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ADVOCATING FOR REFORM OF THE SAUDI LAW OF DIRECTORS' LIABILITIES: TOWARDS ENFORCEMENT FOR FUNDS MANAGEMENT THROUGH DERIVATIVE ACTIONS

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ABSTRACT

This study critically examines the inadequacies in Saudi company law concerning directors' liabilities and the application of derivative actions, emphasizing the urgent need for legal reforms to strengthen corporate governance and ensure accountability. Adopting a systematic analytical approach as part of qualitative research, the study comprehensively reviews existing literature and evaluates the interplay between Shariah law, the Saudi Companies Law, and corporate governance regulations that shape directors' responsibilities. The findings reveal that despite recent reforms, weak enforcement mechanisms continue to impede shareholders particularly minority investors—from holding directors accountable for mismanagement or breaches of fiduciary duties. The research advocates for legislative amendments that streamline derivative proceedings, including the introduction of structured litigation fees and clear procedural guidelines to incentivize shareholder participation. It further recommends the adaptation of elements from the UK model to align Saudi law with international best practices, thereby enhancing transparency, investor confidence, and corporate responsibility. Overall, the proposed reforms are vital for improving fund management, protecting shareholder interests, and reinforcing ethical and sustainable corporate governance within the evolving Saudi business environment.

KEYWORDS: Saudi Law, Saudi Law Reform, Judicial Institutions, Directors' Liabilities, Derivative Actions and Corporate Governance.

1. INTRODUCTION

Saudi Arabia's unclear, uncertain, and inaccessible legislation and exposes its inadequacies. The paper explains a framework for Saudi Arabian legal reform, and the feasibility of transferring selected legal concepts and principles from British business law to Saudi law is elaborated by extant literature (Abo Shareb, 2023; Akinsola, 2025). Directors as managers have obligations of caring and loyalty, which may be enforced via derivative actions under company law in Saudi Arabia (Akeel, 2018). The purpose of instituting such procedures is to keep executives accountable and under control, as they handle the company's capital. Focusing on Saudi law of derivative actions and corporate opportunities, this study identified issues with and proposed reforms to Saudi Arabian law relating to managers and directors as a means of addressing these issues; we need to act with care and good faith and avoid conflicts of interest (Pinto, 2023). The primary goal of this research was to suggest changes to the legal responsibility framework for managing investments and derivative actions under Saudi law. This research compares Saudi law to the business laws of the UK (United Kingdom) to determine where the latter falls short and where the former excels. The Saudi Companies Law, adopted in 2015, still leaves significant gaps in directors' duties of care and loyalty (Alasmri, 2020). Some problems with directors' responsibilities have been addressed by the new Saudi Corporations Regulations 2017; however, other problems remain. Directors' obligations, legislation, and enforcement procedures should be reformed because of the existing level of ambiguity (Aldahmash, 2021). The limitations posed by other legal and non-legal accountability methods within the Saudi environment also imply that these alternatives cannot be sufficient to assure the responsibility of directors.

The research considers the UK legal model only transferrable if it can be adapted to fit into the Saudi legal environment and institutional structure throughout its evaluation of the viability of reform through legal transplantation (Aldahmash, 2021). This is essential for the successful adoption of foreign regulations in the host country's context. According to the research, it is possible to implement most models and principles of law from the United Kingdom. As a result of this research, a policy has been developed that strikes the right balance between increasing director accountability and ensuring directors are protected in the exercise of their managerial authority regarding the reform agenda for Saudi law regarding directors' duties and

derivatives (Aldahmash, 2023).

Since this paper intends to give a comprehensive examination of directors' obligations under the law, and since there is a growing body of literature in this field, it must focus on a subset of directors' responsibilities. Personal duties to shareholders and/or creditors, etc. about investments are not covered by the scope of this paper, which is limited to generic obligations due to the firm (Aleshaikh, 2018). In addition, the paper's scope is limited to the fiduciary obligations of care and loyalty as they relate to investment management. Regarding the latter, primary attention will be paid to the duties of acting in good faith for the benefit of the firm, avoiding conflicts of interest, especially in the pursuit of business prospects, and not engaging in self-dealing (AlNemer, 2016). These challenges will be chosen because they are unique to the Saudi Arabian environment. This paper focuses on the business's actions against directors and shareholder lawsuits brought on behalf of the company in response to violations of responsibilities due to company-related investments (i.e., derivative litigation).

The primary objective is to propose a revision of Saudi legislation concerning directors' responsibilities in relation to fund management and derivative actions. By comparing it with UK business law, this research highlights the ambiguities, uncertainties, and inaccessibility of Saudi Arabia's current legislation, revealing its shortcomings. To establish a framework for legal reform in Saudi Arabia, this study examines the feasibility of adapting selected legal concepts and principles from British business law to the Saudi legal system by answering the following questions. Why is legislation necessary to strengthen directors' obligations and enforcement in relation to the management of funds through derivative proceedings? This is essential for enhancing directors' accountability and providing better legal protection for shareholders, particularly minority shareholders. Can specific UK laws be adopted in Saudi Arabia, and if so, to what extent can foreign laws be adapted to meet local requirements? Additionally, is it feasible to incorporate certain legal concepts and principles from Saudi company law into UK company law to develop a framework for legal reform in Saudi Arabia?

The implications of this study are multifaceted. First, it demonstrates that the current ambiguity in Saudi legislation undermines transparency and accountability, thereby necessitating reform to enhance investor confidence. Second, it presents a policy direction for balancing directors'

accountability with the protection of their managerial authority. Third, it highlights that the adoption of elements from the UK legal model such as structured derivative proceedings and fiduciary standards can strengthen fund management oversight and safeguard minority shareholders. However, such transplantation must be contextually adapted to fit Saudi Arabia's institutional and Shariah-based legal framework. Overall, the study concludes that reforming directors' liabilities and derivative actions is both feasible and essential for advancing corporate governance, promoting ethical leadership, and ensuring sustainable economic growth within Saudi Arabia's evolving business environment. This study is important as it has looked at the existing literature to explain different interconnectedness of variables. The study has also looked at the methods and materials; results, implications and limitations of the study were presented. Lastly, conclusion and suggestions were presented.

2. LITERATURE REVIEW

2.1. Theoretical Framework

This section explores positions that generally center their attention on different aspects such as informing the public about factors that may influence the receptivity of laws. The success and failure of legal transplants are determined by several key conditions such as identifying factors that may influence the receptivity of legal rules. For instance, Kahn-Freund thinks that the 'transferability' of foreign models is achievable; nevertheless, the most important point that must be answered concerns the standard by which successful adoption can be judged (Al-Janadi, Rahman and Omar, 2012). Considering the close relationship between the law and its political, economic, social, and geographical environment, Khan Freund argued that the transferability of legal rules depends upon the ability of the foreign rule to be adjusted to its host country's environment (Colombo and Groenleer, 2021). This view was based on the idea that laws and their surroundings have a close relationship.

The foregoing assertion is directly related with position of legal framework in reforming the Saudi Law of Directors' Liabilities. Undoubtedly, Watson's hypothesis and Legrand's idea on reforming the Saudi Law of Directors' Liabilities emphasize the necessity of enhancing enforcement mechanisms for directors' duties, particularly through derivative actions. The current Saudi legal framework lacks effective private enforcement, leaving shareholders, especially minorities, vulnerable to breaches of duty by directors (Albrahim, 2015; Dossari, 2019). The

introduction of derivative actions could empower shareholders to initiate claims on behalf of the company, addressing the agency problems prevalent in Saudi corporate governance (Siems, 2011). Furthermore, aligning these reforms with the moral and cultural context of Saudi Arabia may facilitate their acceptance and implementation (Alrasheed, 2016). The proposed changes aim to create a more balanced relationship between directors and shareholders, ultimately fostering a more robust corporate governance structure that attracts investment (Langevoort, 2006; Alrasheed, 2016).

An essential requirement of a successful legal transplant has also been identified as guaranteeing that foreign law and the host nation's legal environment are fully compatible (Aleshaiikh, 2018; Colombo and Groenleer, 2021). More crucially, it has been suggested that the rules of law change depending on the cultural and socioeconomic setting in which they are applied. This line of reasoning argues that it is more difficult to transfer laws that are culturally and societally ingrained across legal systems than it is to transfer rules that are not connected to a specific culture. In this sense, corporation laws are often seen as largely independent of cultural values. As a result, it is anticipated that such laws will simplify "traveling relatively freely" between cultures. In light of the arguments presented above, one may argue, at least in terms of corporate law, that legal transplanting is theoretically feasible. This is one interpretation of the phrase. Despite this, the findings of this research do not support the idea that Saudi Arabia should simply mimic the legal system of the United Kingdom without considering whether the imported regulations are fit for the Saudi environment. Thus, the viability of Saudi law within the Saudi Arabian legal system is paramount (Al-Maghzom, 2016; Al-Maghzom, Hussainey and Aly, 2016). It is noteworthy to say that; there is a need to reform Saudi Arabia law.

2.2. Advocacy For Saudi Law Reform

After the unveiling of the new Saudi Vision 2030, the Kingdom of Saudi Arabia has stated that it will not be afraid to reform laws, including those that are responsible for forming the corporate governance system, to achieve the objectives outlined in the 2030 Vision a literature contends (Alsulayhim, 2020). These objectives include the development of thriving equity markets, the attraction of additional domestic and foreign investment, and the improvement of the environment in which businesses operate. The advocacy for reform is intended to be implemented

in the form of legislation that, among other things, incentivizes directors to carry out their duties ethically and knowledgeably by holding them legally liable for failing to do so (Alomari, 2022).

Arguably, legislative reform that provides well-formulated obligations of directors and is backed by an efficient enforcement mechanism will improve the legal protection that is afforded to shareholders. The result of this would be an increase in investors' desire to invest in equities, which would help the market grow (Sharif, 2019). Thereby, the legal transplantation approach can be considered one of the best ways to resolve deficiencies in Saudi law regarding the directors' duties and the enforcement thereof through importing the highest-quality legal solutions. This is because such an approach is based on the idea that laws can be transplanted from one jurisdiction to another. The corporate governance structure that the United Kingdom has built is often regarded as being among the very finest in the world (Ayele, 2013). It provides high levels of protection for investors. In addition, within the framework of company law, the United Kingdom has a duty of care, fiduciary obligations, and derivative actions that have been in place for a very long time (Singh, 2021). As a result, the experience of the UK might provide appropriate remedies to the legal confusion and insufficiency that have been observed in Saudi Arabian company law.

According to Saudi law, there are two most relevant laws in the discussion of this research namely: The Commercial Law of 2015 (CL 2015), which is the principal source of corporate governance (Colombo and Groenleer, 2021). It encompasses the majority of statutory rules concerning joint stock companies and particularly outlines shareholder rights, director duties, and enforcement mechanisms. On the Saudi Stock Exchange, joint stock companies are the only type of company that can be listed. Therefore, they are governed by the CML 2003, which was passed to safeguard players in the capital market, most notably investors (Farhan, Aqlan and Al-Faryan, 2024). The Saudi legislator decided to restructure the market's regulatory and supervisory framework by introducing CML 2003, a legal transplant created to protect investors and enhance their confidence in the market, as well as to ensure that the trading of securities is fairer and more transparent (Filfilan, 2013). This decision was made to achieve the goal of providing investors with a greater degree of protection and confidence. In terms of the CML 2003's applicability, the legislation covers transactions that are pertinent to securities that are publicly traded or are in the process of being publicly

traded. Article 2 of CML 2003 contains a list of securities that are covered by it but is not exhaustive. This list contains the shares of the corporation, which are regulated by the law. It is made abundantly clear by the Saudi securities law that certain financial instruments do not meet the statutory definition of a security and are, consequently, exempt from the CML 2003 (Gopalan, Nanda and Seru, 2014). Some examples of these types of financial instruments include insurance policies, checks, and bills of exchange (Ali, Asif, Nazir, Rehman Irshad, Ullah and Ahmad, 2023).

2.3. Judicial Institutions In Saudi Arabia

It is generally accepted that the existence of courts that are both just and effective is especially required to provide investors with recourse in cases of legal violations. Judicial intervention in enforcing directors' duties tends to be necessary to establish the boundaries of directors' duties and evaluate, or even influence, ex-post decisions made by directors (Hussainey and Al-Nodel, 2008). As legal enforcers, judges are increasingly important in cases involving breaches of directors' obligations, such as care and loyalty. In the absence of the doctrine of judicial precedent and within the context of written legal codes, it would appear that Saudi judges have relatively limited power when it comes to enforcing codified rules of foreign origin (Filfilan, 2013; Sørensen, 2021). This is because Saudi judges typically focus on enforcing rules that have been codified. The authority of the courts is restricted to the interpretation of laws, and it does not extend to amending them. Instead, the Saudi regulatory branch is tasked with the responsibility of introducing new laws and amending current regulations (Aleshaikh, 2018). As a result, one may conclude that Saudi Arabia lacks a system of enforceable judicial precedent, and the judiciary generally adheres strictly to written norms. A clear understanding of Saudi courts' tradition will be helpful when we discuss the role of the court in filling legislative voids, as well as the possibility of transferring directors' duties and standards from the United Kingdom. In a legal system influenced by or modelled after civil law, directors' duties and standards would be transferred (Lindgren, Swaen, Harness and Hoffmann, 2011).

The CMA established the Saudi securities market to protect investors from risk and promote honest business practices in the market. CMA possesses the necessary powers to fulfill its statutory obligations, including regulation and development of the Exchange (Manuacara *et al.*, 2019). In addition to

regulating and monitoring all securities issuance and trading matters, it is also responsible for protecting investors from unfair and illegal stock market practices, and it is also responsible for ensuring that securities transactions are fair, efficient, and transparent. ;" the guaranteeing of investors' uninterrupted disclosure. To accomplish these goals, the CMA has the necessary powers. As a public enforcer, one of the primary functions that are conferred in the CMA is the ability to either impose fines or request that the CRSD do so for it for any infractions of the CML 2003 and its Implementing Regulations (Phillips, 2018). Additionally, the CMA has the authority to file legal actions against anyone who violates securities laws and regulations and to seek any of the punishments that are included in the list that is provided in article 59 (a) of the CML 2003 (Qu, Leung and Cooper, 2013). Because the board of directors is given considerable discretionary powers, there must be efficient systems in place to maintain the board's responsibility. This protects the firm (and, in practice, the shareholders) against the possibility that management powers may be abused. Several different justifications may be used to support the need for accountability.

In a broader sense, one may argue that the availability of accountability procedures is a precondition that must be met before one can make progress toward a strong system of corporate governance. It is undeniable that the improvement of efficient corporate governance, which would lead, as has been said on several occasions, to great corporate performance, would bring about these results (Rose, 2008; Jinane, 2024). One may argue that board accountability is intended to discourage many severe mistakes and to stimulate thorough decision-making procedures, both of which can, in turn, promote strong company performance. The idea that accountability should be connected in some way to the idea of power is one of the primary ideas that are put out as a foundation for accountability (Fatma and Imran, 2023). One critic note that accountability can be viewed as "a standard of governance," establishing rules and procedures for exercising and responding to power. In the framework of corporate governance, accountability must be present for the board to be granted power (Shatnawi, 2021; Cherif, 2023; Jinane, 2024). This is necessary to guarantee that the board will use its authority in a manner that is beneficial to the interests of shareholders. It is also possible to say that the existence of accountability lends legitimacy to the board's capacity to wield the responsibilities that have been delegated to it. Shareholders would have a negative attitude toward every decision taken

by the board of directors if there was no accountability system in place because "being beyond challenge would make them all suspicious." Because shareholders do not trust the board of directors, shareholders may be reluctant to invest extra cash in the company as a result. It is not surprising that shareholders would be displeased if directors were permitted to exercise their wide powers without being held accountable. Considering directors' actions and decisions potentially affect shareholders' rights, a similar feeling is not surprising (Tuffaha et al., 2020).

Evidence of impacts stemming from ambiguity in Saudi legislation is there. Undoubtedly, it is difficult, if not impossible, to create a favourable setting for business and investment if rules specifying rights and duties are not easily accessible. Tom Bingham puts it this way: "No one would desire to undertake business, perhaps involving substantial quantities of money, in a nation where the rights and duties of the parties were imprecise or unresolved." Second, uncertainty will persist among those governed as to whether a certain action falls inside the purview of the law and, if so, to what extent. For instance, both shareholders and directors may have varying expectations of the legal consequences of director conduct if there is insufficient clarity regarding the duty of directors to act in good faith and avoid exploitation of corporate opportunities in the interest of the company. Third, there is the idea that legal ambiguity limits choice. This may arise if a determination must be made based on how the law applies to a certain issue (Turci, 2018). For instance, directors should act in the best interest of the "business" and based on "full" information. A lack of clarity on the meaning of "complete" might hinder their capacity to make well-informed choices that meet this requirement. In a similar vein, the director's ability to use discretion in the management of the firm may depend on what is meant by the nebulous idea of "company." The fourth negative impact of uncertainty is that the power of the law to direct and restrain management behaviour is diminished. Directors may deviate from what is expected of them by the law even if they are incentivized to do so because of doubts and ambiguities around the legislation's precise interpretation. Notably, it may also encourage directors to take advantage of situations as they arise. Fifth, the reform of directors' responsibilities will have to take into consideration the tendency to allow courts to have difficulty enforcing regulations if provisions are unclear and ill-defined (Xi, 2013).

How far such an obligation may be implicit even

if not expressly recognized by the Saudi legislation or the articles of organization of the firm. Corporations formed under the laws of a particular jurisdiction, such as joint-stock companies, must first be formally incorporated. Due to the importance of state legislation in this area, this implies that the laws of Sharia, as reflected in Saudi contract law, will play a part in the oversight of businesses in the country. Some Arab authors have argued that directors should be seen as agents of the corporation (technically the shareholders), with responsibilities to the principal that are analogous to those of an agency. Many Islamic legal scholars agree with this characterization of the director's role inside the corporation, seeing directors as agents who represent the company in legal matters. However, Sharia's set of laws regulating agent-principal relationships can aid in closing the legal gap between a company's articles and the law.

2.4. Saudi Law of Directors' Liabilities

The reform of the Saudi Law of Directors' Liabilities is crucial for enhancing the enforcement of fiduciary duties, particularly in the context of funds management through derivative actions. Current Saudi regulations inadequately protect minority shareholders, leaving them vulnerable to majority oppression, as highlighted by Al Dossari's analysis of the Saudi Companies Regulation (SCR) (Khabeti, 2019). The introduction of derivative actions, akin to those in the UK, could empower minority shareholders to hold directors accountable for breaches of duty, as discussed by Altuwaijri (2017), who emphasizes the need for effective enforcement mechanisms. Furthermore, Reisberg advocates for adopting contingency fee agreements to alleviate the funding challenges faced by minority shareholders in pursuing derivative actions, thereby making litigation more accessible (Bin Hagshah, 2022). This comprehensive approach, integrating insights from corporate governance theories and practical enforcement strategies, could significantly enhance the protection of shareholder rights in Saudi Arabia's evolving legal landscape (Langevoort, 2006; Bazhair, 2021).

The Saudi Law of Directors' Liabilities, particularly following the amendments made in 2017, aims to enhance corporate governance by promoting accountability and transparency among directors. Key provisions include the establishment of a duty of good faith, which aligns with the highest legal obligations of directors to act in the best interests of the company, similar to the principles outlined in the Companies Act 2006 in the UK (Judin,

2008; Blair *et al.*, 2024). The law also addresses the potential for indemnification and ratification of directors' actions, allowing companies to mitigate liabilities under certain conditions, which is crucial for maintaining effective governance (Gopalan and Hogan, 2014; Gurrea-Martínez, 2021). However, despite these advancements, the Saudi regulations still face challenges in aligning with international best practices, indicating a need for further reforms to enhance the corporate sector's reputation and operational integrity (Almansour, 2019).

The Saudi Law of Directors' Liabilities introduces critical provisions aimed at enhancing corporate governance by holding directors accountable for their actions. Key provisions include the requirement for directors to act in good faith and in the best interests of the company, as well as the obligation to disclose any conflicts of interest. These measures are designed to prevent mismanagement and protect shareholder rights, thereby fostering a culture of transparency and ethical decision-making within corporations. The law also stipulates penalties for breaches, which serve as a deterrent against negligence and misconduct. By integrating these accountability mechanisms, the law not only strengthens the governance framework but also aligns with global best practices in corporate governance, promoting investor confidence and sustainable business practices in achieving financial stability in Saudi Arabia (Lindgren and Folkerts-Landau, 2021; Šimkutė, 2023; Islam, Murad, McMurray and Abalala, 2017).

2.5. Enforcement For Funds Management Through Derivative Actions

Enforcement of funds management through derivative actions in Saudi Arabia faces significant challenges, particularly in the context of corporate governance and investor protection. The recent reforms in Saudi company law, while modernizing the legal framework, have not effectively addressed the enforcement of directors' duties, leaving gaps that hinder private actions against fiduciary breaches (Bauer, Toledano and Rietveld, 2014; Altobashi, 2019; Aleshaikh, 2018). Moreover, the lack of a robust legal framework for investor protection, as highlighted by the shortcomings in the Capital Market Law, exacerbates the issue, particularly following the stock market crash of 2006 (Alsabt, 2018). The derivative action mechanism, which could serve as a vital tool for shareholders to hold directors accountable, is underutilized due to the discretion afforded to independent directors, which may lead to suboptimal outcomes for investors (Langevoort,

2006). Thus, a comprehensive approach that includes both public enforcement and reforms to enhance private litigation avenues is essential for effective funds management in Saudi Arabia (Alomran, 2021).

In Saudi Arabia, the regulatory frameworks governing derivative actions in the funds management sector are primarily shaped by the Capital Market Authority (CMA) and the Saudi Central Bank (SAMA). The CMA oversees mutual investment funds, ensuring compliance with legal requirements and promoting transparency and accountability among management companies (Akinsola, 2025). Additionally, the recent National Investment Strategy, introduced in 2022, aims to enhance the legal framework for foreign investments, thereby indirectly influencing derivative actions by creating a more predictable and reliable investment environment (Alasmri, 2020). Furthermore, SAMA's establishment of Fintech Saudi and the regulatory sandbox for fintech activities, including debt-based crowdfunding, reflects an evolving legal landscape that accommodates innovative financial products, which may include derivatives (Abo Shareb, 2023). The integration of Shari'ah law within the broader legal framework also plays a crucial role in shaping the permissible actions and structures within the funds management sector (Aldahmash, 2023). In a nutshell, the literature review has elaborated the theoretical framework, advocacy for Saudi Law reform, judicial intuitions in Saudi Arabia, Saudi Law of Directors' Liabilities and Enforcement for Funds Management through Derivative Actions. Hence, research methods and materials are presented in the subsequent subheading.

3. RESEARCH METHODS AND MATERIALS

In order to achieve the research purposes and objectives, this study employs a systematic analytical method. The qualitative nature of this systematic approach will be realized through a comprehensive review of existing literature regarding directors' duties and derivative actions in the context of Saudi law. This review is essential as an integral part of methodological approach. Thus, various data sources, including books, journals, peer-reviewed articles, organizational reports, and research on corporate governance rules and regulations, among others. The research framework developed in this study examines the feasibility of legal transplantation, using Saudi corporate law as a case study (Akeel, 2018). A central argument of this research is that the criteria used to assess the feasibility of legal transferability are reasonable. The legal transplantation from UK company law to Saudi

company law indicates that significant legal transplantation of directors' roles as managers is achievable, albeit with certain caveats. The technique that has been constructed here is concerned with assessing feasibility through an analysis of Saudi corporate law. This methodology was developed based on the perspectives presented regarding the viability of legal transplantation. The paper argues that the criteria used to assess legal transferability hold significant validity in Saudi company law, albeit with a few caveats. In selecting literature sources, the study adopted clear inclusion and exclusion criteria to ensure relevance, credibility, and rigor. Only peer-reviewed journal articles, books, policy papers, and institutional reports published between 2010 and 2025 were included, provided they directly addressed directors' duties, derivative actions, or legal transplantation in Saudi or comparative corporate law contexts. Sources focusing exclusively on unrelated corporate structures or non-legal financial mechanisms were excluded. The inclusion of both Saudi and UK legal scholarship allowed for a balanced comparative analysis of directors' accountability frameworks. Preference was given to contemporary studies offering empirical, doctrinal, or policy insights relevant to legal reform. This systematic selection process enhanced transparency and minimized bias by ensuring that only authoritative and contextually pertinent literature informed the analytical framework and subsequent policy recommendations. Various themes based on the extant literature are explicitly elaborated in the subsequent subheading.

4. RESULTS AND DISCUSSION

This section presents the overall results of content analysis of cursory literature. Undoubtedly, the Saudi legislation governing directors' responsibilities relating to funds management and derivative actions and UK business law are comparatively explored. Also, the framework for Saudi Arabian legal reform and the feasibility of transferring selected legal concepts and principles from British business law to Saudi law are investigated. Multifarious themes such as: Advocacy for reform of directors' liabilities in Saudi Arabia, the legal frameworks governing directors' liabilities in Saudi Arabia, amendments to the Saudi Law of Directors' Liabilities, enforcement of derivative actions in Saudi Arabia. Each of these themes is explicated in the subsequent paragraphs.

Advocacy for reform of directors' liabilities in Saudi Arabia is essential to enhance corporate governance and protect shareholder rights. Current laws inadequately enforce directors' duties, leaving

shareholders, particularly minorities, vulnerable to mismanagement and oppression. Reforming these laws could lead to a more balanced corporate environment, fostering investor confidence and economic growth. The 2015 Companies Law in Saudi Arabia has not effectively enforced directors' duties, leading to a lack of accountability (Albrahim, 2015). There is no effective legal recourse for private actions against directors in breach of their duties, which undermines corporate governance (Farhan, Aqlan and Al-Faryan, 2024). The existing Saudi Companies Regulation fails to protect minority shareholders adequately, exposing them to majority oppression (Farhan and Hasan, 2024). Proposed reforms include statutory dissolution remedies and mandatory buy-out rights for minority shareholders, which could enhance their protection and market liquidity (Farhan and Hasan, 2024). Strengthening internal corporate governance structures is crucial, focusing on the board of directors and minority shareholder rights (Aleshaikh, 2018). Aligning corporate governance with Saudi moral systems may facilitate the adoption of effective governance standards, attracting more investment (Aleshaikh, 2018). While these reforms are necessary, some may argue that the existing legal framework provides a degree of flexibility that could be beneficial in certain contexts. However, without robust enforcement mechanisms, the risks to shareholders and the overall market integrity remain significant.

The legal frameworks governing directors' liabilities in Saudi Arabia are shaped by a combination of Shariah law, the Saudi Companies Law, and recent corporate governance regulations (Wejdan and Albakjaji, 2023). These frameworks aim to enhance accountability and transparency within corporate structures, reflecting the unique socio-economic context of the country. *Shari'ah* law underpins corporate governance in Saudi Arabia, emphasizing principles such as honesty, fairness, and social responsibility (Bin Hagshah, 2022). The integration of Shariah with modern corporate governance practices has led to a distinctive legal environment that influences directors' duties and liabilities. The Saudi Companies Law of 2015 and the Corporate Governance Regulation of 2017 have established clear guidelines for the responsibilities of directors in listed companies (Bazhair, 2021). These regulations enhance the role of directors in safeguarding shareholder interests and impose liabilities for breaches of duty, thereby promoting a culture of accountability. Judicial interpretations of corporate governance laws have evolved, reflecting the dynamic nature of corporate liability in Saudi

Arabia (Bin Hagshah, 2022). Courts have begun to address issues such as piercing the corporate veil, which holds directors accountable for corporate misconduct under certain circumstances (Xi, 2013). While the current frameworks provide a robust structure for directors' liabilities, challenges remain in ensuring consistent enforcement and adapting to evolving business practices. The interplay between traditional legal principles and modern governance standards continues to shape the landscape of corporate accountability in Saudi Arabia as literature contends (Gopalan and Hogan, 2014).

The proposed amendments to the Saudi Law of Directors' Liabilities aim to enhance enforcement mechanisms for funds management by addressing several critical areas. Indeed, the reforms emphasize the need for a dual enforcement system, combining public and private actions to ensure directors' fiduciary duties are upheld effectively, as highlighted by the necessity for reliable enforcement mechanisms in corporate governance (Hussainey and Al-Nodel, 2008; Gopalan and Hogan, 2014). Additionally, the amendments seek to redefine the thresholds for criminal liability, allowing for accountability even in cases of less than dishonest behaviour, thereby increasing the deterrent effect against misconduct (Khabti, 2019). Furthermore, the reforms focus on strengthening internal corporate governance structures, particularly in protecting minority shareholders and enhancing the board's responsibilities, which is essential for reducing agency costs and aligning with the moral frameworks of Saudi society (Khabti, 2019). Overall, these changes are designed to create a more robust legal framework that can attract foreign investment and improve corporate governance in Saudi Arabia (Al-Rasheed, 2016).

Derivative actions in Saudi Arabia are currently limited in their effectiveness to address directors' liabilities within corporate governance. While the newly enacted Companies Law 2015 aimed to modernize corporate governance, it has not significantly improved the enforcement of directors' duties, leaving private actions against directors for breaches largely ineffective (Islam, Murad, McMurray and Abalala, 2017). The enforcement mechanisms available are primarily public, which, although more efficacious, do not adequately empower shareholders to initiate private actions (Alrasheed, 2016). Furthermore, the agency problem between controlling and minority shareholders exacerbates the challenges in holding directors accountable (Alrasheed, 2014). The legal framework requires further amendments to enhance the

protection of shareholders' rights and to facilitate derivative actions that can effectively address directors' liabilities (Shatnawi, 2021). Overall, while there are frameworks in place, the current system lacks the robustness needed to ensure that directors are held accountable for their actions (Singh, 2021; Sørensen, 2021; Šimkutė, 2023).

The reform of the Saudi Law of Directors' Liabilities is essential for strengthening the enforcement of fiduciary duties, particularly in the context of funds management through derivative actions (Aldahmash, 2023). Enhanced legal frameworks can facilitate accountability and deter misconduct among directors, ensuring that they fulfill their oversight responsibilities effectively. A dual enforcement model, combining public sanctions with private litigation, is crucial for optimal enforcement of fiduciary duties. Public law sanctions can deter wrongful conduct through their stigmatic effects (Aldossari, 2019). The introduction of public enforcement mechanisms, similar to those in Australia, can provide additional accountability for directors, ensuring they adhere to their oversight duties (Al-Maghzom, A. (2016). Current procedural rules often hinder the effectiveness of derivative actions, making it difficult for shareholders to hold directors accountable for breaches of fiduciary duties (Langevoort, 2006). The complexity introduced by financial derivatives complicates the traditional understanding of fiduciary duties, necessitating reforms that address these innovations in corporate finance (Al-Janadi, Rahman and Omar, 2012). While reforms are vital for enhancing fiduciary duty enforcement, there is a counterargument that excessive regulation may stifle managerial flexibility and innovation, potentially harming corporate performance and shareholder value (Aldossari, 2019; Aldahmash, 2023). Balancing accountability with operational freedom remains a critical challenge in corporate governance.

The proposed reforms in the Saudi financial sector are likely to significantly enhance risk management practices across banks. These reforms, particularly the integration of RegTech, are expected to reduce compliance costs and improve internal controls, thereby strengthening overall risk management systems (Osman and Hassan, 2012; Sundararajan, 2013; Suaidi, 2025). Additionally, the emphasis on capital adequacy and macroprudential toolkits, as suggested by the Saudi Arabian Monetary Agency (SAMA), has shown a positive correlation with financial stability and risk mitigation (Sundararajan, 2013; Suaidi, 2025). The findings indicate that effective governance mechanisms, including board

effectiveness, play a crucial role in aligning risk management with financial performance (Suaidi, 2025). Furthermore, understanding microeconomic determinants, such as the capital adequacy ratio and loan-to-deposit ratio, is essential for managing non-performing loans and ensuring the health of the banking sector (Kurniawan and Hanggraeni, 2024). Overall, these reforms are poised to foster a more resilient financial environment in Saudi Arabia, enhancing the ability of banks to navigate risks effectively (Kurniawan and Hanggraeni, 2024).

The enforcement of derivative actions in Saudi Arabia is distinct from jurisdictions like the UK and USA due to differences in legal frameworks and cultural contexts. In Saudi Arabia, the legal system is heavily influenced by Shariah law, which presents unique challenges for the adoption and enforcement of derivative actions. In contrast, the UK and USA have well-established legal frameworks that facilitate derivative actions as a tool for corporate governance. This comparison highlights the complexities and adaptations required for derivative actions in different jurisdictions. In Saudi Arabia, the enforcement of derivative actions is influenced by Shariah law, which emphasizes the prohibition of *gharar* (excessive uncertainty) and *maisir* (gambling). This creates challenges in adopting conventional derivative mechanisms, as they may conflict with Islamic principles (Abo Shareb, 2023).

Undoubtedly, both UK and USA have developed comprehensive legal frameworks for derivative actions. The UK, under the Companies Act 2006, provides a statutory basis for derivative actions, while the USA relies on state laws, such as Delaware corporate law, to govern these actions (Singh, 2021). On one hand, the Companies Act 2006 in UK introduced a statutory derivative action, which aims to streamline the process and provide clear guidelines for shareholders seeking to initiate such actions (Abo Shareb, 2023). On the other hand, Derivative actions in USA are primarily governed by state laws, with Delaware being a prominent jurisdiction. The focus is on balancing shareholder rights with the need to prevent frivolous lawsuits (Aldahmash, 2021). In Saudi Arabia, the integration of derivative actions requires careful consideration of Shariah principles. There is potential for adopting conventional legal frameworks, provided they align with Islamic finance principles (Abo Shareb, 2023). Both UK and USA jurisdictions face challenges in ensuring that derivative actions are not abused, while still serving as effective tools for corporate governance (Aldahmash, 2021). While Saudi Arabia faces unique challenges in adopting derivative

actions due to its reliance on Shariah law, there is potential for adaptation by learning from the legal frameworks in the UK and USA. These jurisdictions offer insights into balancing shareholder rights with corporate governance needs, which could inform the development of derivative actions in Saudi Arabia. In line with this assertion, literature contends that there is a need for review of corporate law in order to improve corporate governance in various contexts (Choike, Rodrigues and Williams, 2022; Kurniawan and Hanggraeni, 2024)

5. IMPLICATIONS AND LIMITATIONS OF THE STUDY

This part explains implications of the study based on the proposed reforms. It is explicitly elucidated that legislative amendments are necessary to enhance the effectiveness of derivative actions, including clearer guidelines for judicial interpretation. Introducing a structured approach to litigation fees could incentivize shareholders to pursue derivative actions, thereby improving corporate governance. While the current system presents significant hurdles for shareholders seeking to hold directors accountable, the potential for reform exists. Enhancing the legal framework could lead to more effective enforcement of directors' duties, ultimately benefiting corporate governance in Saudi Arabia. However, the balance between public and private enforcement remains a critical consideration in any proposed changes. Reforming the law of directors' liabilities in Saudi Arabia could significantly enhance corporate governance by clarifying responsibilities and improving accountability. Such reforms are essential for aligning with international standards and fostering investor confidence, particularly in light of Saudi Arabia's Vision 2030, which aims to diversify the economy and attract foreign investment. Revisions to directors' liabilities can delineate specific duties, reduce ambiguity and enhance accountability. Strengthening directors' liabilities can safeguard minority shareholders' interests, addressing agency problems prevalent in the Saudi corporate landscape. Reforming liability laws can help align Saudi corporate governance with international best practices, making the market more attractive to foreign investors. Effective enforcement of directors' duties is crucial; reforms could introduce mechanisms for private actions against breaches, enhancing compliance. Any reforms must consider the cultural context, ensuring they align with Shariah law, which emphasizes fairness and transparency.

Conversely, while reforms may enhance governance, they could also lead to increased

litigation risks for directors, potentially discouraging experienced individuals from serving on boards. Balancing liability with incentives for effective governance remains a critical challenge. The implications of enforcing funds management through derivative actions in directors' liabilities within Saudi Arabia highlight significant challenges and opportunities for reform. The current legal framework, particularly the Companies Law of 2015, has not effectively addressed the enforcement of directors' duties, leaving shareholders with limited recourse against misconduct. This situation necessitates a closer examination of derivative actions as a mechanism for accountability. The Companies Law of 2015 introduced reforms but lacks robust mechanisms for enforcing directors' duties. Shareholders face barriers in initiating derivative actions due to the statutory requirements that often favor directors. The rebuttable presumption in the derivative action process complicates shareholder claims, potentially allowing directors to evade accountability. Private enforcement actions are limited, with public enforcement being more effective but still insufficient in addressing breaches of duty.

Furthermore, the field of corporate governance is vast. This research examined the legislation and enforcement of directors' loyalty and care responsibilities as a subset of the broader Saudi Arabian governance and responsible framework. Issues were zeroed in on, and a case was made for changing the existing state of Saudi law by importing principles from the common law tradition of the United Kingdom. This implies that the research does not provide a complete picture of directors' responsibility and governance but rather aims to address gaps in the law about some facets of both directors' responsibility and derivative actions. Moreover, while derivative actions are expected to be brought against directors who have breached duties owed to the company.

The scope of this research is limited to the derivative action system and, more specifically, to the question of when a shareholder may file a derivative action. One more area for research is the specific procedural rules that govern derivative actions, including when and how a company must answer a shareholder's request for information, who can be named as a defendant, how long a company is, and whether the notice period can be waived. In addition, the breadth of the analysis is constrained by its exclusive attention to the legal systems of Saudi Arabia and the United Kingdom. This implies, among other things, that the findings and

suggestions for reforming Saudi legislation cannot be universally applied in all jurisdictions. However, future research should examine the possibility that legal transplanting from outside the UK could aid in developing revisions to the directors' obligations and derivative actions.

6. CONCLUSION AND SUGGESTIONS

This study has explicitly elaborated on the paramount importance of reform of law of directors' liabilities in the context of Saudi Arabia. The study argued that while attempting reform, it is essential to learn from the example of advanced legal systems like the one in the United Kingdom. The paper strongly proposed a new framework with more precise and easily accessible responsibilities for care and loyalty as well as derivative actions that are more readily available than those found in the current Saudi legal system. This study set out to make sure the law played a key role in creating incentives for directors to act diligently and loyally by imposing liability on those who failed, as well as providing a sufficient level of accountability and control for directors. By proposing a solution that remedies the problems of uncertainty and deficiencies identified throughout the analysis of Saudi law, this solution addresses these issues. The paper also discussed the judicial institutions in Saudi Arabia by exploring legislation governing directors' responsibilities relating to funds management and derivative actions. This study highlights the urgent need to reform Saudi Arabia's legal framework on directors'

liabilities by enhancing clarity, accessibility, and enforcement. Drawing from the UK model, it proposes clearer duties of care and loyalty and broader access to derivative actions to promote ethical management and accountability. For practitioners, the reforms strengthen governance standards and shareholder oversight, while for lawmakers, they call for precise legislation, efficient enforcement, and judicial capacity-building. Implementing these reforms would modernize Saudi corporate law, align it with Shariah and global best practices, and advance sustainable governance under Vision 2030.

The following suggestions are therefore made:

1. Safeguarding companies and their owners (particularly minority shareholders), this study proposes a change in Saudi legislation regarding directors' responsibilities concerning derivative proceedings.
2. Adhering to the UK model as a change in Saudi Arabian corporate law will help improve corporate governance and the business climate in Saudi Arabia as a whole.
3. Further research is required to investigate the efficacy of various types of directors' obligations for example; those owed to a firm or a particular constituent of a corporation and potential reforms.
4. Further research examining personal actions brought by shareholders against directors and other shareholders, as well as considering the feasibility of legal transplantation to reform the company is essential.

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