some cases: "the regulations forbid IDs (and other members of the board) from voting on strategic decisions, if the ID has personal interest in such a deal. A good example of this is when the board discusses any long-term affiliation with another company in which the ID is an owner".

The overall findings suggest that regulations tend to prove highly supportive. However, as noted by R6: "the real challenge here concerns the socio-cultural issues". This aspect is discussed in more detail in the following section. R6 further explained: "I believe that socio-cultural issues can affect the IDs' performance, but this is a global issue, not just for Saudi Arabia. Companies perform in the real world and the reality will never be perfect". The participant also emphasized the role played by regulation in mitigating such issues: "however, we as regulators do our best to ensure that IDs have the means to perform their strategic roles effectively, by ensuring that the Saudi Corporate Governance Code is up to date and on par with the best international practices, while also bearing in mind that every county, society and economy is unique in some way or the other".

The following section discusses the socio-cultural aspects.

6.3.2 Socio-Cultural Aspects

As indicated above, in the previous sub-section, the majority of the participants perceived it reasonable to expect IDs to undertake this role. The interviews revealed two main socio-cultural aspects contributing to the reasonableness of the IDs' control role, as discussed below.

The first aspect related to the nature of role as the general theme, i.e. identifying a difference in the impact of socio-cultural conditions in the strategic role in comparison to the control role. For example, NED4 perceived the latter to be reasonable, and emphasizing that: "unlike the control role, the strategic opinion of IDs is wanted. Therefore, you could say it is a win-win situation, as there are common grounds for this role". Similarly, NED3 confirmed that it is 'very reasonable' to expect IDs to play this role, noting that: "unlike control role, everybody is aligned". R8 similarly argued that: "the situation here is different from the control role. While the control role is imposed by the regulators, companies here (i.e. for the strategic role) desire the input of the ID". ID4 also expressed the view that the role was 'very reasonable', noting that "there are no restrictions on IDs to express their strategic views".

The second aspect focused on the issue of large shareholders. For example, NED7 underlined that, from personal experience: “whenever I participate in the firm’s strategy, I am accused by the owners of leaning towards minority shareholders. This is also true for IDs in that same company”. R5 shared this view, indicating that this can arise due to the market being made up primarily of family-run companies: “socio-cultural conditions can impair IDs from reaching their full potential in terms of playing a strategic role, given that the market mostly consists of family companies”. R3 was of the opinion that IDs are capable of working around such issues, stating that: “an ID should pick his/her battles, meaning that he/she can be flexible when it comes to smaller immaterial issues, but stand firm when it comes to important ones”. R3 further clarified this by means of the following example: “an ID can be flexible when it comes to policies and procedures, but become very involved in larger strategic issues, such as choosing the Executive Management and entering new markets”. NED7, R5 and R3 perceived the strategic role of IDs as being ‘reasonable’ or ‘very reasonable’. One the other hand, ED2 viewed it ‘unreasonable’ to expect IDs to play a strategic role, noting that: “the social pressure is very high and contributes negatively towards the IDs’ strategic role”. Moreover, ED2 related this unreasonableness to the domination of the board by the chairman, particularly due to him/her generally being the largest investor: “furthermore, if an ID deviates from the path required by the chairman of the board, he or she may easily be sacked, because voting is generally in the hands of large investors”.

The following section investigates the economic/financial aspects impacting on the reasonableness of the strategic role of IDs.

6.3.3. Economic/Financial Aspects

As indicated in Table 6.2, the majority of the participants perceived it reasonable to expect IDs to play a strategic role. The participants further clarified various economic-related aspects behind this agreement. For example, R4 noted that this was: "because the ID adds a new business perspective". R6 expressed a similar view, underscoring the IDs' importance when it came to ensuring the board's broad strategic perspective: "this is a highly critical role for IDs to play. As outsiders, IDs can prove a great addition to the company's strategy, as they view the company from a different perspective, in comparison to insider members of the board, for example EDs". ID2 also confirmed the reasonableness of the IDs' strategic role, highlighting that, in the current business environment, IDs tend not to occupy full-time jobs: "currently, becoming an ID is a job on its own. Most IDs in the market do not have other jobs besides being IDs or board memberships in other companies". ID2 further noted that being less involved in time-consuming employment: "elevates their participation in the company's strategy".

ID5 similarly argued that it is 'very reasonable' to expect IDs to play a strategic role, in particular when companies engage in a large-scale strategic reconstruction: "this is particularly true in companies experiencing a major strategic overhaul, to the point that this creates an overload for the ID". ID5 also provided a personal example: "I was an ID in one company under the management of a CEO who was ineffective. He was replaced, and the company is currently going through an overhaul. Consequently, I find myself playing a far greater strategic role in that company, in comparison to other companies where I have been an ID”.

The high level of agreement concerning the reasonableness of the IDs’ strategic role revealed a lack of any reasonableness gap in the strategic role of IDs (see Table 6.2). In order to investigate the second element of the expectations (i.e. the performance gap), the following section assesses the performance gap through an examination of the effectiveness of IDs when exercising their strategic role in relation to reasonable expectations.

6.4 Effectiveness of the Strategic Role

The two previous research questions addressed the reasonableness gap. In this section, the findings will be analysed in order to answer to the third research question which addresses the performance gap, i.e. the gap (i.e., the gap between what can reasonably be expected, RQ2, and the actual perceived achievement, RQ3).

RQ3. Do IDs perform their reasonable strategic role effectively?

As demonstrated in Table 6.3 (below), the responses to this question revealed a number of differences of opinion between the interviewees.

Table 6.3: The Effectiveness of Strategic Role

	Interviewees					
	ID	**NED**	**ED**	**II**	**R**	**Total**
Do IDs play this role effectively?						
Very Effective	0	0	0	1	0	1
Effective	1	4	1	1	5	12
Medium	6	2	1	1	2	12
Ineffective	0	1	1	1	1	4
Very Ineffective	0	0	0	0	0	0
Total	7	7	3	4	8	**29**

Note: These figures represent the number of interviewees

Based on the five-point Likert scale employed, the average perception of the effectiveness of the IDs' strategic role was 3.3. This indicates that IDs effectiveness in this role was considered as 'medium'. Therefore, suggesting the presence of a performance gap due to the lack of strong agreement on the effectiveness of IDs in this role. This section is arranged into three sub-sections, based on the interviewees' perceptions of the effectiveness of IDs playing this role.

6.4.1 Strong Effectiveness

Firstly, in contrast to the consensus between the interviewees concerning the reasonableness of the strategic role (i.e. that it was reasonable for IDs to play a strategic role), there remained a lack of strong evidence for the effectiveness of IDs. This therefore suggested the presence of a performance gap. Only thirteen interviewees (i.e. R6, R5, ED3, NED4, ID5, II4, NED1, NED3, R3, R4, R8, II2 and

NED6), indicated that they believed IDs were either ‘effective’ or ‘very effective’ at playing a strategic role. For example, R6 noted that “IDs are effective in their strategic role”. Similarly, R5 emphasized that: “based on our observations, IDs participate effectively in the company’s strategy”.

Two main emerging aspects supported the effectiveness of IDs in their strategic role. The first stated that IDs tend to prove effective as a result of their strategic contribution being welcomed by other members of the board. NED1 noted that: “IDs are more than welcome to play a strategic role on the board. It is always good to have an outsider’s perspective on strategic issues, the ID generally thinks outside the box. This improves the strategic status of the firm”. ED3 concurred with this view, noting that: “compared to the control role of IDs, the larger investors welcome the strategic contribution of IDs”. Correspondingly, NED4 underlined that the entire board is generally aligned entirely in relation to the strategic role: “everyone wants to achieve the strategic role”.

The second emerging aspect concerned the willingness of the board to value the contribution of IDs as a result of their ability to add new strategic perspectives. This was identified by R4, who stated that: “IDs provide a new prospective and bring new experiences and strategic views, particularly when they are chosen carefully, based on their qualities and experience”. Similarly, R8 argued that owners tend to value the strategic contribution of IDs: “because IDs are generally chosen for their expertise. For example, they could have experience as directors and owners of other companies. Hence, they are generally effective in performing this role. So, on the one hand, IDs have the expertise, and, on the other hand, the management desires their strategic opinion”.

In the same vein, a number of participants offered examples of how an ID should engage with the strategic role. For example, NED3 noted: "IDs are required to make sure that there is a strategy, that it is in line with the objectives of the shareholders and to insure the proper implementation of this strategy, including penalizing the management if it fails". NED3 further noted that "IDs participate in choosing the CEO and directors, but should not go below VP level". II2 similarly noted that IDs are generally expected to participate in long-term strategic decisions: "the board should actively participate in long term strategies. However, short term strategies are the responsibility of the ED".

Finally, although NED6 perceived that IDs as 'effective' when it came to playing a strategic role, he chose 'effective' rather than 'very effective': "… because most owners recruit IDs for their control role and the regulatory end of things. Thus, IDs are relatively less effective when it comes to the strategic role, as they are generally an outsider to the business". This issue is further explored in the next section.

6.4.2 Medium Effectiveness

In total, twelve of the interviewees (i.e. ID3, R2, R7, ED2, ID1, ID2, NED7, ID4, ID6, ID7, II1 and NED5) identified the IDs' effectiveness in the strategic role as 'medium'. Two aspects emerged from the interviews.

The first aspect, as highlighted by ID3, consisted of a lack of relevant strategic experience: "the most influential aspect concerning the IDs' strategic performance is the lack of experience in the business and the company's industry". ID3 further elaborated “I have worked with IDs who have a high level of integrity, yet vote for some decisions which are bad for the future of the company because of their lack of experience in the industry”. R2 agreed, noting that this was due to the “lack of strategic experience of some IDs, as such experience is generally formed through executive work experience in the same segment/industry, which thus may jeopardize his/her independency. Thereby, the regulatory bodies reject ID nominations when the person’s independence may be jeopardized”. II1 expanded this argument, noting that; “when you look at IDs, you see that some are elected for their legal knowledge, some are elected for their financial and auditing knowledge and some are chosen for their experience in the industry”. The interviewee further noted that IDs with relevant expertise “are the most capable of contributing to the company’s strategy”.

Along similar lines, ID2 contended that “some IDs are not relevant to the company’s industry. For example, if their background is only in auditing”. The participant further underlined that coming from a different background may also provide some advantages: “still, this does not mean that IDs are not supposed to come from different backgrounds. On the contrary, the more diverse the board as a whole, the stronger it will be when it comes to strategic thinking. Still, some IDs will be more effective than others”. ID4 supported the view that there are some advantages to coming from different industrial backgrounds: “some IDs can attend board meetings without being well prepared and feel that they should only provide the minimum effort required, i.e. the control role”. However, as indicated earlier, both ID2 and ID4 perceived ID effectiveness as ‘medium’.

The second aspect influencing IDs' strategic performance directly related to their level of competence. For example, II1 noted that "not all IDs are equal", underlining that some tend to provide only the minimum requirements: "some IDs just do the minimum requirements, while others strive to positively contribute to the company's strategy". ID7 agreed, emphasizing that: "while the regulations are enabling, not all IDs are equal. Some IDs only join the board because of the remuneration and want to limit the amount of work they do to the minimum". However, this interviewee noted that the situation is now improving, with IDs beginning (in response to recent company scandals) to take a more genuine approach to their strategic role: "after the previous scandals, IDs have taken their strategic role seriously. No one wants to be part of a failure story".

6.4.3 Weak Effectiveness

Four interviewees (i.e. NED2, ED1, II3 and R1) perceived IDs to be 'not very effective' when it came to exercising strategy. For example, NED2 noted: "from my experience, IDs did not make an effective contribution". The research identified two predominant emerging reasons behind this reported weak strategic effectiveness. The first, as highlighted by ED1, was that IDs are seen solely as an element of control, i.e. "the overall mind-set is that IDs are elements of control, rather than of strategy". ED1 further added: "I agree with this view, in the sense that IDs should not compromise their independence". II3 agreed, stating: "in some cases, IDs only focus on the control, and to a lesser extent the resource, roles, but not the strategic roles", citing the following example: “I have seen IDs leave a board meeting early when the board is discussing strategic issues. They apologize, saying things that they have busy schedules or that they have a flight to catch”.

The second aspect, as identified by R1, concerned the issue of large owners. R1 argued that company owners are not necessarily in complete agreement, as different owners may have dissimilar strategic agenda. This can lead to the creation of competing owner blocks on the company’s board, with an impact on the strategic contribution of IDS: “this is due to informal groups that owners create within the board. In some companies, you can see the different owners appoint NEDs and IDs loyal to them, thus forming two or more competing groups”.

Despite the consensus expressed by interviewees concerning the reasonableness of the IDs’ strategic role, the absence of any strong evidence for their effectiveness in such a role suggests the existence of a performance gap. Consequently, the main aspects leading to this gap are discussed in the following section, in order to establish a more in-depth understanding of the nature of this gap. This includes interviewees’ discussions of key aspects impacting on the effectiveness of the strategic role of IDs.

6.5 Aspects Influencing the Effectiveness of the Strategic Role

The findings reported in the previous sections identified: (1) the absence of a reasonableness gap and (2) a performance gap. The interviewees outlined various reasons for this, within the context of reasonableness and effectiveness. The findings from the fourth research question offered additional explanations for the lack of any reasonableness gap when it comes to the IDs' strategic role. In addition, the responses to this research question also provided a more in-depth understanding of the performance gap, through: (1) probing the main aspects preventing IDs from effectively exercising their strategic role, and (2) providing suggestions for future improvements.

RQ4. What factors/aspects aid or hinder IDs in the execution of their strategic role?

The analysis of the interviews suggests the presence of five relevant aspects (as discussed below) potentially impacting on the ability of IDs to perform their strategic role: (1) regulations; (2) the role of the chairman; (3) ID training and relevant industry knowledge; (4) management cooperation and board harmony; and (5) small investor involvement.

6.5.1 Regulations

The first emerging aspect concerns regulatory aspects. NED1, for example, stated that: "the capital market authority regulations are very supportive". R4 agreed, noting that "frankly speaking, we believe that the current code of corporate governance has elevated the IDs' abilities in performing this role". R4 further confirmed the clarity of the code in relation to the strategic contribution of IDs: "this is achieved directly by the strategic provisions of the code itself and indirectly by introducing the provision stressing the independence and qualities of IDs. Whenever you have qualified and industry-respected IDs in companies, you should expect improved results in comparison to electing IDs based on just being, for instance, a family member of stock owners".

However, while these views support the findings reported in Section 6.2.1, there remains some room for improvement in several regulatory areas. The first relates to the number of board memberships. ID7 suggested that these should be limited to five, whether or not a company is listed: "an ID should not be a member of more than five boards, regardless of whether the company is listed or not. Currently, this is only applicable for listed companies". ID7 further clarified this point through the following example: "someone I know has more than twenty board memberships and board committee memberships. Do you think he is able to play a strategic role, or any other role if that matters, effectively?"

The second emerging regulatory aspect relates to communication. Both ID7 and II3 noted that improvement of the communication channels between IDs and the CMA could result in an improved strategic contribution on the part of IDs. II3 suggested that "one way to mitigate this issue is that the CMA could hold a quarterly inquiry session for IDs, investors and other board members who have suggestions and inquiries. This can provide important feedback to the CMA that can be utilized when updating the Saudi Code of Corporate Governance". ID7 also noted that, in a number of cases, IDs had submitted their resignations in response to being unable to play their strategic as well as other roles and that "there should be a confidential and direct way to send the reasons for any ID resignation to the CMA". The interviewee further elaborated that: "when you currently read the reasons for ID resignations, you will generally see the reason given is 'private circumstances'. A confidential path enabling

IDs to provide the actual reason for their resignations would enable IDs to improve the fulfilment of their strategic role".

The third regulatory aspect centers around the need for additional protection for IDs. For example, NED7 stated that "there is no protection for IDs when they disagree with the majority concerning a strategy that affects minority shareholders". NED7 concurred, pointing out that large shareholders are capable of dismissing IDs with whom they do not agree: "if IDs strongly disagree with majority shareholders on strategic issues, the owners can call for a general assembly and dismiss a board member even if he/she is an ID". NED7 further asserted that such actions undermine the IDs' ability to represent smaller investors: "which is unacceptable, I can see that they dismiss an ED or a NED, but when majority shareholders can dismiss an ID who should represent the minority shareholders, then there is a problem. This is a regulatory flaw that should be resolved".

The fourth regulatory aspect concerns the independence of IDs representing institutional investors, due to current regulations allowing employees of an institutional fund to join a company board as an ID. An example of this was stated by II3, who also served as an ID on the board of a company, as follows: "as IIs, we often feel that we need to choose between our institutions and the company for which we serve as IDs. Frankly speaking, we feel that we are NEDs rather than IDs". II3 further asserted that: "as individuals, we have no relationship with that company, but my institution is a large investor in that company". The interviewee also underlined that, in some cases, he may be required to participate in strategic decisions in which the best interests of his institution is not commensurate with the best choice for the company: "if a conflict of interest arises between our institution and the company, what should we do? In my case, I will inform my institution, but vote for the strategy that is in the company's favor".

The fifth emerging regulatory aspect relates to the representation of IDs on committees of the board. For example, NED4 argued that one way to elevate the strategic involvement of IDs is for them to "chair the nomination and remuneration committee and to be represented on the executive committee". R8 agreed, noting that "being part of the executive committee ensures an open informal channel with management". However, R8 pointed out that this may jeopardize the independence of IDs, i.e. "yet again, this could affect the independence of the ID". ED2 also confirmed that "many would not agree with this suggestion".

The sixth regulatory aspect influencing the strategic role of IDs is in relation to his/her performance. For example, ID2 highlighted that "some IDs attend board meetings without being well prepared and feel that they should only provide the minimum effort required, i.e. the control role". II3 agreed with this view, elaborating the point with the following example: "I have seen some IDs leave board meetings early when the board is discussing strategic issues. They apologize by saying things like they have a busy schedule or that they have a flight to catch". Moreover, NED7 implied that the possession of some kind of evaluation system for IDs may contribute towards mitigating this issue, i.e. "there is no evaluation system in place to evaluate IDs".

The final regulatory aspect highlights the low level of compensation, which restricts the company's ability to attract well qualified IDs. This was pointed out by ED1, as follows: "the compensation should be appropriate to attract qualified expertise. Proper compensation also enhances and reinforces the independence of IDs". ED1 further emphasized that an active ID is not an easy role to play and thus "IDs' compensation should be more than that offered to EDs and NEDs, because EDs and NEDs receive more in terms of their share of the profits, or from their executive jobs. It is not an easy job and this it should therefore be made worthwhile".

Another aspect that affects the effectiveness of the strategic role emerged to be the chairman of the board. This will be discussed in the following section.

6.5.2 Large Shareholders and The Board's Chairman

Emerging findings suggest that the chairman of the board is capable of enabling or impeding the strategic role of IDs. This issue, as noted by NED4, is particularly evident within family listed companies: "it is difficult to work with family companies, especially when the founder chairs the board". NED7 agreed with this point, providing a personal example from when he had acted as an ID of a separate listed company: "I was the head of the remuneration and nomination committee. The owners proposed to change the organizational structure of the company without discussing this with the committee or the board. They simply came up with the new structure and insisted that I and the other IDs approve it within a meeting of the board. Some IDs did not approve, while others did". NED7 further elaborated that "after the new organizational structure was approved, new departments were created. They then nominated a few of their close relatives to lead these departments, so that they could strengthen their grip on the company. Why? I asked. They replied that they could only put those they could trust in these positions". ID2 asserted that such behavior led to a need to ensure critical strategic decisions passed through the general assembly prior to being approved: "some strategic decisions must require the approval of all board members, otherwise the decision needs to go back to the general assembly[7]". ID4, however, disagreed with this viewpoint, noting that the chairman and other large investors primarily wish to enhance their own investment. Thus, an ID will gain the support of the chairman whenever he/she demonstrates solid strategic reasoning: "this really depends on the IDs. When an ID comes to the board well prepared and able to convey their strategic views coherently, they will be able to persuade the owners to accept their strategic views. In the end, owners want to nourish their investment and maximize their profits".

ID7 conceded that "due to having the most shares, the chairman is very powerful", emphasizing that "if the chairman expects IDs to go along with him/her, most will, in order to maintain their board membership". Nevertheless, ID7 noted that "this is not always the case", offering the following example: "I worked in a company whose board was very active. IDs such as myself expressed their strategic views freely, even if they disagreed with those of the board's chairman". ID7 further noted: "in my opinion, this is how companies' boards should be run. IDs should freely express their views and decisions should be taken through voting". Similarly, II3 confirmed his experience as an ID on a company board as follows: "our chairman is very supportive, thus we as IDs play a very active strategic role". He also offered the following

[7] also known as an annual general meeting or AGM in the UK

example: “Over the last two years, we have held five strategic meetings and workshops. Two of these were held in Dubai and the other three in Jeddah. The chairman chose these places so that the IDs and other members of the board had sufficient time to focus on the company’s strategy. We were very lucky to have him. The previous chairman had run the board as if it was a one man show”.

The above statement emphasizes the influence of a chairman over the strategic role of IDs. For example, NED noted that “the chairman plays a key role in directing the board’s meetings and has a great impact on enabling IDs to actively participate in the company’s strategy”. This view was supported by ID1 (who also chaired the board): “here, the role played by the chairman is key to ensuring that all IDs contribute effectively to the firm’s strategy”. The interviewee further cited an example of how a chairman can approach the ineffectiveness of some IDs: “In some cases, we have encountered IDs who do not read the meeting agenda and the reports that have been sent before the board’s meetings. Instead, they tend to interrupt the contributions of other members with comments designed to give the impression that they have read the reports. We have combatted this behavior on the board, stating that there should be no interruptions and that every board member (including IDs) must comment on the strategic reports. This way, we have ensured that IDs read the reports and add value to the company’s strategy”.

R3 concurred, noting that “the chairman of the board plays a significant role in ensuring IDs’ involvement in the company’s strategy”. R3 further elaborated with a description of a board he described as ‘a super board’: “when a board chairman fully utilizes the qualities of the members of the board, including IDs, he/she will end up with what I call a super board: by that I mean one that is efficient, effective and sophisticated". The interviewee further emphasized that "the chairman of the board has the ability to utilize the full potential of an ID's strategic contribution, unless he/she is determined to only offer the minimum requirement. This is generally uncommon, as it will mean that, due to his/her bad reputation, such an ID may not remain on the board of this company (or any other company) over the long term". An aspect that could help improve ID contribution relates to their strategic training which is discussed in the next section.

6.5.3 Strategic Training

A number of the interviewees emphasized the importance of being able to undertake a strategic role in an effective manner, with NED1 noting that this "depends on the qualifications and background of the ID". ID7 agreed, stating that "although there is no shortage of qualified candidates, there is a lack of qualified people on company boards". ID7 further elaborated this point, suggesting that relevant strategic training could improve the performance of IDs when it came to their strategic role: "maybe some training is useful to better educate IDs, as well as other board members, about the strategic role of IDs".

This view of strategic training was supported by ED3, ID1, ID6, NED2, NED6, R3 and II4, who held the view that adequate strategic training courses and workshops are necessary for improving the effectiveness of the IDs' strategic role. For example, NED6 noted: "One thing that I don't see companies do, is educating their new IDs by means of true induction programs. An ID could be very good at governance and compliance, but may not be as strong on strategic issues". Similarly, ID1 further elaborated this with the following example: "what we do is that we take two days every year in a small resort near Riyadh. No business emails or calls. You cannot imagine how this small aspect can have great benefits in terms of the cooperation between the board and the management. Later, we introduced strategic training courses into these two days each year". While, better training could help improve strategic contribution of IDs, management cooperation and harmony in the board, which is discussed next, can also enhance the ability of IDs to perform their strategic role effectively.

6.5.4 Management Cooperation and Board Harmony

The fourth emerging aspect concerns the issue of management cooperation and harmony on the board, as highlighted by ID1, ID5, NED4, II1, II4, ID2, NED5, R3 and II3. ID1 asserted "this role cannot be performed without collaboration between management and the board". ID5 expressed a similar view, underlining the importance of "the cooperation of the management and the harmony of the board" in facilitating IDs' performance of their strategic role. NED4 agreed, noting that "management can sometimes be uncooperative, thus preventing IDs from playing this role".

II4 similarly stated that "the full understanding of the importance of the IDs' contribution to the company's strategy encourages owners and management to cooperate with IDs". For example, ID1 noted that "having access to the necessary information helps IDs to play a greater strategic role". In addition, ID2 stressed that management cooperation facilitates the flow of necessary information to IDs: "active management ensures that the necessary information is available for IDs to participate in the company's strategy. An active management will also make prompt responses to IDs' enquiries". ID2 further noted that "the meeting agenda should be sent in sufficient time before the meeting".

NED5 expressed a similar view (i.e. "the board's meeting agenda is very important") also emphasizing the role played by the company's CEO: "having a good CEO is key in promoting harmony in the relationship between the management and the IDs". R3 agreed, stating this to be the reason for IDs playing an important role in choosing company directors and top management, as they are the ones responsible for providing strategic reports to the board: "the ID must be provided by the company with adequate and accurate strategic reports, as without the necessary information for any strategic decision, an ID will not be able to choose the right strategic decision. This brings us back to the choice of directors responsible for this aspect". R3 also raised the issue of a potential failure of the company's management to disclose strategic information to IDs, as a result of being viewed as an outsiders to the company: "in some cases, the management tend not to disclose all strategic related issues to IDs, as they are viewed as outsiders who just want to utilize such information in order to practice a stronger control role, rather than participating in the company's strategic decisions. Which is not necessarily true".

R3 similarly noted that, in some cases, company management fail to provide IDs with ample time between receiving the strategic reports and the meeting of the board. This practice can harm IDs' potential to play their strategic role in an effective manner: "sometimes, the management strategic reports are sent rather late, with short window before the actual board meeting. This impairs the IDs strategic contribution, as they have a shorter amount of time to go through the reports". II3 agreed, noting that "this issue can be mitigated by sending out the meeting agenda early". This interviewee further elaborated with an example outlining the impact on the strategic contribution of IDs when given insufficient time between sending out the board's reports and agenda and the actual meetings: "from my experience, the management sends us the agenda the night before the meeting, which results in a very long meetings compared to a meeting for which every member of the board is prepared. Sometimes, the board's meetings last for eight hours. Thus, some IDs and other members leave early".

The following section discusses the issue of small investors and the possession of an active general assembly.

6.5.5 Small Investor Involvement

Finally, there is one potential aspect, suggested solely by II3, concerning the lack of involvement of small investors. The findings suggest that small investors tend to be short-term investors and thus have little interest in strategic issues. II 3noted that: "the CMA tries to encourage the involvement of small investors in the board election process. They have even opened online voting to further increase their participation. Yet still their involvement remains weak". II3 gave the following reasons for this weakness: "most small investors are short-term traders and are in only in it for the short term. Consequently, they do not care about the company's strategy, or the general assembly and the voting process of IDs".

To summarize: five emerging aspects have been identified as hindering the performance of IDs in their strategic role. These include: (1) regulations; (2) large shareholders (including the board's chairman); (3) strategic training; (4) management cooperation and board harmony; and (5) the lack of involvement of small investors.

6.6 Conclusion

This chapter reported the findings of the research interviews with the twenty-nine participants, exploring the potential for an expectations gap in the strategic role of IDs in the context of Saudi Arabia. The overall evidence suggests the existence of a performance gap in relation to the IDs' strategic role, but a lack of any reasonableness gap. Furthermore, no notable variations were observed between the different interviewee groups.

When it came to the strategic role desirability, the interview findings indicated a strong consensus among the participants when it came to the strategic role of IDs. All of the interviewees viewed the role as desirable, stating that IDs should have full board membership and thus bear similar strategic responsibilities. The findings also suggested strong agreement concerning a number of strategic functions, including: (1) defining the company's purpose; (2) formulating its vision and mission; (3) reviewing strategies; and (4) participation in the selection of directors. In addition, there was an overall (although less strong) agreement when it came to functions such as: (1) actively identifying the prospects of the company; (2) setting-out policies; and (3) supporting and motivating managers in possession of a good record. The findings further suggested that this is due to the latter strategic functions being generally associated with the management of EDs and the company. However, the overall findings suggest that most participants considered that it would be beneficial to seek an independent opinion on these strategic issues.

Is the strategic role reasonable? The research findings identified the absence of a reasonableness gap, as indicated by the perception of twenty-five out of the twenty-nine participants that the strategic role is either 'reasonable' or 'very reasonable'. This suggested the existence of a high level of consensus between interviewees concerning the reasonableness of the strategic role of IDs. In general, the majority of interviewees agreed that Saudi corporate governance regulations tend to empower IDs to effectively exert their strategic role. Furthermore, the findings indicated that, in most cases, large shareholders (and other members of the board) tended to welcome the strategic contribution of IDs. Consequently, it can be concluded that socio-cultural aspects related to larger shareholders (i.e. the chairman) do not adversely influence the ability of IDs to play their strategic role in an effective manner. When it comes to the impact of economic/financial aspects on the reasonableness of the IDs strategic role, the overall findings suggested that economic/financial aspects do not obstruct the ability of IDs to undertake this role.

Perceived effectiveness of the IDs' strategic role. Despite the lack of a reasonableness gap, the research findings unveiled a performance gap, attributable to five *aspects that affected the performance of IDs*. The first related to regulatory aspects. While the overall findings indicated the strength of current corporate governance regulation, they also identified some room for improvement, including: (1) limiting the number of board memberships to five, (i.e. whether or not the company is listed); (2)

establishing a confidential channel between the ID and the CMA, particularly in the case of ID resignations; (3) increased protection for IDs; (4) the need for institutional investor representatives/employees to join the board as NEDs, rather than IDs, even if they have no personal interest in that company; and (5) the suggestion by some interviewees that an ID should head the nomination and remuneration committee and that the executive committee should include a minimum of one ID.

The second emerging aspect concerned the strong influence exerted by the Chairman of the board over IDs' performance of the strategic role, and that, in certain cases, this may prove limiting. However, as indicated in the reasonableness of this role (along with the examples cited by interviewees), the strategic contribution of IDs is generally welcomed by the chairman and company owners.

The third aspect consisted of the emphasis by some interviewees that, being generally outsiders to the business, there was a need to offer training to IDs, i.e. strategic and/or industry related training.

The fourth aspect concerned management cooperation. The findings suggested this to be critical in enabling IDs to play their role in an effective manner, as the management of a company generally has the means (in particular access to information) to either aid or impair the IDs' ability to play their strategic role effectively.

The final aspect consisted of the lack of small investor involvement, as the findings suggested that most small investors are short-term traders and thus less interested in the prospects of the company.

The following chapter analyses the findings concerning the expectations gap in the resource role of IDs.

Chapter Seven: Findings, The Resource Role

7.1 Introduction

The previous two chapters discussed the research findings concerning the control and strategic roles of IDs. This chapter commences by analyzing the interviews to assess the existence of any expectations gap in the resource role of IDs. As demonstrated previously in Section 4.5.2, an expectations gap is comprised of both a reasonableness gap and a performance gap. Similar to the previous chapter, evidence from interviews with five groups of: (1) independent directors; (2) executive directors; (3) non-executive directors; (4) regulators; and (5) institutional investors (see Table 4.1) will be analysed and presented.

This continues in section 7.2 exploring the desirability of developing a resource role for those IDs working in Saudi listed companies thereby addressing the first research question (RQ1: Are IDs expected to play a resource role?). This is then followed by section 7.3, which addresses the second research question (RQ2), exploring the interviewees' perceptions concerning whether it is reasonable to expect IDs to fulfil this role, and consequently identifying any reasonableness gaps present in their resource role. Section 7.4 of the chapter addresses the performance gap of IDs in relation to their resource role by evaluating the interviewees' perceptions regarding the perceived actual effectiveness of IDs (RQ3). The chapter then continues in section 7.5 by addressing the fourth research question (RQ4), involving a process of probing aspects found to aid or hinder IDs when executing their resource role. The chapter finally concludes in section 7.6.

7.2 The Desirability of the Resource Role

This section discusses the interviewees' expectations concerning IDs' role in company resources, as a mechanism to establish whether it is desirable that they should play a resource role, thereby answering the first research question.

RQ1. Are IDs expected to play a resource role?

As illustrated in Table 7.1 below, twenty-two interviewees expected IDs to play a resource role.

Table 7.1 The desirability of the resource role.

	Interviewees					
	ID	**NED**	**ED**	**II**	**R**	**Total**
Is it a desirable role for IDs?						
Yes	5	5	3	4	5	22
No	2	2	0	0	3	7
Total	**7**	**7**	**3**	**4**	**8**	**29**

Note: These figures represent the number of interviewees

Thereby, although seven interviewees responded 'no' to RQ1, the findings suggest an overall consensus, at 76%, affirming the anticipated resource role of IDs. For example, ID4 agreed that IDs might be expected to play a resource role, "as long as there is no conflict of interest between the ID and the company". Similarly, II3 commented, "This is an important role that all board members, including IDs, should play in order to maximize shareholder benefits". Additionally, II3 underlined that "the interests of shareholders should be above all their other interests".

In the same vein, NED1 and NED2 contended that there should be no difference between IDs and the other board members. Consequently, NED1 asserted, “all members of the board are responsible for maximizing investors’ interests”. NED2 agreed, noting “there should be no discrimination between the roles that IDs play and the roles of other members of the board”. NED further explained that despite IDs’ responsibility for representing minority shareholders, they are part of the company’s board, and thus share similar responsibilities with them; “NEDs represents certain owners, while IDs only represent smaller shareholders. However, I also believe that ideally the board should function as one unit, and that every member of the board should take off any other hat that represents certain parties, leaving only the company’s hat”.

The resource role is beneficial, but not necessary, according to NED3: “This is nice to have but not as important as the control and strategic roles”. R3 offered a corresponding opinion “it is crucial that the ID perform his control and strategic roles. However, in terms of the resource role, it is nice to have but never a requirement”. R3 further elaborated that it is possible for IDs to play a resource role only if they are transparent about doing so, and avoid any violations: “Some IDs are very friendly and care for the success of the company and thus will do what they can to help achieve that goal on a transparent and righteous manner. Yet, this should not mean that an ID utilizes his/her influence to facilitate in appropriate actions such as governance violations for example”. Similarly, NED5 agreed that the role is good to have, underlining the view that the IDs exercise of a resource role “… should not be abused to serve self-interests”. However, the interviewee further noted that this normally falls within the remits of the CEO, and that IDs should avoid taking on an executive role, as their role is to be there to help if needed: “Essentially this is the CEO’s responsibility, and IDs are supposed to monitor him/her. Thus, IDs must not take over the CEO’s role, instead they should be there to help”.

As indicated previously in this section, seven participants (ID2, ID3, NED4, NED6, R1, R2, and R7) disagreed concerning the significance of the resource role. For example, NED4 noted that he would not expect IDs to play this role, emphasizing, “The control role is the main role that an ID should fulfil”. R7 also disagreed, asserting, “this should be avoided”. Similarly, R1 commented, “These are grey areas”, which he recommended should be avoided by IDs to avoid compromising their independence: “Thus, even if utilizing their resources is thought to be beneficial to the company, avoidance is recommended to ensure ID independence”. The participant further stated, “this is mainly the ED territory”. ID2 and ID3 also disagreed over this role, emphasizing that this is a role to be exercised by EDs and management, not IDs. Similarly, NED6 noted, “management make sure the business is up and running”. NED6 equally emphasized that this role should ideally be avoided, as it jeopardizes the independence of an ID: “When an ID engages in these activities, they become executives, and thus lose their independence. It is therefore better that IDs avoid such a role”. The next sections provide a thorough investigation of each interviewee’s perceptions of the three main objectives of the resource role; including: providing access to scarce resources by encouraging long-term affiliation with major external players; utilizing their relationship with the external environment to reduce the effects of external challenges; and utilizing their relationship to capture opportunities. Each of these areas is discussed sequentially in the following sections.

7.2.1 Access to Scarce Resources

There was a consensus amongst the interviewees regarding the importance of ID participation in encouraging long-term affiliation with major external players, as a way to deliver access to scarce resources. In total, seventeen interviewees (out of the twenty-two participants who agreed to the role) noted that they would expect IDs to participate in this resource function; a further five were neutral. For instance, NED2 perceived that IDs, "should act as any board member". Similarly, R3 commented that playing this role is beneficial for a company wishing to have "good communication with the external environment, such as lenders, regulations and even the competition is in the overall benefit of the company". II4 agreed, noting that: "… having good personal connections is always positive".

In the same vein, ED2 concurred on this function of the resource role noting that IDs generally come from different backgrounds which elevates their networking abilities with the outer environment compared to other members of the board "It is helpful that IDs come from different backgrounds. For example, having an ID with a legal background is very beneficial, as a company might need legal advice, making the inclusion of such an ID on the board highly warranted". Correspondingly, II1 noted that this is a preferred ID function: "I think that at least one board member, preferably an ID, should fulfil this task". The participant further elaborated that: "Hence, companies might seek to recruit IDs to encourage long term affiliation with major external players, such as finance institutions regulators, or insurance companies, etc.".

Along similar lines, ID5 acknowledged the value of this resource function, underlining that this is of particular importance during economic downturns: "This is very critical, especially in less than perfect economic situations". NED1 supported this view, and further elaborated with an example: "let's say the relationship between the company and the banks. It is very important to have open channels with external players". R6 underlined the importance of how IDs, given their independent status, are better suited to playing a resource role than other members of the board: "In most cases we expect IDs to be active, given their independence. When a reputable ID approaches us to investigate the issues the company is facing, we take his/her feedback as more neutral and less biased than were the enquiry from other members of the board".

As previously noted in this section, five participants (ED1, ED2, NED3, NED5, NED7) expressed a neutral view of the function of the resource role, some gave further comments. For example, ED1 asserted that while the option to provide access to scarce resources and encourage long term affiliation with major outer players is beneficial, it should never be a requirement: "this should not be viewed as a demand when choosing IDs. Nevertheless, the ability of making connections may add value if everything is equal amongst ID candidates. Thus, although it is nice to have, I would say it should never be a requirement for choosing IDs". ED2 held reciprocal views; underlining the impression that such tasks should be limited to serving the interests of the company, and that ID independence should not be compromised: "Yes and no, as we want neutrality from an ID. Therefore, this should be limited to the interests of the company". Utilizing an ID's relationship with the external environment to reduce the effects of external challenges is discussed next.

7.2.2 Mitigating External Challenges

The findings indicate a strong consensus amongst interviewees in the function of the resource role, as apparent from all nineteen interviewees (all except ED1, NED3 and NED5). Some interviewees provided further comments. For example, ID7 perceived that he would expect IDs utilize their relationship with external environment to reduce the effects of external challenges "as long as it is in line with the rules and regulations". ED2 agreed noting that: "In some cases, companies need a mediator between them and the regulatory authorities". The participant additionally observed that this resource function is better exercised by IDs than other board members: "IDs are preferred here as opposed to EDs and NEDs". Correspondingly, R5 held corresponding views, noting that such resource tasks should not be limited to IDs: "This is also important for IDs to play, but not only IDs other board members as well".

In the same vein, II4 noted: "In some industries and business sectors you witness a good level of collaboration and coordination amongst the companies in the sector, which helps them to nourish and prosper, while the opposite is observed in sectors where companies undertake aggressive strategies". Consequently, II4 underlined the key role IDs play in reducing external challenges, by utilizing their personal connections/resources: "Thus, it is important that IDs maintain good relationships with the external environment, including regulatory bodies". The participant supported his stance with an example: “having an ID with good connections is beneficial, in terms of conveying any regulatory aspects or obstacles that the company or the industry as a whole might encounter”. The next section discusses the resource role function, whereby IDs utilize their relationship with the external environment to capture opportunities.

7.2.3 Capturing Opportunities

Sixteen participants (64%) perceived that IDs should actively utilize their relationship with the external environment to access and capitalize on opportunities. This suggests a weaker consensus on this resource function of IDs than the two previously discussed. The section commences by discussing views which endorse this function, and moves on to discuss contrasting views. Some of the interviewees provided comments in support of this function of the resource role. For instance, NED4 argued that using their connection with the external environment to capture opportunities is the most important function of the IDs’ resource role “Especially capturing opportunities”. Likewise, ID1 endorsed this function of IDs under one condition: “as long as there is no personal benefit or corruption”. Expressing a like view, NED1 argued: “This is also good to have. Whenever an ID can participate in an activity that benefits the company and he/she is more than welcome”. II2 held similar views emphasizing the significance of assisting the company in capturing opportunities, but asserted that this should be done transparently and honestly: “Supporting the company and the management is highly beneficial, as long as there is no conflict of interest and full disclosure is given where applicable".

Holding similar views, some interviewees provided some interesting examples. For instance, ID5 noted: "One company was facing a problem because it had no buyers for one of its main products. An ID on the board happens to have a personal connection with another Saudi company that uses that same product in its production line. Hence, a deal was made because of that ID". The participant additionally contended that, "the deal was fair to both companies and thus profitable for their shareholders as well". The second interesting example was provided by ID7: "I am an ID in two companies, one of which was selling real estate and the other was interested in buying. I was the link between the two companies. Although a third-party considered the real estate, it was ultimately my efforts that encouraged them, which I do not know, to place a higher bid and secure the deal". Consequently, NED3 contended: "Today, part of choosing IDs springs from understanding of their networking and relationship to different parts of the external environment". NED3 further elaborated: "IDs can solve problems with something as simple as a phone call". Furthermore, R5 perceived that this function is crucial, and offered another example of an ID using his personal network to capture an opportunity: "A company just yesterday secured a large contract because of an active ID who used his personal relationships and resources for the benefit of the company and its shareholders". R6 also agreed about this resource function, asserting that "it is important that IDs do not engage in any conflict of interest activities". R8 held a corresponding view: "Yes, but not if this results in conflict of interests. What I mean is that there should not be a conflict of interests (i.e.

personal benefit) for the ID in the opportunity that he provides. For example, an ID might come up with an opportunity for the company that delivers financial benefits to him/her as well".

Corresponding with the above, six interviewees (ED1, ED2, II4, NED2, NED5 and NED7) claimed that IDs should not use their relationship with the external environment to secure opportunities. For instance, II4 highlighted: "I do not see this as a role that an ID should play. This is mainly the role of the executive management". Similarly, NED6 noted: "this is a business generation task that should be performed by EDs and the management of the company". NED7 underlined this, thus: "This is executive work". Disagreeing with this explication of the resource role, R7 stressed, "if the ID is to capture opportunities, how can he/she be considered independent. This neutralizes the independence of an ID". Furthermore, "an ID should not be involved in activities that affect his/her independence directly or indirectly". II1 also claimed that this should be avoided by IDs: "This is less important, as it could lead to unwanted outcomes, such as corruption in the pursuit of self-interest".

Overall, the research findings suggest a level of consensus (although not as strong as the other two roles of IDs) concerning the resource role (i.e., it is desirable). The next section probes the reasonableness of the resource role, by investigating whether IDs have the means necessary to exercise it, in order to identify whether a reasonableness gap exists in this context.

7.3 Reasonableness of the Resource Role

Responses gathered concerning the perceived reasonableness of the resource role assist in answering the second research question.

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil a resource role?

The findings indicate that sixteen of the twenty-two participants found playing a resource role to be either "reasonable" or "very reasonable", as illustrated in table 7.2.

Table 7.2 The reasonableness of the resource role.

	Interviewees					
	ID	**NED**	**ED**	**II**	**R**	**Total**
Is it reasonable to expect IDs to fulfil this role?						
Very Reasonable	4	1	0	2	2	9
Reasonable	1	2	2	0	2	7
Neutral	0	2	1	1	1	5
Unreasonable	0	0	0	1	0	1
Very Unreasonable	0	0	0	0	0	0
Total	5	5	3	4	5	**22**

Note: These figures represent the number of interviewees

An average of 4 (based on a five-point Likert scale) suggests overall agreement regarding the desirability of the IDs' resource role.

Three principal aspects affecting the reasonableness of the IDs resource role emerged from the interviews; these were regulatory, socio-cultural and economic/financial aspects, and are discussed sequentially below.

7.3.1 The Regulatory Aspect

In contrast to the reported findings regarding the control and strategic roles of IDs, the emerging findings suggest no regulatory requirement for the IDs' resource role. For example, R3 was 'neutral' relative to the reasonableness of the role, noting "The regulations do not support this role". While perceiving the role as 'reasonable', NED1 underlined that it exists in practice, but that stronger governance regulations adversely affect the reasonableness of the IDs' resource role "Currently, the significance of utilizing interpersonal relations has become much difficult for IDs, due to strong corporate governance regulations. It is still there but to a lesser extent when compared to before". On the other hand, II4 found the role to be 'very reasonable' and explained it is an observable role of IDs: "When we talk about the resource role, we talk about a role which is actually practiced in the real world". II4 further observed that regulation does not prohibit IDs from playing this role, providing that IDs do so while maintaining integrity and independence: "The CMA and other regulatory institutions provide regulations for such a role in terms of full disclosure and obtaining the approval of the general assembly where applicable". II4 further elaborated: "In any case where the ID plays a resource role, he/she should uses his/her resources to the advantage of the company and its shareholders rather than according to their self-interests. Thus, the regulations enable the ID to perform this role as long as he/she abide by the corporate governance regulations". The next section presents the findings on the effects of socio-cultural issues on the reasonableness of the IDs' resource role.

7.3.2 Socio-Cultural Aspects

There was general consensus among the interviewees that there was no socio-cultural pressure on IDs with regard to their resource role. Ultimately it appeared that the role was very welcome. This implies that IDs are not subject to negative pressure by the chairman and other controlling shareholders in a way that can impede the reasonability of the role. For example, ID5 emphasized that “owners generally welcome this role of IDs”. II3 shared a corresponding opinion, “IDs are more than welcome to play this role”. Likewise, ED3 contended that company owners consider this to be a key role of IDs: “This is the most important and desirable role to be played by IDs, from a large firm owners’ perspective as IDs have networks and a relationship with the external environment”. ED3 also noted that “owners try to attract IDs from various backgrounds. This includes legal, regulatory, financial industry expertise, on the basis that they (the owners) need their experience as well as their networking abilities”. R8 further explained that this is particularly important because: “the business society in the country is very small”. Overall, ID5, II3, ED3 and R8 all perceived the resource role of IDs to be ether ‘reasonable’ or ‘very reasonable’, and explained that socio-cultural aspects favorably influence the reasonableness of the IDs’ resource role. The next section discusses the effect of economic/financial aspects on the reasonableness of the resource role.

7.3.3 Economic/Financial Aspects

Two participants highlighted the effects of economic aspects on the reasonableness of the IDs’ resource role. The first (II1) was neutral regarding the reasonableness of the role; emphasizing the effects of the general economy: “When the market is booming and profits are high, it is relatively easy for the ID to perform a resource role than it is during a recession. In the latter case, communication with lenders, creditors and customers is much more difficult". II2 on the other hand noted that it is 'unreasonable' to expect IDs to play a resource role, especially when there are no financial rewards for doing so: "why would an ID be active in the resource role if there is no financial benefit to him. These things require more of the IDs time and effort".

The strong level of agreement concerning the reasonableness of the IDs' resource role indicates there is no reasonableness gap in the IDs' resource role (see Table 7.2). The next section discusses the findings on the effectiveness of IDs exercising their resource role to assess the performance gap.

7.4 Effectiveness of the Resource Role

While the two previous questions addressed the reasonableness gap, answers to the third research question in this section serve to evaluate the performance gap; which is the gap between what can reasonably be expected (RQ2) and any actual perceived achievements (RQ3).

RQ3. Do IDs perform their reasonable resource role effectively?

The average perception of the effectiveness of the IDs resource role was 3.6, based on a five-point Likert scale, which indicates that IDs effectiveness in this role is fair suggesting a stronger agreement on the effectiveness of IDs in this role when compared to the control and strategic roles of IDs.

Table 7.3 The effectiveness of the resource role.

	Interviewees					
	ID	**NED**	**ED**	**II**	**R**	**Total**
Do IDs play this role effectively?						
Very Effective	2	0	0	0	0	2
Effective	3	3	0	3	2	11
Medium	0	2	2	1	3	8
Ineffective	0	0	1	0	0	1
Very Ineffective	0	0	0	0	0	0
Total	5	5	3	4	5	**22**

Note: These figures represent the number of interviewees

The responses to this question suggest notable differences of opinion between the ID and ED groups, as all the ID participants thought of IDs as either 'effective' or 'very effective', in contrast to the views of ED participants, who all viewed IDs as either 'medium' or 'ineffective' when playing a reasonable resource role; as can be seen in Table 7.3. The remainder of this section is organized into two sub-sections, based on the interviewees' perceptions of the effectiveness of IDs when playing this role.

7.4.1 Strong Effectiveness

There was a relatively high level of consensus amongst the interviewees concerning the IDs' effectiveness, suggesting no performance gap. Thirteen interviewees (out of the twenty-two who perceived the role as desirable) considered it to be 'either effective' of 'very effective'; including ID1, ID4, ID5, ID6, ID7, II1, II3, II4, NED1, NED4, NED7, R7 and R8. Some of the interviewees provided further comments. For instance, NED5 indicated that IDs are ‘effective’ when playing a resource role, noting that the most relevant issues could be resolved through networking: “Currently, most issues are solved using board members’ networks including IDs”. Correspondingly, II4 noted: “From my experience I can state that the effectiveness of IDs in this role is high”. NED4 argued that IDs do what they can to ensure the success of the company, largely because it correlates with their reputation as successful IDs: “Board members, especially IDs tend to do their best to ensure the success of the company as no one wants to be part of a story of failure. Therefore, all the board members, including IDs, strive to provide the necessary environment in which for the company to succeed”.

Along similar lines, ID5 confirmed that IDs are ‘very effective’ at implementing their resource role. The participant further noted: “The first question that gets asked by the board when any issue arises is: do you know someone there?”. ID5 further clarified “By there I mean at a particular company, bank, or government institution. So, in all businesses the resource activities play a vital role in success”. NED7 similarly considered IDs to be ‘effective’, reporting that they are more capable of playing a resource role than other members of the board, especially when they have a good level of experience and reputation: “In most cases IDs are chosen based on their experience and qualifications. Such personnel are more able to play a resource role, especially when they are well known in the industry”. Further, while ID4 perceived IDs as ‘effective’, the interviewee further noted: “Some IDs do not play this role because they want to maintain their independence, while other IDs do not contribute directly if they own consulting companies, as they view this role to be beyond their responsibilities”. ID4 further elaborated: “these IDs they prefer to play this role through their consulting companies. Which is allowed by regulations as long as contracts are disclosed. Admittedly, these are few". However, participant I emphasized that in most situations IDs play this role without any direct personal benefits: "In most cases IDs who do play a resource role sacrifice their self-interest by doing so". ID4 also provided an interesting personal example, thus, "I have managed to save 7 million Riyals in a bank loan for the company by utilizing my connections. There was no direct interest for me. Indeed, that year, the board, including myself, gave up our annual remuneration. I did so because I knew that this would be good for me in the long run. Which it was. Shortly after this I was asked to join the board of another company as an ID". The next section investigates medium and low effectiveness among IDs.

7.4.2 Medium and Low Effectiveness

In total, eight interviewees stated that IDs' effectiveness in the resource role was "medium", including ED1, ED3, II2, NED2, NED3, R3, R4, and R6, while only one participant (ED1) perceived IDs as 'ineffective' when playing this role. A few participants provided further comments. NED2, for example, noted "IDs, at least from my experience, do not effectively participate in this role". Holding corresponding views, ED3 argued that in most cases IDs do not positively contribute when engaged in this role: "Even though, the resource role of IDs is highly warranted, some IDs are negative. Some are not even familiar with the company's product. However, this is not always the case, some IDs are very active". As can be seen from table 7.3, only one participant (ED1) viewed IDs as being ‘ineffective’ when playing their resource role; noting that they would expect IDs to utilize their connections in favor of the company: “If an ID knows someone, he/she is expected to contact him”.

Overall, in agreement with the interviewees’ consensus concerning the reasonableness of the IDs’ resource role, the evidence indicates that IDs are effective when playing a resource role. The findings also suggest notable differences of opinion between the ID and ED groups with regard to ID effectiveness in their resource role, as all the ID participants thought of IDs as either ‘effective’ or ‘very effective’, in contrast to the views of ED participants, who all viewed IDs as either ‘medium’ or ‘ineffective’ as can be seen in Table 7.3. Furthermore, in contrast to the findings reported in relation to the IDs’ control and strategic roles the overall findings suggest there is no performance gap influencing the resource role. Such a finding is of interest, as unlike the other two roles held by IDs, there is no regulatory requirement that they implement a resource role, although regulations do not ban this role. Hence, in order to provide a more in-depth understanding of the absence of this gap, the major aspects leading to the absence of a performance gap are identified and highlighted in the following section, wherein the interviewees discuss some of the key aspects impacting the effectiveness of the IDs’ resource role.

7.5 Aspects Influencing the Effectiveness of the Resource Role

The findings reported in the previous sections identified neither a reasonableness gap nor a performance gap. The interviewees offered some explanation for the absence of the reasonableness gap, and the existence of a performance gap in the context of both reasonableness and effectiveness. The findings from the fourth research question offer a more comprehensive understanding, and explanations regarding the lack of any reasonableness or performance gaps in the IDs' resource role, by probing key factors aiding/hindering IDs effective exercise of their resource role.

RQ4. What factors/aspects aid or hinder IDs in the execution of their resource role?

The analysis of the interviews suggests five relevant aspects, which are suspected to have an impact on the ability of IDs to perform a resource role; including: regulations, the issue of large shareholders, management cooperation, personal qualities, and compensation afforded by IDs, all of which are discussed in turn.

7.5.1 Regulations

The research findings suggest no regulatory requirements for IDs holding a resource role. For example, R5 opined: "regulatory requirements can be limiting in some cases" and further noted: "this is expected and understandable, as these regulations are there to fortify the IDs' independence, and thus it is not wise to relax corporate governance provisions to enable IDs to play a resource role". However, the participant also emphasized that the absence of any regulatory support for a resource role does not imply that the role does not exist: "Although regulatory requirements can be limiting, we see that the role is legitimate without compromising the IDs independence". Correspondingly, R6 held similar views: "There are no regulatory restrictions that diminish the IDs ability to play a resource role, as long as it is played according to the code and without any conflict of interests". Another aspect that emerged relates to company owners which is discussed next.

7.5.2 Large Shareholders and The Board's Chairman

The presence of large share ownership is possibly the most influential element, as there are no regulatory requirements for such a role (see sections 7.3.1 and 7.5.1), which affect IDs' performance of the resource role as it relates to large shareholders. The findings here contrast with those reported earlier for the IDs control role, suggesting that large shareholders are viewed as an aspect backing ID effectiveness. For example, R6 noted, "The owners value the resource role and thus facilitate playing this role for IDs". R4 indicated that large shareholders typically elect IDs who can add value to the company in terms of their resources: "When IDs are chosen, the owners of the companies insure the IDs represent added value to the board. Given that we established that a resource role is a welcome one for IDs to play, shareholders ensure that elected IDs can deliver in this matter". Furthermore, to better understand the influence of owners on the effectiveness of IDs in their resource role, the interviewees were questioned about whether the personal networks associated with an ID contribute to his/her election?

Table 7.4 Participant agreement concerning whether companies (i.e. large shareholders) consider the network of IDs when electing them.

	Interviewees					
	ID	**NED**	**ED**	**II**	**R**	**Total**
Very High	4	2	2	1	2	11
High	1	1	0	0	3	5
Medium	0	2	1	2	0	5
Low	0	0	0	1	0	1
Very Low	0	0	0	0	0	0
Total	5	5	3	4	5	**22**

Note: These figures represent the number of interviewees

The findings illustrated in table 7.4 above suggest a strong consensus (an average of 4.2 based on a five-point Likert scale) among interviewees that the resources of an ID positively influence his/her election. Some participants chose to provide further comments. ED2, for example, noted: "In Saudi Arabia it is 100% personal relationships. In many cases, you see nominees with outstanding records, yet they do not get nominated". Correspondingly, R3 argued that personal relations do play a positive role in the election of IDs: "Generally, an ID will be chosen based on his network and this goes both ways in terms of who he/she knows, and who knows him/her. No one will elect an unknown ID". R8 agreed, noting: "Basically, when we think of what we want from the ID, aside from his expertise, his connection could potentially be advantageous to the company. His relationships could thereby open locked doors and secure opportunities". Cooperation by management is discussed in the next section.

7.5.3 Management Cooperation

Some interviewees argued: "The cooperation of the management plays a key role here," as highlighted by ID5. This view was supported by NED5: "Also having a good CEO is important". NED5 provided additional explanation as to how the company managers could assist IDs in this role with an example: "Let's say an ID played a resource role to facilitate an issue or a problem, the CEO is then the one that should extend follow-up. Hence, the CEO might build upon or fail the ID". In the same vein, R8 agreed that the management could aid, or impede IDs playing a resource role in response to their control over relevant company information: "The availability of information is crucial here. The more he/she knows, the more he/she can utilize his contacts for the advantage of the company". NED7 also perceived that management cooperation is key, noting that in rare cases company managers may choose not to cooperate with IDs playing this role, as it may signal management weaknesses: "There is nothing that impedes IDs from playing this role, except in the rare case that management feels uncomfortable with this, usually because it may highlight the ineffectiveness of management in the resource role, which is first and foremost the responsibility of management". The following section discusses the contribution of the personal qualities of IDs in terms of the effective execution of their resource role.

7.5.4 Personal Qualities of IDs

The research findings also suggest that the personal qualities of an ID are a key aspect when playing a resource role. For example, NED1 noted: "This depends on the IDs personal qualities. Whenever an ID has a strong social network, he/she will be more able to play this role". ID4 agreed: "Here there are no factors apart from having good personal connections". For these reasons, ED1 argued that company owners must consider the IDs' personal relationships during the ID election process: "The IDs personal qualities and relationship are critical. The owners should only nominate and elect IDs able to add value to the company". Similarly, II4 underlined the importance of IDs as "having good relations with the external environment", and agreed that IDs are willing to complement "the diversity of the board in terms of background and experience".

Mirroring this, NED4 highlighted that the independent status of IDs enables smoother communication with regulatory authorities: "Having a good relationship with the regulatory authorities is very advantageous for an ID, as he/she is viewed by the regulators, as having greater integrity than other members of the board; i.e. EDs and NEDs". ED2 held similar views, noting that this can be particularly true when company issues are conveyed via a reputable ID "This greatly depends on the IDs' personal skills. Furthermore, having a good relationship with regulatory bodies is indispensable, especially if the ID is known for his honesty and good reputation". ID compensation is discussed in the next section.

7.5.5 Poor Compensation

The final aspect to emerge related to the compensation of IDs, as explained by ID7: "One aspect that hinders IDs when the playing their resource role is the low remuneration”. The interviewee further elaborated: “For example, an ID could be part of a board, when he/she had more than 12 meetings a year. Most of this is control or strategic related work, and at the end of the year he/she only received normal remuneration, as if he/she attended 4 meetings only”. ED1 agreed, emphasizing that the remuneration could influence ID effectiveness with regard to the resource role: “There should be adequate compensation if we want IDs to put the required work. Thus, it is always easier to do the minimum, because the pay-out is the same”. The chapter concludes below.

To summarize, four aiding and one hindering aspect that affect the performance of IDs in their resource role have emerged from the interviews. The findings suggest that aspects including the absence of regulatorily restrictions, the effect of large shareholders, and cooperation of the management positively influence ID effectiveness with respect to their resource role. However, the single emerging aspect that may hinder the performance of IDs in this role is poor compensation.

7.6 Conclusion

This chapter reported the findings obtained from interviews with the twenty-nine research participants, exploring whether there is an expectations gap in IDs’ resource role in the context of Saudi Arabia. The overall evidence suggests neither a reasonableness gap nor a performance gap in the IDs’ resource role.

Is the resource role desirable? the interview findings indicate a consensus, although this is not especially strong at 76%. In terms of the IDs resource role, twenty-two out of the twenty-nine interviewees perceived the role to be desirable. The findings also indicate an overall agreement regarding some resource functions. For example, the emerging findings suggest it is desirable for IDs to participate in providing access to scarce resources and mitigating external challenges, given that they, as outsiders, come from different backgrounds, and generally are better connected to the external environment. In contrast, there was a lack of strong consensus regarding the resource function involving capturing opportunities. The findings suggest the reason for this lack of agreement is that participating in capturing opportunities could impede ID independence.

Is the resource role reasonable? no reasonableness gap was observed as indicated by the strong consensus amongst the interviewees with regard to the reasonableness of the IDs' resource role. Interestingly, this lack of a reasonableness gap was not attributed to governance regulations, as is the case with control and strategic roles. Rather, it was attributed to company owners. In general, the majority of the interviewees opined that large shareholders were very supportive, if not demanding, as this highlighted the IDs resource role.

Perceived effectiveness of the IDs' resource role. Consistent with the lack of a reasonableness gap, no performance gap was reported relating to the IDs role. The findings also uncovered some differences of opinions between two of the five interviewee groups, as all the participating IDs perceived that IDs are either 'effective' or 'very effective' in fulfilling resource role, while all the EDs viewed IDs as either 'medium' or 'ineffective' when playing a resource role. Similarly, four *aspects found to aid IDs in their performance of the resource role* emerged from the research findings. The first related to regulations; as while the role is unsupported, regulations do not preclude IDs from playing this role, as long as it does not include any violations. Secondly, there is the issue of large shareholders, which can explain the lack of a performance gap in this role. Emerging findings indicate that large shareholders value a resource role, and thus facilitate this role for IDs. In fact, the findings suggest the personal network of nominated IDs can determine their acceptance for board membership. The third aspect that emerged is management cooperation, as managers can assist IDs by providing essential information and ensuring adequate follow-up on issues that IDs completed the initial communication for. The fourth aspect concerns the personal qualities of IDs, as the personal connections and networking ability of an ID can support his/her ability to play this role. In the same vein, only one hindering aspect have emerged from the interviews which relates to the lack of adequate compensation, as some interviewees noted that some IDs would prefer not to play a resource role, as it creates additional work, which they are not compensated for. The next chapter offers discussion of the general findings to establish a conclusion.

Chapter 8: Findings and Discussion

8.1 Introduction

This chapter discusses the findings of this thesis and answers the four research questions in relation to each role played by IDs. This chapter therefore individually discusses the findings of the twenty-nine interviews investigating desirability, reasonableness and effectiveness, as well as aspects facilitating or impeding IDs from effectively playing their roles for each of the control, strategic and resource roles. The chapter commences with a discussion of the findings in relation to the control role of IDs.

8.2 The Control Role

Chapter Five reported the findings obtained from interviews with the twenty-nine research participants, focusing on the issue of an expectations gap in the control role of IDs in Saudi Arabia. The overall evidence suggested the existence of a performance gap but no reasonableness gap. This finding concurs with those of Li et al. (2012) in relation to China. Furthermore, no notable variations were observed between the different groups of interviewees.

The reminder of this sub-section is organized into four further subsections, each of which discusses the findings related to each research question concerning the control role of IDs.

RQ1. Are IDs expected to play a control role?

The interview findings indicated a strong consensus among participants when it came to the control role of IDs, with all agreeing that it is desirable and key aspect of the role. This was largely attributed to IDs' independent status, which ensures they (IDs) remain less subject to conflicts of interest than other board members. In addition, the findings suggest that the importance of the control role is subject to change, i.e. an ID chairing an audit committee will experience greater responsibilities related to control. The findings of this research also identified that IDs are viewed as being more effective when playing a control role than other board members because of their independent status, i.e. EDs have a tendency to cover up for management. This finding concurs with the assumptions of agency theory where a a rational person normally seeks to maximize his or her individual utility (Jensen and Meckling, 1976). Jensen and Meckling (1976) further claim that based on this rational behavior a clear conflict of interest arises when principals employ agents as a means to maximize their own utility, while agents accept the need to do so for the opportunity to maximize their own utility at the expense of principals. Hence, the inclusion of IDs as a governance mechanism reduce agency costs and protect shareholder interests (Choi et al., 2007).

A further significant finding is that, despite the overall agreement between interviewees of the importance of the control role, the findings of this research underline the challenges faced by IDs when performing this role. This due to the tendency of company management to conceal any issues the company might be facing from IDs, thus highlighting the importance of ensuring a transparent flow of information from management to board, in order to enable IDs to perform their control role effectively. The findings of this research therefore highlight a strong level of agreement in relation to the function of the control role in enhancing transparency. This was particularly significant as it concurs with Article 22 of the Saudi Corporate Code (2018), i.e. IDs are, as board members, responsible for ensuring the accuracy and integrity of any information disclosed, while at the same time preserving the interests of shareholders.

The research findings also indicate that, due to the subjective nature of the concept of transparency, additional levels of transparency do not always yield positive results. Thus, the prevalent theme was to adopt the regulators' view of transparency, as these regulations are generally considered to be highly robust.

These findings confirm that increased disclosure is intended to enhance transparency, but that this does not necessarily result in greater discharge of accountability (Roberts, 2009). This argument was also supported by Billings and Capie (2009), who observed that the UK banking system was stable during a period of non-disclosure, with major faults only emerging following the disclosure of accurate levels of profits and capital. Consequently, Roberts (2009) advocated the use of O'Neill's (2002) 'intelligent accountability' to overcome such shortcomings. Similarly, the findings of this research underlined the importance of enhancing transparency in order to attract local and foreign investors. Monks and Minow (2011) also argued that enhanced disclosure can prove beneficial for firstly, attracting global capital and secondly, enhancing the confidence of investors.

In another interesting finding, the research identified a strong consensus concerning an important control function of IDs being the safeguarding of the interests of shareholders. This finding is in line with the views expressed in the existing literature, including Jensen and Meckling (1976), who underlined the issue of Type I agency, i.e. principals employing agents to maximize their own utility, thus focusing on maximizing their own utility at the expense of the principals i.e. shareholders.

Interestingly, while the findings identified strong consent when it came to safeguarding the interests of shareholders, the interviews revealed mixed views over the protection of the interests of minority shareholders. Only half of the participants of this current research identified any need to give priority to small investors, thus underlining a key reason for the presence of an ID on the board, i.e. smaller investors may not be in possession of adequate investment experience, or access to the knowledge or tools generally available to larger investors. It was notable that some participants signaled the main control function of an ID as being to represent the interests of minority shareholders.

However, the remaining participants (i.e. fourteen interviewees) agreed with Article 22 of the Saudi Corporate Code (2018), stating that all investors should be treated equally. This is particularly important as the findings suggest that some small investors are interested in the company for the short-term only whereas larger investors may be considered as long-term investors. Nevertheless, the findings of this current research further clarified that small investors should be assisted in a way that equates them with, but does not give them privileges over, larger investors. Which suggests that IDs should direct more attention towards smaller shareholders, because larger investors are privileged by default due to their larger investment. These findings are also in line with the existing literature, including the argument related to the Type II agency issue, in which controlling shareholders are thought to prioritize their own interests at the expense of minority shareholders (Shleifer and Vishny, 1997; Amit and Villalonga, 2006).

Similarly, the findings revealed a strong agreement between participants on the role of IDs in relation to the detection of incompetent management practices, with a key aspect of the control role of IDs being seen as monitoring a firm's management. In addition, IDs are required to ensure that the company is not exploited for personal gain. The findings also indicate that, although IDs are expected to detect maladministration practices, a clear distinction also needs to be established between IDs and management. This is in response to the participants of the current research underlining the need for a clear line between the role of IDs and that of the executive management. Consequently, this study suggests that it is vital for IDs to focus on the macro, rather than the micro, level of control, as this firstly, facilitates the detection of incompetent management practices and secondly, maintains a clear distinction between IDs and management.

Overall, the above findings are in line with existing literature, i.e. agency theory considers IDs to be a mechanism of control, mitigating the principal agent problem by monitoring management decisions and safeguarding the interests of company shareholders (Fama and Jensen, 1983). Stiles and Taylor (2001) also argued that corporate boards have a legal obligation to oversee managers, thus ensuring their interests align with those of shareholders. Similarly, Weisbach (1988) viewed IDs as the first line of protection against nonconformist management practices, while Parkinson (1995) noted the duty of executive directors to fully focus on a firm's affairs, with the primary obligation of IDs being to monitor the management of a firm and detect any potential occurrences of fraud. Wang et al. (2015) also confirmed IDs to be an effective mechanism of control. This implies that IDs are required to monitor (and understand) the actions of managers, in order to be able to evaluate the impact of these actions on the company (Khanna et al., 2014). This supports the argument that control constitutes a key aspect of the role of IDs as board members (Krause et al., 2013).

Furthermore, the findings of this current research showed strong agreement over control functions, such as enhancing transparency and overseeing management activities. which concurs with the regulatory provisions of the Saudi Code of Corporate Governance. Chapter 2 of the Code focuses on the mandatory audit committee, outlining both its duties and responsibilities. Article 54 of the Code mandates that this committee should be chaired by an ID and must not include any ED. The consequent duties and responsibilities of IDs are set out as follows: (i) supervising the company's internal audit department; (ii) reviewing procedures; (iii) recommending the appointment, dismissal and remuneration of external auditors; (iv) supervising auditors, reviewing audit plans and reviewing comments on financial statements; and (v) advising the board of directors in relation to accounting recommendations, based on their review of the company's accounting policies.

The research findings also uncovered a strong agreement in concern to the control function of safeguarding the interests of shareholders in general, and minority shareholders in particular. This also accords with the regulatory provisions of the Saudi Code of Corporate Governance (Article 30) as it states that IDs, as board members, should work in the best interest of all shareholders, not only the shareholder group that an ID member represents (i.e. large shareholders).

Furthermore, these findings are in line with existing literature, in which governance structures (i.e. the inclusion of IDs) are designed to protect shareholder interests (Choi et al., 2007). This argument is supported by Fama (1980), who argued that issues related to agency tend to arise as the result of a failure to hold managers to account for risks associated with their decisions, resulting in IDs being considered a company's primary internal monitoring mechanism. Weisbach (1988) contended that IDs are required to ensure adequate monitoring so as to avert any management oversights, particularly in cases of incompetency (Higgs Review, 2003).

The following section discusses the findings relating to the reasonableness of the IDs' control role, as well as considering whether IDs are given the necessary means to carry out this role.

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil a control role?

The findings of this research confirmed the reasonableness of the control role, thus suggesting the absence of any reasonableness gap. In addition, the interviews also identified three aspects either supporting or impeding the reasonableness of the IDs control role. These regulatory, socio-cultural and economic influences are discussed sequentially below.

The Regulations

The findings indicate that, as noted by the majority of the participants, the perceived reasonableness of the IDs control role is directly attributable to the robustness of the Saudi Corporate Governance Code, i.e. due to it empowering IDs to enact a control role. This is of particular interest, as Saudi Arabia is currently considered as an emerging economy and the Saudi Code of Corporate Governance is relatively new (being first introduced in 2006), compared to developed economies (i.e. the UK, where the Cadbury Report was introduced in 1992).

The findings also indicate that, as well as being very supportive to IDs, the Saudi corporate governance regulations are continuously revised and improved. One area underlined by the participants was the important role played by the audit committee in empowering IDs, due to the Code's mandate that the committee should be led by an ID and that the chairman of the board must not be part of the audit committee.

A further finding supporting the reasonableness of the IDs' control role concerns their power to resign. This is significant, as regulators consider it a serious matter for concern when an ID is found to have resigned in response to issues related to control. However, the findings suggest that, although IDs are able to play an effective control role in difficult circumstances (including threatening resignation), this may result in the ID leaving the company at the end of his/her three-year cycle. Nonetheless, some research participants suggested that when an ID leaves a company for good reason, this can result in an opportunity to improve board membership, as reputable majority owners understand the importance of the role and so choose only the most effective IDs.

An additional regulatory related finding is that current regulations mandate that IDs must comprise one third of the board. While this does not result in IDs being in the majority, the interviews suggest that company owners (as represented by the chairman and large shareholders) feel uncomfortable when specific decisions are opposed by all IDs because they would appear to be serving their own interests. Consequently, this finding is in line with those of (Fama,1980; Choi et al., 2007) as they argue that the inclusion of IDs as an internal monitoring mechanism mitigate the principal-agent problem by protecting the interests of shareholders.

The Socio-Cultural Aspects

While the findings of this research indicate that the robustness of corporate governance regulations result in the reasonableness of expecting IDs to perform their control role in an effective manner, some of the research participants underlined that socio-cultural aspects can have a negative impact on the IDs' control role. However, it should be noted that (as a result of the strength of the relevant regulations) these participants continued to perceive the role as being reasonable.

The findings highlight three main socio-cultural aspects having a potentially negative impact on the performance of the control role of IDs. The first concerns the board's chairman, who is also frequently the largest investor in the company. One major finding is that the chairman of the board (particularly in listed family companies) tends to consider him/herself as the undisputed leader of the enterprise. Thus, the chairman is often the one to arrive last to board meetings, as if considering it inappropriate for him/her to attend until every other board member has taken their place. This can be seen as a further major finding, as it reveals some of the embedded values of tribalism, as noted by Al-Gathami (2009), who highlighted the considerable influence of Bedouin and tribal values on Saudi Arabian society. Furthermore, the findings of this current research accord with those of Al-Twaijry et al. (2002), Haniffa and Hudaib (2007) and Alshehri and Solomon (2012), who all identified the distinctive cultural features found within the corporate context of Saudi Arabia, i.e. strong hierarchical social norms (see section 3.3). Furthermore, such tribal and hierarchical social norms are significantly inflated by the concentration of company ownership in the hands of a small number of families and/or individuals (Baydoun et al., 2013).

A further significant finding arising from the in-depth interviews, is that the chairman of a company can, at times, attempt to ensure the loyalty of an ID through the creation of a personal business relationship separate from the company in question. This can clearly jeopardize the independence of the ID concerned. However, some participants argued that the presence of a strong chairman with a majority ownership enhances the control role of IDs, i.e. a majority owner tends to act in self-interest to safeguard his/her investment by supporting IDs to ensure the company's management does not engage in incompetent practices. This finding is in agreement with the utility maximizing assumption of agency theory where a rational person seeks to maximize his or her individual utility as based on this assumption, both principals and agents would be likely to make the best decisions concerning how to maximize their individual wealth which results in a clear conflict of interest when principals employ agents as a means to maximize their own utility, while agents accept to do so for the opportunity to maximize their own (Jensen and Meckling, 1976; Fama and Jensen, 1983).

The second socio-cultural aspect concerns the fact that IDs constitute a minority. Although the participants perceived that forming one-third of a board is a strong regulatory aspect elevating the reasonableness of the IDs' control role, it retains the disadvantages of a minority position. This is clearly evident when larger investors lobby for a decision through EDs and NEDs, thus potentially discouraging IDs from disagreeing with the majority of the board.

The final socio-cultural aspect relates to the difficulties experienced by IDs when it comes to being accepted by other members. This is particularly so on boards dominated by specific families, or in companies where the structure of boards has remained unchanged over a long period of time. The findings identified that, in these situations, a new ID can experience difficulties in playing a control role, due to issues arising when attempting to acquire any sensitive information.

The following section discusses the findings in relation to the impact of economic conditions on the reasonableness of the IDs' control role.

Economic/Financial Aspects

As indicated earlier, the overall evidence strongly suggests that the control role is considered reasonable in response to the support of the existing Saudi corporate governance regulations. However, some participants, while viewing the role to be reasonable, also underlined three economic/financial conditions as having potentially negative impacts on the reasonableness of the control role of IDs.

1. The first finding relates to the general condition of the economy, due to it being more straightforward for IDs to play a control role during economic upturns (when corporate profits are high) than during economic downturns. The findings indicate two main reasons for this: firstly, as noted by one participant, IDs face higher levels of resistance from management when demanding additional transparency from the management in economic downturns (because management is pressured with higher workloads to improve revenues) in comparison to a booming economy, i.e. where 'everyone is happy'; and secondly, that IDs tend to experience exhausting pressure under conditions of financial distress, particularly as a result of a much higher workload in terms of the length and number of board meetings.

2. The second economic/financial aspects is directly related to IDs remuneration, with some participants from the ID group asserting that current levels are insufficient, so failing to motivate IDs to make the necessary effort. Nevertheless, it should be expected that insufficient remuneration should not prevent IDs from abandoning their duty and failing to fulfil their control role. Furthermore, as identified by the findings, a candidate is fully aware of the responsibilities and exact remuneration involved when he/she agrees to be an ID. This leads to the conclusion that low levels of remuneration are considered an unacceptable excuse for IDs to perform in a manner that is below average. This was highlighted by one participant of the current study, who pointed out that any ID believing that he/she is unable to fulfil his/her work as a result of low remuneration should resign or refuse to accept any nomination.

3. The third finding suggests an interesting perspective in relation to the economic vision for 2030 (see section 3.2). It concludes that this may have created the momentum for increased ID participation when it comes to control-related issues on corporate boards, due to the recent clamp-down on corruption in the Kingdom, from which no individual has been excluded, no matter his/her level of influence or family connection. This can be seen to serve as a message to all members of the Saudi community, including IDs.

Based on the above discussion, it can be concluded that despite the strong and empowering regulations that have been put in place, socio-cultural aspects have the potential to impair IDs from fully performing a control role. However, the interviews revealed mixed views in relation to economic/financial aspects as while aspects such as the economic condition and IDs remuneration are thought to impair the IDs ability to play a control role, the introduction of the 2030 vision and the firm clampdown on corruption that included everyone (including members of the royal family) is thought to improve the IDs ability to perform this role, thereby reducing agency cost. Overall, the findings of this research also illustrate an overall strong agreement among the participants concerning the reasonableness of the control role of IDs, thus establishing the absence of any reasonableness gap.

The following section discusses the findings related to the performance gap, including the effectiveness of IDs when exercising their control role.

RQ3. Do IDs perform their reasonable control role effectively?

The research findings suggest the existence of a performance gap by highlighting a lack of any strong effectiveness among IDs when undertaking their reasonable control role. This is a significant finding, which has been supported by a number of corporate scandals in Saudi Arabia, i.e. the Saudi French Bank which, in October 2017, was investigated by the Saudi Arabian Monetary Authority (SAMA) for the embezzlement of approximately 500 million Saudi Riyals (Alsubhi and ALabdullah, 2017).

This reported existence of a performance gap can also be seen as significant in relation to the reasonableness of the role, as identified by this research, due to the level of support received by IDs from the regulatory authorities to allow them to play their control role in an effective manner.

In order to establish the possible reasons, the following section reports the findings of the main underlying aspects, in order to establish an in-depth understanding of the nature of this performance gap in the control role of IDs.

RQ4: What factors/aspects aid or hinder IDs in the execution of their control role?

The research findings suggest seven aspects attributing to the uncovered performance gap, consisting of: (1) regulatory aspects; (2) the issue of large shareholders; (3) being minority members of the board; (4) inadequate training; (5) lack of qualified IDs; (6) management cooperation; and (7) under-active minority shareholders.

As for the regulatory aspects, although current corporate governance regulations were found to be highly enabling, this research also identified considerable room for improvement. For example, the findings highlighted that, although the current regulations restrict an ID from serving on more than five company boards, this only applies to listed companies. Thus, if some are non-listed, an ID can potentially serve on a far greater number company boards, resulting in insufficient time to effectively fulfil his/her role for each of these boards. This aspect of insufficient time was also supported by the findings of Li et al. (2012), based on evidence from China. The second related finding underlined the necessity for establishing a confidential channel between IDs and CMA, particularly in the case of ID resignations. This would ensure that IDs would have greater confidence in conveying such sensitive information to regulators. However, an in-depth investigation of this issue revealed the rarity of actual incidents of ID resignation. It was unraveled that, in general, an ID was only dismissed from his/her position: (1) as a result of his/her supporter (i.e. the majority owner) losing majority ownership of the company and (2) due to the inability of the ID to work with his/her nominating supporter.

Secondly, there is the issue of large shareholders. This is a major finding of this research, particularly as it questions the actual independence of IDs. It also accords with the findings of Li et al. (2012), who indicated that the independence of IDs can be impacted through being nominated by controlling shareholders.

Being minority members of the board can also lead to a loss of effectiveness and independence, exacerbated by the potential for IDs to serve on the board of a listed company for an unlimited number of years/cycles. This current study therefore recommends limiting the number of cycles individual IDs are able to serve on a company board to two or three, after which he/she should be considered a NED.

The fourth aspect was inadequate training as this research also highlighted a lack of adequate training for IDs, particularly in relation to their responsibilities.

The fifth affecting aspect is the absence of qualified IDs. Hence, the findings suggest a disproportionate relationship between the high level of responsibility and the limited remuneration of IDs, as set down by the relevant regulations. Such imbalances can result in difficulties in recruiting suitably qualified IDs, particularly for smaller companies offering little gain in terms of reputation to compensate for such low remuneration. On the other hand, some participants noted that companies can employ more creative methods to attract suitably qualified IDs, including company cars, personal drivers and VIP healthcare insurance for the ID and his/her family.

This research also highlights the importance of management cooperation and a robust internal governance structure, with such aspects greatly empowering IDs to play their control role in a more effective manner.

Finally, there is the aspect of under-active minority shareholders. The findings indicate that minority investors should be required to play a more effective role in the general assembly (i.e. AGM), particularly when it comes to the election of IDs. Such involvement may ultimately increase ID independence by decreasing the influence of controlling shareholders over corporate boards in general, and IDs in particular.

In summary: the findings of this research have identified seven aspects potentially preventing IDs from performing their control role effectively, as discussed in detail above.

The following section analyses the findings relating to the expectations gap in the strategic role of IDs.

8.4 The Strategic Role

Chapter 6 reported the findings of the interviews with the twenty-nine research participants, focusing on the potential expectations gap in the strategic role of Saudi Arabian IDs. The overall evidence concurred with that of Li et al. (2012), identifying a performance gap but no reasonableness gap. The findings also revealed a lack of any notable variations between groups of interviewees.

The reminder of this section is organized into four subsections, each of which discusses the findings of each research question focusing on the strategic role of IDs.

RQ1. Are IDs expected to play a strategic role?

The findings of this research established a strong consensus among the participants in relation to the strategic role of IDs, in particular the desirability of the role. This suggests that, as full members of the board, IDs are expected to play a strategic role, i.e. sharing strategic responsibilities with other board members.

This finding is supported by Lorsch and Young (1990), who stated that the strategic role is the defining characteristic differentiating corporate boards from corporate management. The findings also suggest strong agreement that a prime role of an ID is to participate in the strategic function of defining the company's purpose, with the participants also underlining that this includes formulating the company's vision and mission. The findings thus suggest that this is a further essential strategic function of IDs. However, such a function requires minimum expertise (which can be further developed through appropriate strategic training) in the industry in which the company operates. Furthermore, IDs are expected to ensure that the company is on track with its mission and vision, thereby underlining the importance of the strategic review, i.e. the third strategic function of IDs.

Moreover, the research participants demonstrated a strong agreement regarding the need for ID participation in a board's strategic review of a company, particularly the evaluation of proposals, threats and opportunities. Due to their independent status, IDs can prove more effective in establishing a balance between profit and risk, particularly in comparison to their executive counterparts, who may be under greater pressure to engage in high-profit and high-risk activities in order to achieve short term personal benefits. While this finding is in agreement with the assumption of stewardship theory as it considers the strategic role of IDs as an aspect of their stewardship of the firm, interestingly, the finding contradicts the assumptions of stewardship theory in relation to managers. According to Hernandez (2012), the stewardship theory assumes that managers place long-term group interests above short-term self-utility. The theory further assumes that managers would be predicted to ordinarily value group goals over personal goals, perceive self-interests as inferior to the interests of the owners, and consider organizational prosperity of as their principal aim, regardless of individual service (Davis et al., 1997).

However, the findings of this research suggest that IDs should not engage in tasks at the operational level, although there remained strong agreement concerning their participation in the selection of directors. This is of particular importance, as a lack of effective participation on the part of IDs in the selection of company directors will inevitably lead to the increased control of large shareholders, who are most likely to select directors demonstrating personal loyalty. However, some participants indicated that IDs should not go below VP level.

In addition to the strong agreement in relation to the above strategic functions, the research uncovered a less strong overall agreement on three further strategic functions of IDs. The three functions are as follows:

The first of which is actively identifying the prospects (i.e. future direction) of the company. This is of considerable importance, due to the findings suggesting this to be a key function of the board. Thus, in order to maintain integrity of the board and ensure the alignment of interests between the management and shareholders, it is vital that IDs should always be involved. This is in line with the assumptions of agency theory as it underlines the participation of IDs in and contribution to a firm's strategy development, including the improvement to and effective application and control of those chosen strategies (Pearce and Zahra, 1989). Furthermore, Mintzberg (1983) and Parkinson (1995) contended that the involvement of IDs in the strategic role forms the chief aspect in enhancing competitiveness, i.e. by aligning the interests of a corporation's managers with its shareholders. However, the level of such involvement depends on the background of the IDs. For example, when it comes to deciding a company's future investments, the strategic contribution of an ID with an auditing background may not be as strong as that of an experienced executive or investment banker which accords to the assumptions of resource dependency theory. The theory assumes that IDs might be used by firms to gain access to vital resources by nominating acknowledged members to sit on their boards (Pfeffer, 1972). Resource dependency theory thereby views an increase in the size and diversity of corporate boards when securing scarce resources as making a positive contribution towards initiating more updated strategic information (Pfeffer and Salancik, 1978; Pearce and Zahra, 1991; Goodstein and Boeker, 1991). These resources could take the form of external financial resources (Hillman, et al., 2000; Mizruchi and Stearns, 1994), information about competitors and industry (Lang and Lockhart, 1990) and management advice (Westphal and Zajac, 1995).

Secondly, there is ID participation in setting-out company policies as the findings indicate an overall agreement on this issue. However, although this function may be considered a responsibility of management/executives, rather than an ID, this function can be seen as a result of robust corporate governance regulations seeking to further empower IDs. This is particularly true considering that Article 22 of the corporate governance code mandates for all board members (including IDs) to be responsible for the setting out of policies. Moreover, by participating in the setting of policy IDs can ensure that the company remains in accord with its mission and vision.

Lastly, there is the function of supporting and motivating managers in possession of a good record. This current research indicates a consensus among participants concerning this strategic function, with a key strategic function of IDs being the support of managers with good records. Furthermore, such managers constitute as invaluable company assets, and so ensuring appropriate motivation will encourage them to maintain their level of performance and remain with the company for the long term. Hence, when performing this strategic function, IDs effectively protect and nurture the interests of shareholders. On the other hand, IDs should endeavor to achieve a balance, as too high a level of remuneration may also compromise the interests of investors, as a result of a negative financial impact on the company.

Overall, the findings indicate a general agreement among interviewees on the strategic functions of IDs including: defining the company's purpose; reviewing strategic proposals; formulating company vision and mission; actively identifying the prospects of the company; evaluating strategic threats and opportunities; setting out policies; supporting and motivating managers with good records; and participating in choosing directors. These findings concur with the literature in identifying overall support for these strategic functions of IDs. For example, Tricker (1994), Pearce and Zahra (1991) and Hilmer (1993a) argued that this strategic role incorporates the corporation’s business sector, as follows: (1) formulating its vision and mission; (2) evaluating strategic threats and opportunities; (3) reviewing strategic strengths and weaknesses; and (4) selecting strategies. Stiles and Taylor (2001) also viewed the strategic role of IDs as including the setting out of the strategic context, by: (1) defining the firm’s purpose; (2) reviewing strategic proposals; (3) supporting and motivating managers with good records when realizing strategic goals; (4) and selecting directors to implement the required standards for employees.

These findings are also in agreement with the provisions of the Saudi Corporate Code (2018), which states that all members of a board should: (1) provide strategic guidance; (2) take part in long-term planning; and (3) possess a clear vision of the future development of the company (see Chapter 2). Similarly, Article 22 of the Code (2018) indicates that IDs should participate in the following: (1) setting out policies, standards and procedures for choosing board directors; (2) establishing the plans, policies, strategies and main objectives of the company; (3) supervising their execution; and (4) reviewing these periodically. IDs are also required to ensure the availability of the necessary human and financial resources to fulfil these strategic tasks, including: (1) setting out company strategy; (2) determining a company's financial objectives; (3) setting performance indicators and monitoring their implementation; (4) periodically reviewing and approving the organizational structure of the company; and (5) ensuring the availability of the financial and human resources required for achieving the objectives and main plans of the company. The Saudi Code of Corporate Governance (2018) further asserts that IDs are required to participate in the formation of the company's executive management, subsequently regulating its operating procedures and monitoring its performance.

To conclude, the research findings strongly suggest that IDs are expected to play a strategic role. This was identified as being due to representing at least one third of the board, and so unable to remain inactive in relation to important responsibilities, i.e. the board's strategic contribution. Furthermore, IDs are, by their nature, company outsiders, frequently originating from different backgrounds. It is this richness of experience that yields the importance of the strategic role played by IDs play on corporate boards, as it enables them to have a relatively greater macro view of the company, as well as the industry in which the company operates.

The following section discusses the reasonableness of the strategic role. It focusses on identifying any reasonableness gap in the strategic role of IDs, including whether they are provided with the necessary means to exercise this role in an effective manner.

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil a strategic role?

The research identified a high level of consensus between interviewees concerning the reasonableness of the strategic role of IDs, thus suggesting an absence of any reasonableness gap. The research findings also identified three types of emerging aspects either supporting or impeding the reasonableness of the IDs' strategic role (as discussed in detail below): (1) regulatory aspects; (2) socio-cultural aspects; and (3) economic influences.

1. Regulatory Aspects

The findings of this research indicate an overall agreement between interviewees that current governance regulations form the leading aspect in enabling IDs to play their strategic role. On the other hand, the findings indicate that regulations are stronger in relation to their control role as opposed to their strategic role. This is to be expected, as IDs are generally viewed as a mechanism of control, aimed at safeguarding the interests of shareholders. Nevertheless, it should be noted that the majority of the interviewees perceived current corporate governance regulations to be highly supportive.

2. Socio-Cultural Aspects

The research findings in relation to the socio-cultural aspects identify that (unlike the control role) the strategic contribution of IDs tends to be welcomed by the chairman and other majority representatives in the board. However, the findings also indicate that this is not always the case. This can arise when voting on strategic decisions favoring small (as opposed to large) shareholders, resulting in the ID being unable to play an effective strategic role. It may therefore (as emphasized by one interviewee), prove more reasonable for an ID to carefully select the battles she/he chooses to fight, in particular focusing on major (as opposed to minor) strategic issues.

3. Economic Aspects

The findings highlight that economic and financial aspects that facilitate the role of IDs. This study identified that, in Saudi Arabia, holding the post of ID considered as a job in its own right, meaning that IDs have ample time and resources to play a more effective strategic role. It is notable that (as highlighted by a number of participants), IDs can experience work overload in companies experiencing major strategic developments.

The following section discusses the findings concerning the effectiveness of IDs in relation to their strategic role, in order to assess the existence of any performance gap.

RQ3. Do IDs perform their reasonable strategic role effectively?

The research findings demonstrate IDs' lack of strong levels of effectiveness when playing their reasonable strategic role, thus identifying the existence of a performance gap. This is of particular interest, given that (as noted in the previous section) this strategic role is deemed to be reasonable. Moreover, unlike their control role, IDs have the support of regulators, the chairman and the majority shareholders.

In order to establish the possible reasons, the following section reports the findings of the main underlying aspects, in order to establish an in-depth understanding of the nature of this performance gap in the strategic role of IDs.

RQ4: What factors/aspects aid or hinder IDs in the execution of their strategic role?

The findings from the fourth research question attributed the lack of any reasonableness gap in IDs' strategic role to five aspects, as discussed in detail below.

The first aspect relates to the current corporate governance regulations in Saudi Arabia, which, while being to a degree enabling, were found to be in need of some improvement. For example, the current regulations limit the number of board memberships to five, but only for listed company (see section 3.6). Consequently, an IDs' ability to effectively contribute to company strategy can be considerably reduced as a result of having insufficient time, as a result of being a member of many unlisted companies alongside those officially listed (i.e. a maximum of five). This research therefore recommends that such limits should include all companies, i.e. listed and unlisted. Furthermore, there is an urgent need for improved communication channels between IDs and regulators, particularly in relation to ID resignations, i.e. establishing a confidential channel between IDs and CMAs. The findings of this current research have emphasized that, in some cases, IDs can submit their resignation due to feeling unable to fulfill their roles in an effective manner. The initiation of a confidential channel would therefore encourage IDs to convey their reasons for leaving a company, as many may not feel comfortable documenting the reasons openly, i.e. in their resignation letter.

In addition, this research identified the need for increased protection for IDs, as current regulations allow majority owners of a company to call for a general assembly (i.e. AGM) and (due to their superior voting power) dismiss any board member they choose, including IDs. A further regulatory aspect in need of being resolved is that current regulations enable institutional investor representatives/employees to join a board as IDs, so long as they hold no personal interest in the company. However, it should be noted that they can be seen as representing majority shareholder institutions, and it is therefore more appropriate for them to join the board as NEDs rather than IDs. Finally, a number of participants underlined the need for an ID to head the nomination and remuneration committee, while also stating that at least one ID should be on the executive committee.

The second aspect concerns the potential malign influence of the chairman of the board. However, the findings of this research suggest that such a negative experience is relatively rare, as the strategic contribution of IDs is generally welcomed by the chairman and majority owners.

The third aspect relates to a need to offer strategic and/or industry related training. This is particularly so as IDs are, by their nature, company outsiders, which may restrict their strategic contribution. This conclusion echoes the findings of Li et al. (2012), who identified that many Chinese IDs lack key industry and business knowledge necessary for strategic participation.

The fourth aspect concerns the issue of management cooperation. The findings of this research suggest that such cooperation is deemed to be critical in enabling IDs to play their role in an effective manner. This is particularly true due to management generally possessing the means to aid (or impair) IDs' ability to fulfil their strategic role, with the findings revealing that company management can achieve this in a number of ways, including: (1) access to information; (2) prompt responses to inquiries; and (3) the timing of sending out the board's meeting agenda. This was underlined by one participant, who stated that it was common practice to send out several hundreds of pages of meeting agenda just one day prior to the board meeting, resulting to insufficient time for IDs to read the documents.

The final aspect concerns the issue of a lack of involvement from small investors, particularly in relation to the long-term performance of the company. The findings suggest that most small investors tend to be short-term traders, who therefore have little or no long-term interest in the company.

The following section reports the findings relating to the expectations gap in the resource role of IDs.

8.5 The Resource Role

Chapter 7 reported the findings from the interviews with the twenty-nine research participants, focusing on the potential for an expectations gap in IDs' resource role in the context of Saudi Arabia. The overall evidence suggests neither a reasonableness gap nor a performance gap.

It is significant that (despite of the lack of regulatory support) the findings of the current research confirm the desirability of the IDs' resource role, i.e. 76% of the interviewees perceived the role to be desirable. This aligns with existing literature (i.e. Stiles and Taylor, 2001), who viewed resource dependency theory as providing the main theoretical foundations for IDs' role concerning the provision of resources. However, this contrasts with the findings of Li et al. (2012), who reported a lack of any consensus in relation to this role.

The findings also indicate an overall agreement regarding a number of resource functions, including; (1) the desirability of IDs' participation in providing access to scarce resources and (2) encouraging long-term affiliation with major external players. These findings are supported by the assumptions of the resource dependency theory as it underlines IDs' capacity to encourages long-term affiliation with major external players, so securing additional information capable of enhancing a firm's ability to confront external challenges (Pearce and Zahra, 1992; Faleye et al., 2014).

The findings of this research also suggest that, while IDs are (as with any member of the board) expected to play a resource role, they are also outsiders, viewed as being more connected to the external environment than their counterparts, i.e. EDs.

Moreover, the findings also identified that IDs' independent status makes it desirable that they participate in mitigating external challenges as one aspect of their resource role. It can be argued that IDs, by not having a direct interest in the company, are less likely to act in their own self-interest. Along with their role in protecting the interests of minority shareholders, this results in a preference for using IDs, rather than other members of the board, to convey a company's concerns/challenges to the relevant regulatory bodies.

On the other hand, the findings also reveal a weak consensus regarding the resource function relating to the exploitation of opportunities. This can be attributable to the potential of this function to impede ID independence, due to pursuing opportunities that are generally the responsibility of management (see page 231).

The following section discusses the first part of the expectations gap in the IDs' resource role (i.e. the reasonableness gap), examining whether IDs are awarded the necessary means to fulfil this role.

RQ2. Under present conditions, is it reasonable to expect IDs to fulfil a resource role?

The interviewees expressed a strong consensus concerning the reasonableness of the IDs' resource role, so revealing a lack of any reasonableness gap. It is significant that (as with the control and strategic roles) this was attributed to company owners, rather than governance regulations. While the findings of this current research indicate a lack of any regulatory requirement for IDs' resource role, it also highlights that regulation fails to prevent IDs from playing this role, providing they maintain their integrity and independence.

This study found no socio-cultural pressure being placed on IDs with regard to their resource role, and their efforts appeared to be appreciated. Moreover, some participants emphasized that company owners consider this to be a highly significant role of IDs. For example, ED3 asserted that: "this is the most important and desirable role to be played by IDs, from a large firm owners' perspective, as IDs have networks and a relationship with the external environment". This is also online with the assumptions of the resource dependency theory as it emphasizes that new directors are usually selected to facilitate fund raising, to enhance a firm's reputation and to reduce external threats such as mergers, joint ventures and problems with contracts (Zald, 1969; Pennings, 1983; Pearce and Zahra, 1992).

However, although the role is deemed to be reasonable, and not compromised by either the regulatory or socio-cultural aspects, some participants noted the negative impact of economic/financial aspects on IDs' ability to play their resource role in an effective manner. II1 stated:

> When the market is booming and profits are high, it is relatively easier for the ID to perform a resource role than it is during a recession. In the latter case, communication with lenders, creditors and customers is much more difficult.

The findings also point to the direction that the lack of any financial reward (on top of their pay) may exerts a negative impact on the reasonability of this role. Nevertheless, the overall findings suggest a strong level of agreement concerning the reasonableness of the IDs' resource role as indicated earlier.

The following section discusses the findings related to the effectiveness of IDs' in performing their reasonable resource role.

RQ3. Do IDs perform their reasonable resource role effectively?

It is significant that the current findings indicate that IDs are viewed as effective when playing a resource role, thus suggesting the lack of any performance gap. However, the findings also highlighted a difference of opinion between two of the five interviewee groups concerning the resource role, with all participating IDs considering IDs to be 'effective' or 'very effective' and all EDs viewing IDs as either 'medium' or 'ineffective'.

This lack of a performance gap can be considered a major finding of this research, being the only role in which IDs are perceived to act effectively. This finding focuses on the lack of regulatory support for such a role compared to the strong support for the control and strategic roles of IDs.

In order to identify the reason for the absence of a performance gap, the following section discusses the findings of the main underlying aspects, in order to establish a more in-depth understanding of the nature of this lack of a performance gap in the resource role of IDs.

RQ4: What factors/aspects aid or hinder IDs in the execution of their strategic role?

The findings from the fourth research question offer additional explanations for the lack of any reasonableness or effectiveness gaps in IDs' resource role. The first of these is related to regulation, with the findings strongly indicating that regulations do not preclude IDs from playing this role, as long as they avoid any violations. The second and (perhaps more influential) aspect contributing to the effectiveness of IDs in playing their resource role concerns the support they receive from large shareholders. Furthermore, the findings revealed that large shareholders value a resource role, thus facilitating this role for IDs. In addition, the findings suggest that large shareholders not only facilitate, but also demand, this role. Indeed, the findings emphasized that the interpersonal networks of nominated IDs can have a definitive influence on their election to the board (see Table 7.4).

Thirdly, the findings also suggest that management cooperation can further facilitate this role for IDs, in particular by providing essential and timely information and ensuring adequate follow-up concerning any issues they may raise.

Fourthly, the findings suggest that personal qualities (i.e. reputation and networking capability as well as personal connections) can support an ID's ability to play this role.

Finally, the findings highlight the issue of a lack of adequate compensation, as underlined by some participants, which may discourage IDs from being willing to play a resource role. This is due to such a role being believed to create additional work but without any commensurate compensation.

8.6 Conclusion

This chapter presented the core findings of the current study, along with a discussion of these results with reference to the relevant literature. While the findings indicate the absence of any expectations gap in IDs' resource role, the overall findings identified a performance gap, but no reasonableness gap, in both the control and strategic roles of IDs in the context of Saudi Arabia. The overall findings also suggest that this performance gap can be attributed to a number of regulatory, economical/financial, and socio-cultural aspects, with the latter being the most significant aspect impeding the control role of IDs. It can therefore be concluded that this can be attributed to the unique features of Saudi culture, i.e. tribal and top-down social norms.

The following chapter forms the overall conclusion of this thesis.

Chapter 9: Concluding Remarks

9.1 Introduction

This final chapter brings together the main areas covered in this thesis. Firstly, Section 9.2 summarizes the context, objectives and nature of the undertaken research. Secondly, the major findings from the empirical work are highlighted, along with the factors found to assist (or impede) IDs in the performance of their control, strategic and resource roles, are discussed in Section 9.3. Thirdly, Section 9.4 provides practical recommendations aimed at enhancing corporate governance in Saudi Arabia through reforming and better supporting IDs. Fourthly, Section 9.5. discusses the main limitations of the present study and puts forward suggested areas of future research. Finally, Section 9.6 contains the concluding thoughts and outlines the contribution of the research to current knowledge.

9.2 Summary of the Research

The study sought to enhance understanding of the roles played by IDs, i.e. (1) control; (2) strategic; and (3) resource. It explored the gaps in expectations in relation to these roles, in order to: firstly, establish a more in-depth understanding of the monitoring mechanisms in place in Saudi Arabia and secondly, highlight those areas capable of benefiting from further improvements.

The thesis was made up of eight chapters. Chapter 1 introduced a general introduction of the research aims, questions and structure. Chapter 2 established the environment in which IDs perform their roles, including the concept of corporate governance and the various models and characteristics of a board, along with the conceptual and theoretical basis for the research, i.e. the theoretical framework and issue of accountability. This was followed by a critical examination of conceptual frameworks (i.e. agency theory, stewardship theory and resource dependency theory) forming the theoretical foundation for the appointment of IDs. The chapter also undertook an in-depth discussion of IDs' control, strategic and resource roles and employed available international research to establish the effectiveness of such roles, particularly in relation to Saudi Arabia. Chapter 3 clarified the study context, i.e. an overview of Saudi Arabia. Chapter 4 focused on the research methodology and methods, outlining the adoption of a content analysis procedure to identify the expectations gaps in the roles of IDs within the Saudi context. It also described the use of twenty-nine semi-structured interviews with independent directors, institutional investors, regulators, executive and non-executive directors, undertaken between March and July 2018, examining their perceptions concerning the control, strategic and resource roles of IDs. Chapters 5, 6 and 7 analysed the results of these interviews.

9.3 Overall Findings

As indicated in the previous section, the overall aim of the thesis was to investigate the desirability of the control, strategic and resource roles of IDs and the extent to which IDs fulfil them, as well as the impediments they face in carrying them out. Consequently, this thesis explored expectations concerning the control, strategic and resource roles of IDs in the context of Saudi Arabia. While IDs are expected to assure that companies act in the best interest of shareholders, who do not have access to insider information and whose interest should be protected by a sound, reliable and functional corporate governance system, the overall findings indicate the existence of a performance gap, but no reasonableness gap, in the control and strategic roles of IDs. Thus, suggesting some ineffectiveness of IDs as a governance mechanism designed to deliver accountability to the investment community in these two roles.

Furthermore, the study provided new insights into the factors that contributed to the performance gaps in the control and strategic roles of IDs, as discussed below:

Firstly, there are the regulatory aspects, including: a lack of confidential channel between IDs and the CMA, particularly in relation to ID resignations; less than ideal ID independence; lack of time due to unlimited number of board memberships in non-listed companies. When it comes to the strategic role, the findings suggest an additional regulatory aspect in which a minimum of one ID should be included on the executive committee.

Secondly, there remains the issue of the negative influence of the board's chairman and the majority owners. This influence contains the potential to adversely impact the performance of IDs in relation to: (1) their control role and (to a lesser extent) (2) their strategic role. It should be noted that this negative influence arises partially from specific Saudi socio-cultural aspects, i.e. the values of tribalism and hierarchical social norms (Algarni, 2018). Moreover, the negative role of the board's chairman is further amplified by the economic/financial reality ensuring that, in the majority of cases, he/she is the largest investor in the company. This automatically translates to considerable voting power when it comes to elections to the board.

Thirdly, there remain considerable difficulties in recruiting IDs who are both sufficiently suitable and knowledgeable to effectively fulfil both the control and strategic roles. Fourthly, however, it is considered that adequate training has the potential to mitigate this issue.

Fifthly, management cooperation and governance structure within the company is viewed as key to enabling IDs to play their control and strategic roles in an effective manner.

Sixthly, there is the issue of underactive minority shareholders, the majority of whom are short-term speculators/investors with little interest in the long-term prospects of the company.

Finally, there remains the issue of the minority status of IDs, who comprise only one third of the board. This may increase the pressure to facilitate their control role in an effective manner.

As for the IDs’ resource role, overall evidence suggests the presence of neither a reasonableness gap nor a performance gap. This is particularly significant, due to the lack of any regulatory support for such a role. However, the findings also indicate that regulatory constraints remain absent as long as the performance of this role does not violate the Saudi Corporate Governance Code. Another interesting finding with the potential to explain the lack of a performance gap in the resource role is the value placed on it by large shareholders, who thus facilitate this role for IDs. The findings further suggest it may be the personal network of nominated IDs that determines their acceptance for board membership.

When it comes to the theoretical foundation of this research, it should be noted that agency theory provided the theoretical base for the control role of IDs, viewing them as a mechanism of control for both forms of agency issues. These consist of Type I (i.e. principals employ agents as a means of maximizing their own utility, while agents focus on the opportunity to maximize their own interests) and Type II (i.e. controlling shareholders maximize their own interests at the expense of minority shareholders).

By contrast, stewardship theory considers managers to be good stewards, whose interests are aligned with those of owners. Both agency and stewardship theory confirm the strategic role of IDs. However, they both fail to examine any overlaps in the relationship between IDs and a company's external environment, i.e. the resource role of IDs. This research therefore also employed resource dependency theory, as this considers that, in their position as outsiders, IDs can prove a significant means of securing vital resources for a firm by utilizing their relationships with the external environment. Moreover, such resources can (when utilized to their full potential) be expected to have a positive influence to the firm's strategic decision-making processes.

The following section highlights a number of practical recommendations to assist IDs in the performance of their control and resource roles.

9.4 Practical Recommendations

As discussed in Chapters Five and Six, the findings of the current research revealed the adverse influence of socio-cultural and economical/financial aspects on the control and strategic roles of IDs. Thus, despite acknowledging the robustness of corporate governance regulations in Saudi Arabia, this research emphasizes the need for considerable improvements to provide immunity for Saudi companies and their shareholders and (more importantly) the economy of Saudi Arabia from scandals such as that of the Saudi French bank. While corporate governance systems can, at times, prove ineffective, there remains ample opportunity for further improvements to be put in place in order avoid such shortfalls. This study therefore suggests the following practical recommendations to address IDs' underperformance and enhance the effectiveness of the roles of IDs:

(1) Establishing a confidential channel between IDs and CMAs, in particular in relation to ID resignations.

(2) Ensuring optimum levels of ID independence, by limiting the number of board cycles each is able to serve (i.e. in response to the finding that IDs tend to lose their independence following two or three cycles and should consequently be considered NEDs).

(3) Limiting the number of board memberships held by one individual to five, whether or not a company is listed.

(4) Ensuring that a minimum of one ID should be included on the executive committee.

(5) Ensuring adequate training to familiarize IDs with company operations in general, and their roles and responsibilities in particular.

The following section discusses the limitations of the current study and avenues for future research.

9.5 Limitations of the Current Research and Avenues for Future Research

This current research focused on identifying any expectations gap (i.e. both reasonableness and performance) in the control, strategic and resource roles of IDs within the context of Saudi Arabia. It should be noted that this thesis has several significant limitations, as discussed in detail below.

Firstly, this current study only used a small convenience sample, rather than a large random sample, due to firstly, it being exploratory in nature, and secondly, difficulties in accessing high profile interviewees, i.e. board members of listed companies and senior regulators of the Saudi capital market (Tadawul). This has resulted in a need to approach the current findings with caution, as (despite twenty-nine interviewees being an acceptable number for data collection) the findings may not prove generalizable. It is thus recommended that a replication of this research should be undertaken, using a random, larger and more comprehensive sample, in order to confirm the findings of the current study by addressing the limitations of a small convenience sample.

Secondly, the current research also suggests the potential to undertake a future study systematically investigating the specific issues leading to the underperformance of IDs, in order to identify a more inclusive set of countermeasures.

Thirdly, this thesis recommends the need to investigate the expectations gap in the roles of IDs within the context of a number of further emerging markets. It considers that it would prove particularly fruitful to extend this present study to identify such gaps in ID roles in the context of other GCC and Middle Eastern countries.

Finally, this study suggests investigating whether the Saudi system of corporate governance should lean towards the stakeholder approach (as in the UK's 2018 Code) rather than shareholders only.

The following section concludes the Chapter and discusses this research's contribution to knowledge.

9.6 Concluding Thoughts and Contribution to Knowledge

This research investigated a significant aspect of corporate governance, including its monitoring mechanisms. In particular, the thesis explored expectations concerning the control, strategic and resource roles of IDs in the context of Saudi Arabia. The overall findings indicate the presence of a performance gap in the control and strategic roles of IDs, despite the lack of any reasonableness gap. The findings also suggest a lack of any reasonableness or performance gap in relation to the resource role of IDs.

These findings will therefore assist in filling the gap in the related literature regarding the control, strategic and resource roles played by IDs on the boards of listed Saudi companies in particular and emerging markets in general. The findings of this thesis will therefore facilitate future research focused on establishing an improved understanding of the role of IDs. This is a particularly significant aspect of the current study, due to it being the first to investigate expectation gaps in the roles of IDs in emerging economies, i.e. Saudi Arabia.

An additional contribution of this study is in identifying major aspects both facilitating and impeding the effective performance of IDs, in particular when it comes to their control, strategic and resource roles. In enhancing the understanding of the roles played by IDs, these findings will contribute to the initiative being continually undertaken by regulators to further improve the corporate governance system in Saudi Arabia in general, and the regulations controlling the roles played by IDs on corporate boards in particular.

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Appendices

Appendix I

Interview Guide

Read the annual report of the interviewee company prior to the interview so that some factual questions may be omitted or be used to warm up or cover up silence. Reading the report may also provide facts that help to prepare discussion questions instead of asking for information about facts.

Preface

Corporate governance regulations and theories indicate three roles of independent directors (IDs). These three roles are the control, strategic and resource roles. The control role of IDs covers areas such as: ensuring the alignment of management interests with those of the company's shareholders; overseeing management activities to detect incompetent practices; and contributing towards enhanced transparency.

The strategic role of IDs incorporates functions including: defining the company's purpose; reviewing strategic proposals; formulating its vision and mission; evaluating strategic threats and opportunities; and participating in choosing directors.

Lastly, the resource role of IDs involves utilizing their relationship with external environment to: provide access to scarce resources; reduce effects of external challenges; and capture opportunities.

<u>Section (A)</u>

Background Information

Name of the company:

Position held by the interviewee:

Years of experience as Independent Director (ID) or Executive Director (ED) or investors:

How long have the interviewee has been with the company**:**

Professional occupation:

Qualifications:

Age:

Gender: Male o Female o

<u>Section (B)</u>

The Control Role of IDs

Define the control role of IDs prior to asking the next questions.

QB1. Do you think IDs should play any control roles? Yes ¨ No ¨

QB2. Under the present (socio-cultural, regulatory and economical) conditions, to what extent do you think that it is reasonable to expect IDs to play a control role in Saudi Arabia?

Very reasonable	Reasonable	Does not make any difference	Unreasonable	Very unreasonable

¨	¨	¨	¨	¨

QB3. Why did you make this choice?

Prior to asking the next questions. Identify one or two major events – positive and/or negative that took place in the company and ask the questions around these events.

QB4. Through which ways do IDs effectively monitor managers (safeguard shareholders' interests, especially minority shareholders') (see section E – the check list for the activities identified from the literature review)? Could you provide examples to support your view?

QB5. To what extent do IDs effectively monitor managers (safeguard shareholders' interests, especially minority shareholders') in your company?

Not very effective at all	**Not very effective**	**Medium**	**Effective**	**very effective**
¨	¨	¨	¨	¨

QB6. Why do you make this choice? Could you give examples?

QB7. What factors aid or hinder IDs in the execution of their control role?

Section (C)

The Strategic Role of IDs

Define the strategic role of IDs prior to asking the next questions.

QC1. Do you think IDs should play any strategic roles? Yes ¨ No ¨

QC2. Under the present (socio-cultural, regulatory and economical) conditions, to what extent do you think that it is reasonable to expect IDs to play a strategic role in Saudi Arabia?

Very reasonable	**Reasonable**	**Does not make any difference**	**Unreasonable**	**Very unreasonable**

¨ ¨ ¨ ¨ ¨

QC3. Why did you make this choice? Could you provide examples to support your view?

Prior to asking the next questions. Identify one or two major events – positive and/or negative that took place in the company and ask the questions around these events.

QC4. Through which ways do IDs effectively contribute towards their strategic role (see section E)? Could you provide examples to support your view?

QC5. To what extent do IDs effectively contribute to their strategic roles in your company?

Not very effective at all	Not very effective	Medium	Effective	very effective
¨	¨	¨	¨	¨

QC6. Why do you make this choice? Could you give examples?

QC7. What factors aid or hinder IDs in the execution of their strategic role?

Section (D)

The Resource role of IDs

Define the Resource role of IDs prior to asking the next questions.

QD1. Do you think IDs should play any resource roles in Saudi Arabia?

Yes ¨ No ¨

QD2. Under the present (socio-cultural, regulatory and economical) conditions, to what extent do you think that it is reasonable to expect IDs to play a resource role in Saudi Arabia?

Very reasonable	Reasonable	Does not make any difference	Unreasonable	Very unreasonable
..	..	..	..	..

QD3. Why did you make this choice? Could you give examples?

Prior to asking the next questions. Identify one or two major events – positive and/or negative that took place in the company and ask the questions around these events.

QD4. Through which ways do IDs effectively contribute to their resource roles (see section E)? Could you provide examples to support your view?

QD5. to what extent do IDs contribute effectively to their resource roles in your company?

Very low	low	medium	high	very high
..	..	..	..	..

If yes to QD5: When the company chooses the IDs, they consider their reputation, their networks and their expertise.

QD6. Why do you make this choice? Could you give reasons?

QD7. What factors aid or hinder IDs in the execution of their resource role?

Section (E)

Check list for IDs activities identified from the literature review

Please choose a number (from 1 to 5). Where 1 indicate that you (fully disagree), and 5 indicate that you (fully agree) with the relevance of the activities listed below to each role.

score	The Control Role
	Ensuring the alignment of management interests with those of their shareholders
	Overseeing management activities to detect incompetent practices
	Contribute in enhancing transparency

score	The Strategic Role
	Defining the company's purpose
	Reviewing strategic proposals
	Formulating company vision and mission
	Actively identifying the prospects of the company
	Evaluating strategic threats and opportunities
	Setting out policies
	Supporting and motivating managers with good records
	Participate in choosing directors

score	The Resource Role
	Providing access to scarce resources by encouraging long-term affiliation with major external players
	Utilizing their relationship with external environment to reduce effects of external challenges

	Utilizing their relationship with external environment to capture opportunities