



An-Najah National University
Faculty of Graduate Studies

**THE ROLE OF CORPORATE GOVERNANCE
IN SHAPING CASH HOLDING PRACTICES:
INSIGHTS FROM SAUDI ARABIA AS AN
EMERGING HIGH-INCOME ECONOMY**

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Dedication

الحمد لله الذي بنعمته تتم الصالحات، وبفضله تنزل الخيرات والبركات، والشكر لله أولاً وآخراً، ظاهراً وباطناً، الذي علم بالقلم، علم الإنسان ما لم يعلم، وأمرنا أن نسأله المزيد من العلم والهداية فقال سبحانه: ﴿وَقُلْ رَبِّ زِدْنِي عِلْمًا﴾، وحثنا على شكر الوالدين فقال جل شأنه: ﴿رَبِّ أَوْزِعْنِي أَنْ أَشْكُرَ نِعْمَتَكَ الَّتِي أَنْعَمْتَ عَلَيَّ وَعَلَىٰ وَالِدَيَّ وَأَنْ أَعْمَلَ صَالِحًا تَرْضَاهُ﴾، وجعل برّ الوالدين بعد عبادته مباشرة فقال عزّ من قائل: ﴿وَبِالْوَالِدَيْنِ إِحْسَانًا﴾.

إلى كل من أضاء بعلمه عقل غيره أو هدى بالجواب الصحيح حيرة سائله فأظهر بسماحته تواضع العلماء وبرحابته سماحة العارفين.

إلى روح أمي الحبيبة، إلى من كانت ولا تزال نوراً في حياتي، وإن غابت بجسدها، فذكرها لم ولن تغيب. إلى من زرعت في داخلي الصبر والإصرار، وسقتني حب العلم، وغمرتني بدعوات صادقة في ليلاها ونهارها. رحلت يا أمي قبل أن تري ثمرة جهودي، ولكن عزائي أن كل خطوة نجاح هي امتداد لروحك الطاهرة، وكل إنجاز هو صدى لتربيته المباركة. أسأل الله أن يجعل هذا العمل في ميزان حسناتك.

إلى من شجعني على المثابرة والصبر طوال عمري، إلى الرجل الأبرز في حياتي، أخي الغالي محمد. إلى من بهن أسمى إلى العلا، وعليهن أرتكز، إلى القلوب المعطاءة، أخواتي الحبيبات أسيل وهديل. إلى من كانت خير سند لي، زوجة الأخ الحبيبة دانية.

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Declaration

I, the undersigned, declare that I submitted the thesis entitled:

THE ROLE OF CORPORATE GOVERNANCE IN SHAPING CASH HOLDING PRACTICES: INSIGHTS FROM SAUDI ARABIA AS AN EMERGING HIGH-INCOME ECONOMY

I declare that the work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree or qualification.

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Abstract

The study aims to investigate how governance mechanisms affect the cash holding policies of firms in Saudi Arabia that are listed on the Saudi Stock Exchange. The research focused on various governance elements like board size, the ratio of independent members, board gender diversity, external audit quality, and audit committee independence.

Additionally, it considered the risk management committee, which is a discretionary committee in the Saudi governance framework, and it used several financial control variables, including return on assets, leverage, firm size, and market, to, book value ratio. Descriptive statistics, correlation analysis, static regression models, and dynamic analysis using GMM were the methods of data examination employed in the study. The research findings indicated that governance mechanisms and firm characteristics are crucial factors influencing cash holding policies.

The results pointed out that the practical effectiveness of governance, especially the value added by risk management committees, matters more than just their mere formal existence. Moreover, the study communicated a set of suggestions to reinforce committee independence, increase board diversity, and follow conservative cash policies. Furthermore, it gave potential research paths for studies that could focus on qualitative and cultural aspects affecting cash holding.

Keywords: Corporate Governance, Cash Holdings, Risk Management Committee, Audit Quality, Board Independence, Board Diversity, Saudi Companies.

Chapter one

Introduction and Literature Review

1.1 Introduction

Corporate governance, which can be broadly understood as the frameworks and procedures of control and oversight with which companies are run and directed, nevertheless represents one of the most significant factors that deeply impact corporate financial policies and the strategy, making of firms, particularly as regards cash reserves.

Having or keeping readily available funds enables companies to satisfy their immediate liabilities, take advantage of business opportunities, and lessen the holding of financial risks (Abdul Fattah, 2023).

For one, keeping the necessary level of cash reserves can undoubtedly lead to more operational freedom and greater financial security; nevertheless, too much cash hoarding may only be a sign of the management's inefficiency in the use of resources and the existence of some agency problems within the firm (Awad, 2025).

Corporate governance mechanisms serve as principal monitoring devices to tackle these issues, and the board of directors takes up a central and vigorous role in overseeing managerial behavior and making sure that cash management is in line with shareholders' interests (Hala & Naaman, 2024).

On both the developed and emerging markets, the relationship between corporate governance and cash holdings has been extensively examined. It has been found that strong governance practices in place such as board characteristics, ownership structure, and audit or risk management committees presence help to minimize agency conflicts and strengthen managerial supervision, resulting in better cash management and lower cash holdings most of the time (Akhtar et al., 2018; Afifi, 2015; Nashi & Saad Eldeen, 2025).

For instance, the data from Saudi non, financial firms reveal that the independence of the board, the number of board meetings held, and ownership of executive management

have a negative correlation with the cash balances, i.e., the governance role in curbing agency problems (Al-Mubarak, 2023; Al-Yati & Al-Mubarak, 2022).

Similarly, research in other Middle Eastern countries like Egypt and Oman illustrates that bigger and more independent boards are inclined to reduce excessive cash holding, while concentrated ownership or government influence may lead to higher cash holdings (Dwaikat, 2023; Nashi & Saad Eldeen, 2025).

The findings of this study are of great significance to policymakers as well as to corporate managers. Improving corporate governance is likely to lead to the better cash management efficiency of firms, which in turn, will strengthen the financial performance of firms and increase the value of shareholders investments.

Moreover, the knowledge gained from this research can be instrumental in making tailored governance reforms that meet the particular requirements of firms based on their cash holding behaviors.

1.2 Problem of the Study and Questions

Despite significant advancements in corporate governance research, it remains unclear which governance elements directly influence companies' decisions to hold cash (Akhtar et al., 2024).

Cash holding is crucial for maintaining liquidity, operational flexibility, and financial stability. Conversely, if companies mismanage their cash reserves, they are likely to experience financial distress or inefficiency, diminishing their performance and value.

This lack of understanding hinders stakeholders, such as investors, managers, and policymakers, who seek to develop effective cash management strategies. Therefore, there is a need to explore and examine the relationship between governance structures and cash holding. Studies have demonstrated that corporate governance significantly impacts companies' financial policies, particularly their cash holding behavior (Hassanein & Kokel, 2019)

Numerous studies have shown that governance tools, such as board independence and size, have a significant impact on cash holding policies. For example, larger boards may

lead to inefficient decision-making and increased conflicts of interest, potentially prompting companies to hold more cash (Cambrea et al., 2022).

Conversely, boards with a greater number of independent directors have been found to hold less cash, as the presence of independent directors increases oversight and reduces management's exploitation of opportunities (Abuhijleh & Zaid, 2023; Talbi & Menchaoui, 2023). Therefore, there is a need to study the impact of governance mechanisms on cash holding policies, given the scarcity and limited scope of research on Saudi companies. Saudi companies are unique in that their financial behavior is inextricably linked to the role of oil in shaping liquidity and investment, even though not all Saudi companies are oil companies, as they operate within an oil-based economy.

Based on the above, the study problem can be formulated as the following main question:

Do corporate governance mechanisms have an impact on cash holdings policies of listed companies in emerging high-income markets?

The following sub-questions branch out from this question:

1. Does board size have an impact on companies' cash holdings?
2. Does board independence have an impact on the levels of cash holdings by companies?
3. Does gender diversity on boards of directors have an impact on cash holdings?
4. Does the presence of a risk management committee have an impact on cash holdings?
5. Does audit committee independence have an impact on the size of cash holdings?
6. Does audit committee size have an impact on companies' cash holdings?
7. Does the quality of external audit have an impact on companies' cash holdings?

1.3 Purpose of the Study

The primary objective of this study is to examine the impact of governance mechanisms on corporate cash holding practices. This objective is further divided into the following sub-objectives:

- To provide a comprehensive set of findings that will help stakeholders improve corporate governance practices and enhance their value through the implementation of effective cash holding management strategies.
- To highlight the importance of adhering to various governance mechanisms.
- To develop recommendations that promote the application of governance mechanisms and their role in cash holding management practices.
- To review relevant literature and studies.

1.4 Study Importance

The significance of this study can be illustrated through its theoretical and practical importance. The theoretical significance lies in its contribution to expanding the current understanding of governance mechanisms and cash holding practices by focusing on the unique framework of the Saudi Stock Exchange (Tadawul).

Even though agency theory has been used extensively to explain corporate financial behavior, there is a lack of empirical studies on the relationship between corporate governance mechanisms and cash holding decisions in high, income economies such as Saudi Arabia. For that reason, this study intends to fill the gap in the literature by studying the impact of corporate governance on cash holdings of Saudi listed companies.

The practical significance lies in understanding how adherence to different governance mechanisms impacts cash holding practices in companies listed on the Saudi Stock Exchange. This can provide valuable insights for policymakers and business leaders operating in similar circumstances.

The findings of this study can directly support policymakers and regulatory bodies in Saudi Arabia by providing them with practical evidence regarding governance mechanisms and cash holding practices. By revealing the extent of adherence to governance mechanisms, regulatory authorities can reassess their governance policies and establish more precise requirements. It also contributes to guiding regulatory bodies towards the importance of adhering to governance mechanisms, as a factor that may contribute to raising the level of reliability.

1.5 Theoretical background

Theoretical frameworks have a pivotal role in the explanation of how corporate governance is related to financial behavior. They help to understand how governance methods influence the decisions of a company related to liquidity and cash holdings. Cash holding policy is seen as a strategic decision through which a firm shows that it tries to strike balance between its needs for financial flexibility and the desire to invest the surplus funds or give the dividend to shareholders (Abdul Hamid, 2019).

A considerable number of studies have looked at this issue from the point of view of various economic and financial theories capable of explaining the motives behind firms' decisions to hold cash. One of such theoretical frameworks is the Agency Theory which is used to examine the impact of corporate governance mechanisms on firm's cash management decisions. This study, therefore, uses the Agency Theory as its main theoretical framework. Agency theory provides a comprehensive explanation of the connection between corporate governance and cash holdings. It mainly depicts a company's cash policy as a tool of managers individual preferences especially where the managers interests are not aligned with those of shareholders. This theory has several important propositions regarding the relationship between cash holdings and corporate behavior (Jensen & Meckling, 1976).

The first one is the flexibility hypothesis which claims that managers when making decisions regarding whether they should overinvest or leave enough financial flexibility for the future, typically opt for cash holding so as not to face financing constraints in the future, especially when shareholder monitoring is weak which is reflected in the higher levels of internal cash. The spending hypothesis, on the other hand, states that managers who have discretionary power and generate excess cash might be induced, because of weak control, to spend it on projects or other consumption which do not necessarily increase value thus reducing cash holdings. Furthermore, the shareholder power hypothesis, highlights that shareholders who have strong control over the firm limit opportunistic managerial behavior and also encourage optimal cash management that is beneficial for firms' liquidity and thus the agency conflicts are reduced (Chua & Lee, 2024).

Among all assets, cash is the one that most frequently gives rise to agency problems since managers can more easily and quickly divert it for their personal advantage without giving to shareholders what is due to them, thus resulting in a decrease in firm value. As a result, corporate governance can be seen as a vital tool for restraint of such risks by resuming managers interests to those of shareholders and directing the investment of any excess cash so that it serves corporate goals rather than personal ones. Besides that, investors acknowledge that good governance makes it less likely that cash flows will be directed towards unprofitable projects, thus enhancing the effectiveness of the management of cash reserves and lessening agency problems (Shah et al., 2021).

1.5.1 The Concept of Corporate Governance

Governance has been defined in many different ways. There is no single definition that economists and financial experts agree upon. This disagreement is mainly due to the fact that governance overlaps with economic, social, and accounting aspects of firms, and each discipline looks at it from its own angle (Talahwa & Al-Dhaher, 2021).

Most of the time it is said that governance is a way of running and controlling a company, thus specifying the structure and the basis for the distribution of responsibilities and roles among the participants in a joint, stock company, e.g. shareholders, the board of directors, and also other stakeholders. Besides, it sets the rules and procedures for deciding on the company's matters (Muhammad et al., 2023).

Similarly, governance has been referred to as the system through which companies are managed and controlled (Al-Samarrai & Al-Shuraidah, 2019).

Additionally, it is considered a code of conduct as well as a set of policies under which managerial functions are performed and supervisory boards and executive managers are given the tools needed to make efficient decisions that positively influence the company's performance and thus contribute to the achievement of organizational goals (Al-Suwaikri, 2021).

The Kingdom of Saudi Arabia (KSA) has seen a very clear trend towards corporate governance adoption as part of the corporatization drive to modernize the business environment in the country and ultimately to keep the national economy strong and vibrant, particularly after the financial crises that caused economic instability. This

trend demonstrates that the Kingdom is keen to be aligned with international standards and also to be one of the leading countries among them. KSA formally started corporate governance implementation in 2006 when the Capital Market Authority (CMA) brought out the first Corporate Governance Regulations under License No. (1, 212, 2006).

These Regulations introduced rules and standards for listed joint, stock companies' governance that aimed mainly at protecting shareholders and stakeholders' rights as well as at reducing conflicts of interests (Al-Zahrani & Abdul Majeed, 2023).

With the surge in the number of Saudi joints, stock companies, their broad range of activities, and the increasing difficulty of their operations, it became crucial to adopt state, of, the, art management techniques and governance mechanisms to make sure that the companies remain not only viable but also effective in achieving their goals.

Therefore, CMA has been consistently revising the Governance Regulations so that the changes reflect the latest regulatory requirements and market conditions. The aim has been to enhance supervisory measures and to give boards of directors and their committees greater performances. Thus, governance has been playing an ever more prominent role market regulation and serving as a tool for transparency, trust, and business environment stability in the Kingdom (Al-Salami, 2024).

Besides, the Kingdom has passed many other rules and laws to strengthen corporate governance. Among these, one can mention disclosure and transparency regulations that the Ministry of Commerce and Industry introduced in 1985, which had a lot to do with good governance practices. The last two decades have seen impressive changes that were initiated by the internal control instructions issuance in 2000 and ended with the 2006 SCCG Corporate Governance Regulations, which became compulsory for all listed companies in 2010.

These regulations touch on the main issues concerning the board of directors, rights of shareholders, board committees, external auditing, transparency, and disclosure. They also contain provisions aimed at guaranteeing that the board remains independent and that the audit committee is made up of independent and non, executive directors, with non, executive and independent directors representing 91.4% of total board seats. Furthermore, in the context of Vision 2030, governances function in ESG disclosure has

been significantly enhanced such that now boards of directors have to draft corporate policies and strategies that not only serve the corporate objectives but also the society's and in line with international best practices, including OECD standards (Bamahros et al., 2022).

1.5.2 Corporate Governance Objective

If governance did not have the goals and benefits that justify its adoption, most companies and countries would not have wanted to implement it or enact the necessary legislation to support it. First of all, governance aims to increase corporate competitiveness and the overall value of the firm by improving economic efficiency and facilitating the optimal use of resources. It also aids in the separation of ownership and management thus empowering managerial effectiveness and fostering sustainable corporate growth (Mismiwati et al., 2025; Zubaidi, 2022).

Apart from that, a strong point of governance is to measure the performance of senior management, strengthen accountability, and elevate the level of confidence in executive leadership. Good oversight entails great governance, thus it gives the whole idea of corporate control a more solid being and management thus turned accountable to shareholders. In a way, it brings about a good working administrative system and the presence of independent audits, thus increases the quality of managerial decisions and also lower the chances of coming across opportunistic behavior.

Furthermore, governance is geared towards shareholders fund protection through the facilitation of provision of accurate and fair information about the company's operations and financial position. At the same time, by encouraging openness and transparency, it also promotes the disclosure of information concerning the corporate performance and achievements, thus strengthening the level of trust that investors and other stakeholders have. Such transparency has to be there not only for making sound decisions but also for maintaining the confidence that people have in the integrity of the security markets.

Besides, governance is concerned with ensuring the fair treatment of all stakeholders and giving the necessary securities to shareholders and investors so that they can obtain a reasonable return on their investments, especially by protecting the rights of minority shareholders. As it deepens the play of the capital market and raises the level of trust in the national economy, governance helps to bring about financial stability and economic

development, thereby laying a firm base for long, term corporate performance and sustainable growth (Mismiwati et al., 2025; Zubaidi, 2022).

1.5.3 The Concept of Cash Holding

Increased cash holding is the primary source of a company that seeks to boost its liquidity and escalate its investments. However, globally, numerous companies have experienced liquidity shortages problems and have consequently gone bankrupt, besides their capital position getting eroded (Putri & Naibaho, 2022).

Hence, firms ought to raise the amount of cash on hand so as not to be caught off, guard by the results of unexpected changes in the economic environment. Cash is a vital liquid asset found on a company's balance sheet. Cash held refers to the amount of money that the company has at its disposal and keeps for meeting its operational needs and unexpected investment opportunities (Rahmawati, 2019).

Furthermore, it is understood that cash represents the cash in hand and the bank (in the form of current accounts and demand deposits), as well as quasi, cash assets such as short, term investments which are readily convertible into cash within a short period, are characterized by stable value and, therefore, are not subject to the risk of a relative decline in value (Al-Ghandour, 2021).

From the above discussion, the author is able to clarify that cash holding refers to the company's practice of maintaining a certain level of cash and cash equivalents, which can be utilized to take advantage of investment opportunities, meet financing and operating requirements, and carry out short, term transactions.

1.5.4 Motives for Cash Holding

Cash holdings are an essential part of current assets and indicate the level of cash that companies keep to carry on their activities, make transactions, and have a safety net. This refers to the amount of cash that firms choose to keep aside rather than investing or distributing, in order to guarantee the continuation of the business and keep the door open for operational and investment decisions (Al-Sharqawi, 2024).

A number of reasons for holding cash have been extracted from the previous literature and these reasons, on one side, reflect the advantages of having liquidity and, on the

other side, represent factors that compel firms to gather cash. One of the key reasons is the precautionary motive, which results from the unpredictability of the economy, and international and domestic policies that, ultimately, lead firms to cut down on investment and increase the build, up of cash reserves (Fujitani et al., 2023).

Agency problems continue to be a major explanation of why firms keep cash. Agency theory suggests that managers can more easily take advantage of their privileged access to resources for their own benefit, away from shareholders, when the firm has a large cash hoard than when it holds other less liquid assets. As a result, managers are inclined to keep more cash instead of giving out dividends to shareholders (Afifi, 2015).

Furthermore, companies hold on to cash in order to be able to carry on with their operations, pay on a daily basis, and fulfill anticipated needs (Akhtar, 2025).

Cash holding is a way of saving on the costs of financing transactions and, at the same time, it makes it easier to avoid the sale of assets at a discount when there is suddenly a need for liquidity. Different types of activities necessitate different cash needs. For instance, multinational and geographically diversified corporations usually have to keep a larger cash stock as a cushion to face unexpected financial crises, to fund investment opportunities, and to meet rare operational needs, in contrast to small and medium, sized enterprises (Bastoini et al., 2025).

1.6 Literature review

Corporate governance refers to a set of practices, rules, and laws that companies adopt to ensure the integrity and transparency of the relationship between executive management and other stakeholders, thus achieving a balance and minimizing conflicts of interest (Suhadak et al., 2019).

In Saudi Arabia, corporate governance mechanisms have been put in place to enhance the business environment, oversee the activities of corporations, and lessen the risks of financial crises that could jeopardize the national economy.

These mechanisms play a crucial role in directing corporate financial policies, such as cash holding decisions and the efficient management of financial resources for stability and value creation. Al. Yati and Al. Mubarak (2022) explored the impact of board features board size, independence, number of meetings, and chairman and executive

management ownership on agency costs and performance in Saudi non, financial companies from 2017 to 2019.

The authors reported that board size correlated positively with agency costs, negatively with performance, while board independence and chairman ownership also correlated positively with agency costs. The results illustrate how board features affect control efficiency and financial decision, making, including decisions on cash holding.

Using multiple linear regression, Al. Mubarak (2023) also studied the link between governance mechanisms and cash balances in Saudi non, financial companies during 2017-2019. Among the study's results is the finding that cash balances had a negative relationship with board independence, board meeting frequency, and executive management ownership, which means that better governance led to a reduction in the agency problems and hence lowered cash holdings.

However, this relationship was less evident in sectors with intense competition. On the other hand, Almulhim et al. (2024) studied the influence of risk management committees on agency costs and financial performance in Saudi financial firms. By analyzing six features: existence, size, independence, number of meetings, financial expertise, and member busyness

the study demonstrated that the existence, independence, and financial expertise of the committee decrease agency costs and raise performance. Nevertheless, a larger committee and busier members caused an increase in agency costs and performance degradation. These results emphasize the importance of a company's internal control mechanisms, such as risk committees, in effectively managing the company's assets. Such measures have an impact on the cash holding strategies of non, financial companies.

A study Abdeljawad et al. (2024) examining the relationship between bank profitability and cash reserves, as well as the evolution of this relationship during the COVID-19 pandemic, used data from 13 Palestinian banks. These data were drawn from the financial reports of banks listed on the Palestine Exchange between 2013 and 2022. The results showed a strong positive correlation between bank performance and their cash reserves. However, this relationship was not linear, suggesting the existence of an

optimal level of cash reserves. This correlation between cash reserves and performance weakened during the COVID-19 pandemic. The findings indicate that managers must exercise extreme caution when managing their cash reserves, as any deviation from the optimal level could lead to significant expenses. This could result in a decrease in lending and an increase in expenses due to early repayments or additional financing, which could negatively impact bank profitability. These findings contribute to understanding the importance of sound cash management.

And the study Abdeljawad et al. (2026) examined the determinants of cash retention in manufacturing companies listed on the Palestine Exchange during the period from 2012 to 2022. It demonstrated that Palestine is an emerging economy characterized by a highly volatile environment due to political instability and occupation. Data were manually collected from audited annual financial statements. A fixed-effects regression analysis revealed that cash flow and profitability positively influence cash retention, while company size and leverage negatively affect it. These findings contribute to providing recommendations for decision-makers to improve cash retention strategies.

Theoretical and conceptual literature also link corporate governance with cash holdings. According to Akhtar et al. (2018), effective governance not only ensures that liquid assets are used efficiently but also lessens the agency costs that arise from having too much cash, which in turn leads to increased firm value. They explained that managerial decisions significantly influence the amount of cash a company chooses to keep; therefore, managers should be closely supervised to minimize the risk of cash being misused.

Afifi (2015) who investigated Egyptian joint, stock companies, identified a board governance, cash holding negative correlation. She used board size, independence, and CEO duality as dimensions of governance, which she found to be negatively correlated with cash holdings.

Dwaikat (2023) focused on the governance, cash holding relationship in Oman and revealed that tightly held ownership by large shareholders that results in strong monitoring, leads to an increase in cash reserves. Whereas, state ownership had a negative effect on cash policies due to inefficiencies or political pressure. Besides, he

showed that packed boards are positively linked to cash holdings, which implies that more effective board oversight is needed.

Additional evidence from the Arab region is in line with these outcomes. Nashi and Saad Eldeen (2025) studied the impact of board size and director independence, as well as corporate governance on cash holdings in the Egyptian stock market. According to their data, boards that are larger and have more independent directors tend to keep less cash on hand. On the other hand, managerial ownership was revealed to encourage cash holdings. This implies that managers who own a larger share of the company are more likely to keep extra funds in order to protect their interests.

The size of the audit committee had no statistically significant effect, which is an indication that the effectiveness of the committee's work and independent directors matters most. In Indonesia, Wirianata (2024) showed that, out of all governance variables, only board size and independence had a significant effect on cash holdings of manufacturing firms. In contrast, audit committee characteristics and ownership structure had less impact.

Similarly, Chen et al. (2020) accomplished that firms with high, quality internal controls have fewer abnormal cash balances and are therefore more inclined to adopt prudent financial policies. This means that robust governance structures, including audit and risk oversight, play a part in shaping cash management policies.

Governance is also found to be a key factor in cash management in studies conducted in developed markets. In their study, Ezeani et al. (2023) found out that certain characteristics of the board such as size, number of meetings, proportion of independent members, and gender diversity influence cash holdings in a different manner depending on the type of financial system.

Besides, the effects of governance were found to be stronger in market, based economies like the UK. Harahap and Widiastuty (2024) reported that female representation on the board has a positive effect on cash holdings based on their study. Conversely, board size and meeting frequency had no statistically significant influence, indicating that female directors are the main drivers of improved cash management.

In general, the literature shows that corporate governance mechanisms such as board size, independence, director ownership, the presence of audit or risk management committees, can significantly influence a company's decision to retain cash. On the whole, good governance is typically associated with a decrease in cash holding, although certain ownership or board features may increase the reserves as a measure to protect the interests of owners or directors.

Additionally, internal control systems and risk committees further facilitate the optimal use of resources and the alleviation of agency problems. Despite the vast amount of literature both in emerging and developed markets, there is a scarcity of studies in the Arab and Saudi contexts that explore the nexus between corporate governance and corporate financial decisions, especially in relation to cash holding practices.

Chenchehene (2019) defines board size as the total number of directors on a company's board of directors. The board composition and its mere size generally impact the quality of decision making through consultation and deliberation which makes the board therefore play a critical role in corporate governance (Al Harbi, 2018). Besides this, the larger the board, the more the corporate disclosure and transparency are likely to improve due to the diversity of the members' expertise (Bakhawa & Taib, 2022).

Mixed results have been obtained from research on the perfect board size. Some researchers demonstrate that smaller boards decrease the conflicts among directors which, in turn, allows for more efficient decision, making (Khanh et al., 2020).

Others however argue that bigger boards have the authority to oversee executive management more effectively and thus the control of managerial performance improves (Hyarat et al., 2024).

Further, studies into the linkage between board size and cash holdings have shown that bigger boards hold more cash as they have more experience and better oversight capability (Dwaikat, 2023).

In the same vein, Wirianata (2024) shows that board size positively and significantly affects cash holdings. Asian firm studies have revealed that bigger boards improve the control of management which then leads to cash holdings on the part of the firms as a strategy of precaution (Chen, 2020).

Opposing this view, Hassanein and Kokel (2019) contend that smaller boards are more effective in making and implementing decisions about managing liquidity, and hence they have fewer reasons to accumulate cash. Taken together, these results indicate that a smaller board size could not only lower cash holdings by addressing the conflicts within the board but also restore the shareholders' and managers' interests to a better point.

On the other hand, according to Agency Theory, bigger boards are not that efficient as their members are disjointed in terms of coordination among themselves and thus their monitoring power is reduced. However, Leung and Horwitz (2010) have shown that with bigger boards the manager's power also increases and they tend to hold cash. Agency conflicts are aggravated by this lack of effective monitoring.

Although on the contrary, bigger boards are usually linked with better monitoring and risk, adverse behavior. Due to this, it is likely that the firms with bigger boards keep more cash as a safety net ensuring that they are financially stable and flexible in the face of the unknown. This is consistent with Agency Theory which states that proper governance mechanisms like bigger and more diversified boards will enhance oversight and result in prudent financial management.

H1: There is a positive and statistically significant relationship between board size and corporate cash holdings in firms listed on the Saudi Stock Exchange (Tadawul).

The board's primary function includes the lowering of costs that come from the separation of ownership and managerial control. Executive directors, who are usually non, independent particles, are company executives thus includes members who are most familiar with the daily operation of the company whereas non, executive directors, from the other side of the spectrum, perform independent and objective oversight, concentrating on how the company should be governed.

Based on Agency Theory, independent directors by using their knowledge and experience of the company industry can be effective tools to protect the company interests and to limit the opportunistic activities by a few shareholders who may have a lot of power (Hyarat et al., 2024).

There have been multiple researches to find out if and how board independence affects corporate cash holdings. Afifi (2015) discovered that the more the board is independent,

the less cash they hold in Egyptian listed companies. This, in turn, shows that the independent directors in the board are able to effectively monitor the management and thus deter management from holding excessive cash.

On the contrary, in Hassanein and Kokel (2019), the researchers pointed out that companies with a higher number of independent directors in their boards tend to hold more cash. They argue that independent directors advise the management to keep cash as a precautionary measure in the case of high financial risks.

In line with this, Shabeeb et al. (2024) argue that, although board independence may have a detrimental effect on the firm's profitability, it also serves as a robust signal that Egyptian companies under such governance structures hold more cash as a defensive financial strategy.

According to the Agency Theory, independency of the board members will lead to better monitoring of the management's activities and less discretion for the management to use the company's resources at their own will. One of the ways through which independent boards can achieve this goal is by extending managerial ability to hoard cash, thus leading to a reduction in idle cash balances. Results from Leung and Horwitz (2010) shows that independent boards assist in the reduction of agency conflicts by making sure that idle cash is not retained unnecessarily.

On the basis of the above, what one would expect is that board independence is positively related to the level of corporate cash holdings. This means that firms with effective governance practices tend to keep a substantial level of cash to withstand unanticipated needs for cash and thus liquidity risks especially in the emerging markets such as Saudi Stock Exchange (Tadawul).

H2: There is a positive and statistically significant relationship between board independence and corporate cash holdings in firms listed on the Saudi Stock Exchange (Tadawul).

Gender diversity, defined as the presence of women on corporate boards, is one of the most extensively studied facets of board diversity. It is widely believed that when women take part in social and economic activities, they bring additional resources and

various viewpoints to a company, thus, the company's dependence on external financing is reduced (Almarayeh, 2023).

In the past, women were excluded from managerial and decision, making positions, a situation that has attracted considerable attention from regulatory bodies, researchers, and the media at the local and international levels (Al-Jawhari & Suleiman, 2021).

There is a worldwide call for more female representation on boards as a measure to improve the quality of decision, making and strengthen corporate governance (Nguyen et al., 2021).

Several empirical studies have investigated the impact of board gender diversity on corporate cash holdings. For instance, Ismail and Meligy (2024) studied Egyptian listed companies and reported that gender diversity on boards does not have a significant direct effect on cash holdings. However, their research found an indirect positive influence through managerial ability, implying that gender, diverse boards improve managerial competencies, which ultimately results in higher cash holding. Likewise, Sarang et al. (2021) reported that gender, diverse boards in French companies hold more cash and are better at managing liquidity, thus female directors are associated with enhanced monitoring and more prudent cash policies.

Therefore, it can be inferred from these results that women's inclusion in boards leads to better governance and stronger financial controls which in turn results in companies adopting more conservative financial policies and at the same time having a more flexible approach to liquidity management. Hence, it is reasonable to assume that gender diversity on corporate boards is positively correlated with cash holdings of firms in the Saudi Arabian market.

H3: There is a positive and statistically significant relationship between board gender diversity and corporate cash holdings in firms listed on the Saudi Stock Exchange (Tadawul).

Boards of directors appoint risk management committees (RMCs) as essential means of corporate governance. RMCs can curb management opportunism and ensure that investment projects are consistent with the company's long, term strategy. Agency

Theory argues that through addressing issues of adverse selection and moral hazard, RMCs are a safeguard against financial crises (Al-Shahri & Abdul Latif, 2024).

There are a number of corporate governance mechanisms that have an impact on the company's cash policy. Chen et al. (2020) based on their work on several Chinese listed companies pointed out that those with robust risk management systems and internal controls tend to have cash holdings at an efficient level, thereby avoiding the two extremes of excessive cash hoarding and liquidity shortage.

Similarly, Al. Najjar and Clark (2017) pointed out that governance mechanisms were the backbone of the managerial decision, making process in regard to liquidity reserves.

The existing literature that directly tests the role of risk management committees as a part of the governance system is very scarce. However, it is still considered that one of the essential governance mechanisms is the establishment of risk committees that allow for both financial and non, financial risks being under the strict surveillance of the board. As the work of the RMC facilitates a firm's improved risk identification and risk control, it also influences the firm's better liquidity management whether through precautionary cash holding or through the firm's avoidance of cash hoarding under the efficient financial management situation.

Thus, RMC presence and independence will likely improve governance, which in turn will result in reduced liquidity. Hence, the independence of the RMC is likely to correlate positively with the level of firm cash holdings.

H4: Risk Management Committee Independence is positively and significantly related to cash holdings in public companies on the Saudi Stock Exchange (Tadawul).

The audit committee is widely considered one of the primary corporate governance tools, tasked essentially with management oversight on behalf of shareholders and the assurance of financial statements' truth and fairness. The audit committee is a creation of the company's board of directors, which grants it the authority to hire or fire the external auditor and set their charges, thus protecting auditor's independence (Al-Shaer, 2019).

The functionality of audit committees depends on their member count, which differs based on the country's legislation and the kind of activities the company engages in (Abdul & Ibrahim, 2019).

Regulatory guidelines and corporate governance codes, like the Sarbanes, Oxley (SOX) Act of 2002, stipulate that audit committees should have at least three members for them to be able to carry out their responsibilities properly (Garcia et al., 2010).

An independent audit committee consists of those members who are not influenced by the management. Without a doubt, independence from management is the most crucial ingredient in the recipe for effective oversight of financial reporting (Halioui & Zgarni, 2016). Independent directors are generally defined as individuals who do not have a close financial relationship with the company or one of its executives, such that it could bias their judgment.

SOX Act (2002) also emphasizes that independent directors shouldn't get any remuneration from the company, except for the board of directors' fees, and shouldn't have held any positions in the company or its subsidiaries. In this way, audit committees can oversee the financial reporting process independently, i.e., they can exert their monitoring role to keep management in check without management exerting pressure on them.

Strong internal control and reduced risks in cash management are the direct results of an audit committee having more independent members. Empirical evidence suggests that independent audit committees influence firms to adopt weaker cash positions to ensure that they have more financial slack to absorb adverse shocks and that management is closely monitored and kept in check. An instance of this is the study by Wirianata (2024) which showed that the independence of the audit committee has a statistically significant positive impact on cash holdings.

Hunjra (2025) found out that the quality of the audit committee, which includes independence, leads to increased transparency and accountability, thereby facilitating better cash management.

Likewise, Hajiha and Rajabdorri (2017) in their research pointed out that the independence of the audit committee was the most influential factor among other

components that determine cash holdings in the case of companies listed on the Tehran Stock Exchange, thus allowing the management better liquidity control and the firm being safeguarded against future risks.

Going by the rationale, independent audit committees should enhance the quality of oversight, help the boards to be more objective in their scrutiny of financial reporting, and thereby firmly advocate for sound liquidity management. Hence, companies with a greater number of independent audit committees would be those maintaining optimum cash levels that will stabilize their finances and increase accountability.

H5: There is a positive and statistically significant relationship between Audit Committee Independence and corporate cash holdings in firms listed on the Saudi Stock Exchange (Tadawul).

Recent studies point out the significance of audit committee size as a corporate governance factor, which determines the level of corporate cash holdings. The bigger audit committees in general result in higher cash holdings as they offer more thorough monitoring and scrutiny of liquidity, however, their influence may be less direct than that of member independence (Hajiha & Rajabdorri, 2017).

Another research by Hunjra (2025) has also shown that the size of the audit committee determines cash management, larger committees mitigate financial risks and provide better cash supervision.

On the other hand, Hassanein and Kokel (2019) illustrated that organizations with larger audit committees have smaller cash holdings as a result of better internal controls and more efficient liquidity management by the larger committees, hence the need for excessive cash reserves is eliminated. The above studies from different perspectives show that the role of the audit committee size in determining the level of cash holdings depends on the level of oversight effectiveness and the general features of corporate governance.

The size of the audit committee is indicative of the range of resources, expertise, and capability that can be relied upon for monitoring financial reporting and liquidity management. Having larger committees is a way of boosting oversight, reinforcing

internal controls, and facilitating a better management of the cash policies that can lead to the company's financial stability and increased transparency.

H6: There is a positive and statistically significant relationship between Audit Size and corporate cash holdings in firms listed on the Saudi Stock Exchange (Tadawul).

The quality of an external audit has been recognized as an essential corporate governance tool that helps improve the governance of a company by, firstly, reducing the conflicts of interest between the shareholders and the management, and secondly, by limiting the information asymmetry in financial reporting (Nguyen & Nguyen, 2024).

External audit quality, as a matter of fact, has been shown to have a significant effect on the level of cash held by corporate entities in the studies conducted earlier, however, the results vary from one market to another and also depend on the specific context.

Peng and Chau (2023) have demonstrated that cash holdings and independent audits of a higher quality have an inverse relationship, whereby a more thorough audit leads to less risk and better liquidity management which benefits especially the non, state, owned enterprises.

On the same line, Muhammad et al. (2023) have substantiated that audit quality serves as a supervisory instrument by which the managers are kept from excessively accumulating cash, thus, highlighting the Big Four auditors, audit fees, and the possibility of unclean audit opinions as important factors in the control of cash reserves.

Hunjra (2025) found, in agreement with these studies, that cash holdings are negatively influenced by auditing quality as the latter ensures more transparency, accountability, and efficient liquidity management.

On the other hand, Hassanein and Kokel (2019) discovered a positive association between audit quality and cash holdings, explaining that effective audits not only lead to the efficient use of cash reserves but also raise their market value. Such contradictory results indicate that the influence of audit quality on cash holdings is likely to be conditioned by the factors such as market situation, governance structures, and the whole economic environment.

From the viewpoint of the Agency Theory, a high standard of external audits brings about greater accuracy of financial reports, which in turn, limits the leeway managers have and thereby opportunistic behavior is less likely to occur (Peng & Chau, 2023). Organizations that opt for top, tier auditors such as Big Four firms generally have lower cash balances since thorough audits serve as a deterrent to managers who might otherwise have engaged in misreporting or cash hoarding. Therefore, agency conflicts arising from excess cash holdings are, to a certain extent, alleviated through high, quality audits.

Taking these pieces of evidence into account, it is logical to assume that top, notch external audits contribute to the accuracy and openness of financial disclosures, thereby, lessening the scope of conflicts between managers and shareholders as well as making it easier for the latter to oversee the activities of the former. These types of audits have an impact on cash policies at the corporate level because they encourage careful liquidity management and the optimal use of the cash that a company keeps on hand.

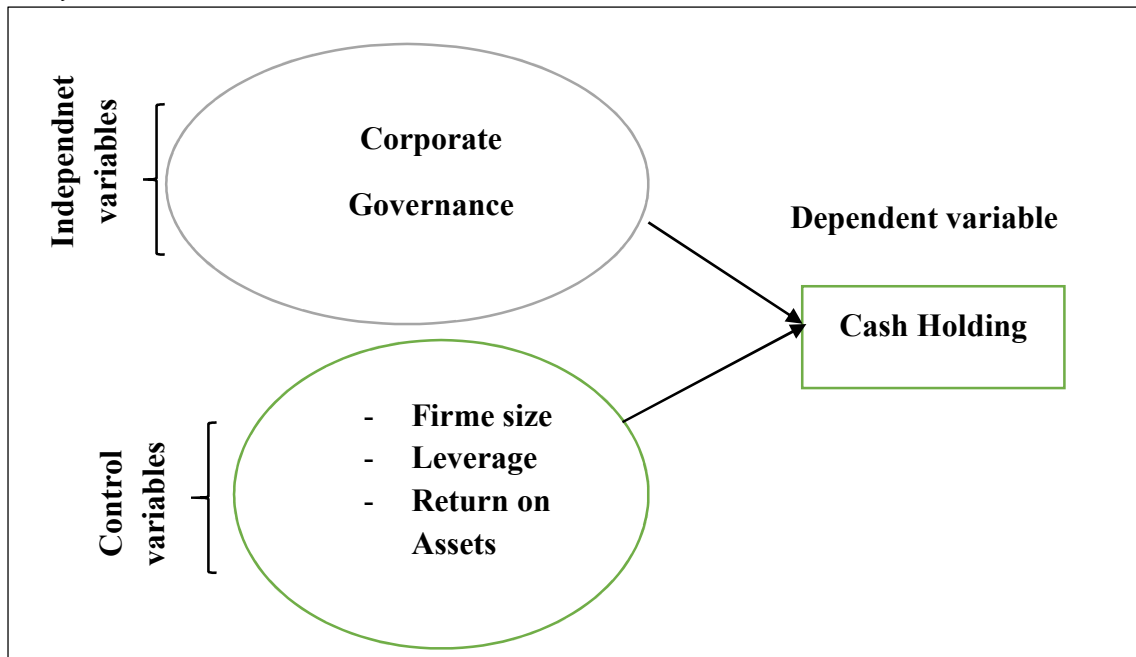
H7: The quality of external auditing is positively related to, and is a statistically significant factor for, corporate cash holdings in the case of firms listed on the Saudi Stock Exchange (Tadawul).

1.7 Study Model

The figure shows the conceptual framework of this research, which is named "The Impact of Corporate Governance on Cash Holdings: Evidence from an Emerging High, Income Economy." The corporate governance mechanisms in this framework are the independent variable, and the cash holdings are the dependent variable.

Moreover, firm size, leverage, and return on assets are considered as control variables to explain the effect of other factors on cash management decisions. The figure visually illustrates the relationships between the study variables that are anticipated by the theory, i.e., governance practices are expected to have an influence on corporate cash holdings.

Figure 1
Study Model



Source: The author according to the literature review

Chapter Two

Study Methodology

2.1 Introduction

This chapter discusses the research methodology employed for the current study which investigates the effect of corporate governance mechanisms on corporate cash holdings of the listed firms on the Saudi Stock Exchange (Tadawul). It elaborates on the research design, target population, sample selection, data collection, variables operationalization, and the statistical techniques used for analysis. The methodology thus, forms the basis for the study to be valid and reliable and, at the same time, it is a vehicle for the accomplishment of its research goals.

By presenting a systematic framework this chapter describes that the research was conducted how the methods were chosen, and the techniques used to assess the relationship between corporate governance practices and firms cash holding policies.

2.2 Methodology

The methodology section of the research highlights the linkage between the standard of corporate governance and the rate of cash holdings in Saudi companies by means of a well, organized quantitative method. It is chiefly concerned with gathering real, time data from companies registered in the Saudi Stock Exchange (Tadawul).

To check the effect of different corporate governance mechanisms on the level of cash that companies hold, the authors use econometric models. This way, it is feasible to gauge the extent to which governance practices correspond to the handling of corporate liquidity management.

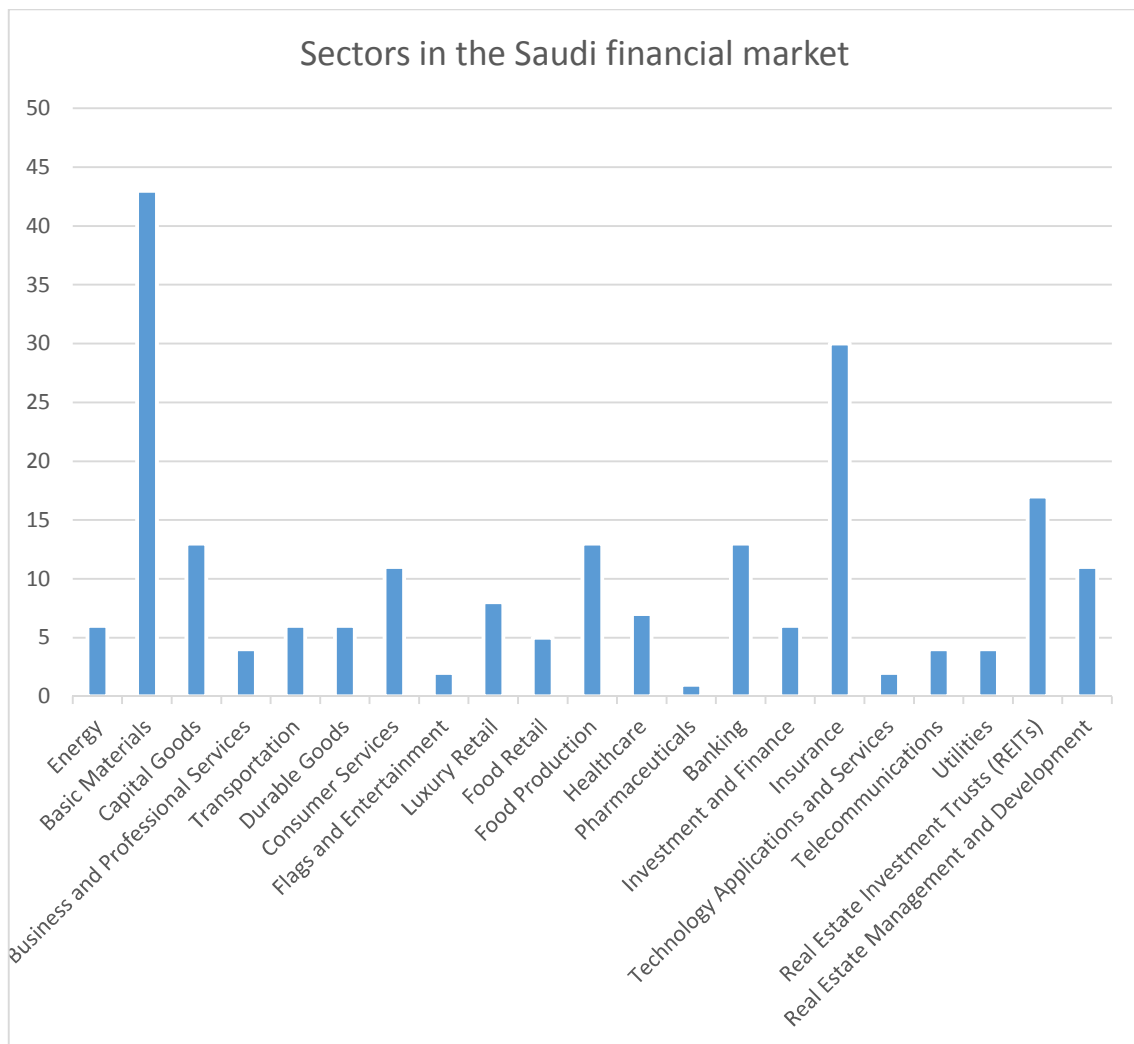
2.3 Study Population

The Saudi Stock Exchange (Tadawul) is the sole entity authorized to manage the stock market in the Kingdom of Saudi Arabia and is responsible for the listing and trading of securities. Tadawul operates under the supervision of the Capital Market Authority. Saudi Arabia was chosen because it is the largest financial market in the Middle East and North Africa region. Additionally, there is a limited number of studies on this topic in Saudi Arabia.

Figure No. (2) shows the different sectors listed within this market and the number of companies within each of them.

Figure 2

Sectors listed in Saudi financial market and the number of companies within each of them



The research is focused on all non, financial firms listed on the Saudi Stock Exchange (Tadawul) at the end of 2023.

The study excludes companies from the financial sectors, such as banks, insurance companies, investment and finance companies, and real estate investment trusts (REITs), as they are regulated by specific sets of rules and corporate practices which are different from those used for non, financial companies. If these companies were to be included, the financial data might become less comparable and differences in the study

variables could be introduced, which might have a negative impact on the validity of the results.

Based on the sectors presented in Figure (2), Table (1) summarizes the study population and the final sample for each sector, showing the number of companies included and excluded according to the selection criteria.

Table 1

Study Population and Sample by Sector

Sector	Number of Companies in Population	Excluded Companies	Final Sample
Energy	6	0	6
Basic Matinal	43	0	43
Capital Goods	13	1	12
Business and Professional Services	4	0	4
Transportation	6	0	6
Durable Goods	6	0	6
Consumer Service	11	9	2
Flags and Entertainment	2	0	2
Luxury Retail	8	1	7
Food Retail	5	0	5
Food Production	13	0	13
Healthcare	7	0	7
Pharmaceuticals	1	0	1
Banking	13	13	0
Investment and finance	6	6	0
Insurance	30	30	0
Technology Application and Service	2	0	2
Telecommunications	4	0	4
Utilities	4	0	4
Real Estate Investment Trust	17	17	0
Real Estate Management	11	1	10

2.4 Study Sample

The researcher carefully chose the study sample based on certain criteria so that it would truly embody the research goals. Firstly, only those companies that were listed on the Saudi Stock Exchange (Tadawul) were included, which guaranteed that the sample consisted of the target population of non-financial enterprises.

Secondly, the full annual reports of the chosen firms had to be accessible. This stipulation implied that only those companies that had been listed on the exchange for at least one year before 2017 were taken into account, thus there was ample historical data to be analyzed.

Thirdly, the firm was expected to have been continuously in business throughout the period of the study; hence, any companies that had temporarily stopped their operations were disqualified. Moreover, the ones that had gone through bankruptcy or liquidation during the investigation period were not included as these occurrences might have greatly skewed the financial figures and the study variables.

Consequently, companies failing to meet the above criteria were removed, and the final sample comprised 134 companies. Appendix (A) features the complete list of the study companies and those used for the data analysis.

2.5 Data Source

To gather financial and governance data of the companies in the study sample, we referred to the official and reliable sources in order to ensure the accuracy and comprehensiveness of the data.

The main source of the study was Tadawul (the Saudi Stock Exchange) through which the company's official annual reports and governance disclosures for the recent period were obtained.

For the years before 2019, when the data was not available on Tadawul, the missing annual reports to complete the data were obtained by referring to the companies' official websites.

2.6 Period of Study

The study period covers the period from 2017 to 2023, allowing ample time to monitor trends and differences in corporate governance and cash balances. The years 2024 and 2025 were excluded because the study began at the start of 2025 as the annual reports for 2024 had not yet been published.

2.7 Measurement of Variables

Dependent variable

Cash holdings refer to the total amount of money a company keeps in hand in order to be able to pay its debts, expressed as a percentage of total assets. Such cash reserves become extremely important when the use of internal funds is cheaper than the cost of getting external finance (Putri & Naibaho, 2022).

If capital markets were perfect, then raising cash would imply zero costs and, therefore, the build up of liquid assets would be unnecessary and can't affect the value of a firm. But reality is different as markets are imperfect. Transaction costs and other market frictions can make external financing expensive and, at times, necessary. Therefore, keeping cash on hand is a smart way for the companies to be able to pay their debts smoothly and reduce the downsides of the process of raising external funds (Fujitani et al., 2023).

Independent variables

Understanding Corporate Governance Mechanisms: Corporate governance mechanisms are structures and processes designed to control and direct a firm. Key mechanisms include:

I. Board size

Therefore, board size was used as the independent variable that denotes a central corporate governance tool that can affect corporate cash holdings in this paper.

Usually, in these types of research, board size is measured by the total number of directors on the board of the company in the given year (Hassanein & Kokel, 2019). The data are typically sourced from the annual reports, proxy statements, or corporate governance databases, and thus, this consistent and straightforward method provides a

useful tool for assessing the influence of board size on corporate cash holdings between different governance environments.

II. Board independence

Board independence basically measures how much the board consists of non, executive directors and how these directors objectively oversee management decisions. Independent directors, by virtue of their knowledge and fair judgment, assist in safeguarding the interests of shareholders and constraining the managerial behavior that is driven by self, interest (Barros et al., 2013).

Following the literature, board independence is quantified by the ratio of independent directors to the total number of directors on the board (Afifi, 2015; Hassanein & Kokel, 2019) (Shabeeb et al., 2024).

i. Board gender

This variable was measured by dividing the number of female members on the board of directors by the total number of board members (Alia & Mardawi, 2021).

ii. Audit committee independence

Audit committee independence is generally calculated as the number of independent (outside) directors on the audit committee divided by the total number of directors. Information is obtained from proxy statements and corporate governance disclosure documents (Hajiha & Rajabdorri, 2017).

i. Audit committee size

This variable was measured based on the size of the audit committee members (Hassanein & Kokel, 2019).

ii. Risk Management Committee

The presence of a risk management committee was determined through a dummy variable that equals (1) when the company has disclosed in its annual report the existence of a risk management committee, whether it is a standalone committee or combined with the audit committee, and (0) in any other case. This approach to measurement is in line with previous research on Saudi firms (Almulhim et al., 2024)

iii. Quality of External Auditing (AUDQUAL)

A dummy variable that indicates whether a firm undergoes an audit by a high, quality external auditor (for example, a Big Four audit firm: Deloitte, PwC, Ernst & Young, KPMG). The quality of external auditing (AUDQUAL) is typically gauged by referring to the auditing firm being one of the Big Four (Muhammad et al., 2023).

Control Variables

I. Firm Size (SIZE), in research work that looks at corporate governance and cash holdings, is by convention measured using the natural logarithm of total assets. This method is used in an attempt to make the distribution of firm size more normal and to lessen the effect of extreme values, thus resulting in an easier interpretation of the influence of firm size on cash holdings. It is commonly utilized as a control variable in research that investigates the link between corporate governance and liquidity management. Large firms usually possess more internal resources and have easier access to external financing, both of which may have an impact on their decision of how much cash to hold.

Hence, Chua and Lee (2024), while studying corporate governance and cash holdings, employed firm size to control for scale effects. Here, firm size was determined as the natural logarithm of total assets which was sourced from companies' financial statements. Such logarithmic transformation application not only diminishes the impact of outlying data but also yields a more precise and trustworthy measurement of the influence of firm size on cash holdings.

II. Leverage (LEV) is typically calculated as total debt over total assets. This method gives a more transparent picture of a company's financial composition and its capacity to handle cash reserves when there is debt on the balance sheet.

Chua and Lee (2024) along with other researchers regarded leverage as an important variable when studying the influence of corporate governance on cash holdings. In fact, leverage is the main indicator of how much a company is financed by debt and is a popular control variable in research on financial policy and corporate governance.

III. Profitability (ROA) This measure reflects the effectiveness of a company in using its assets to generate profits and is a favorite tool to control for the influence of corporate performance on cash holdings in corporate governance studies.

The likes of Harford et al. (2008), and Dittmar and Mahrt, Smith (2007) have also been using this method in their investigations.

It is always determined as the net income to total assets ratio. Financial statements of the firm are the main source of this measure, where net income equals profit after taxes, and total assets equal the total value of the firm's assets.

IV. Growth Opportunities (MB).

This metric is meant to demonstrate the extent of a company's future growth potential, where higher figures represent more appealing investment prospects. Some of the studies of corporate governance and cash holdings that have been done following this approach include Dittmar and Mahrt, Smith (2007), and Harford et al. (2008).

The authors regard growth opportunities as one of the major reasons why a company holds cash. They suggest that companies that have higher growth opportunities will keep more cash so as to be able to finance their potential investments.

Growth opportunities (MB) are determined by comparing a company's market value (market capitalization) to its book value of assets. This is the ratio of a company's market capitalization (the total value of the stock, i.e. stock price times the number of outstanding shares) to the book value of the company's total assets as shown in the balance sheet.

This calculation is often sourced from the firm's financial statements and market data

Table 2**Measurement of variables**

Type of variable	Variables	Measurement
Dependent variable	Cash Holdings	$\frac{\text{cash and cash equivalents}}{\text{total assets}}$
Independent variables	Board Size (BSIZE)	the number of directors listed in the firm's annual report or governance documents.
	Board Independence (BIND)	$\frac{\text{number of independent directors}}{\text{total number of directors}}$
	Board Gender (BGender)	$\frac{\text{number of female member on the board}}{\text{total number of directors}}$
	Audit Committee Size (ACSize)	the number of member audit committee in the firm's annual report.
	Quality of External Auditing (AUDQUAL)	value of 1 if the firm is audited by a Big Four audit firm. value of 0 if audited by a non-Big Four auditor.
	Audit Committee Independence (ACIND)	$\frac{\text{number pb independent directors on audit con}}{\text{total number of audit committe members}}$
Control variables	Riske management committee (Riskmanagment)	was measured using a dummy variable, which takes the value (1) if the company disclosed in its annual report the presence of a risk management committee, whether as a standalone committee or combined with the audit committee, and (0) otherwise
	Firm Size (SIZE)	$\ln(\text{total assets})$
	Leverage (LEV)	$\frac{\text{total debt}}{\text{total assets}}$
	Profitability (ROA)	$\frac{\text{net profit}}{\text{total assets}}$
	Growth Opportunities (MB)	$\frac{\text{market value of equity}}{\text{book value of equity}}$

2.8 Research models

Research on The Role of Corporate Governance in Shaping Cash Holding Practices usually depends on empirical studies models based on Agency Theory. Agency theory points out possible conflicts of interest between shareholders (principals) and managers (agents), thus suggesting how corporate governance mechanisms help reduce managerial discretion and affect corporate cash, related decisions.

Basically, this model describes the connections between some aspects of corporate governance like board independence, board size, board gender diversity, risk management committees, and audit committee characteristics on the one hand, and a firm's cash holdings on the other hand after adjusting for other significant factors such as firm size, leverage, and growth opportunities. Through this model, researchers can examine the impact of governance arrangements on the behaviour of cash management and trace the effect of certain governance mechanisms on liquidity policies. It is written as follows:

$$\begin{aligned} \text{cash holdings}_{it} = & \beta_0 + \beta_1(\text{Board Size}_{it}) + \beta_2 (\text{Board Independence}_{it}) + \\ & \beta_3 (\text{Board Gender}_{it}) + \beta_4 (\text{Risk Managment}_{it}) + \\ & \beta_5 (\text{Quality of External Auditing}_{it}) + \beta_6 (\text{Audit Committee Independence}_{it}) + \beta_7 \\ & (\text{Audit Committee Size}_{it}) + \beta_8 (\text{Firm Size}_{it}) + \beta_9 (\text{Leverage}_{it}) + \beta_{10}(\text{Profitability}_{it}) \\ & + \beta_{11}(\text{Growth Opportunities}_{it}) + \epsilon_{it} \end{aligned}$$

2.9 Estimation Methods

To analyze the effect of corporate governance on cash holdings, we will first run the model with pool OLS and then re, estimate the model with fixed effects. A Hausman test will serve to determine the most suitable model so that the results will be stable and reliable.

I. Pooled OLS Regression:

This method pools all the observations across firms and time periods into a single regression, assuming that the effects are the same across all firms.

II. Fixed Effects Model:

The fixed effects model controls for unobserved heterogeneity by allowing firm-specific intercepts. This approach assumes that differences between firms are constant over time but vary across firms.

III. Dynamic System GMM Estimation

Furthermore, the dynamic System GMM estimator will likewise be used to deal with potential endogeneity and capture the persistence of cash holdings. This model combines difference and level equations in one system and employs internal instruments to mitigate bias from lagged dependent variables and unobserved firm, specific effects. Different from static models, it permits capturing both the short, term adjustments and the long, term nature of corporate liquidity decisions over multiple periods. Considering that past cash holdings influence current behavior, the model yields more accurate and consistent estimates of the impact that governance mechanisms have on cash policies (Alkhataybeh et al., 2022).

Chapter Three

Result and Discussion

3.1 Introduction

This chapter presents a statistical analysis of data collected from the Saudi Stock Exchange regarding the impact of corporate governance on cash holding levels, using appropriate statistical analysis tools.

3.2 Descriptive Statistics

Below we have summarized the descriptive statistical analysis of the variables in the study, both independent (corporate governance) and dependent (cash holding).

Descriptive statistics play a crucial role in the initial phase of data analysis. They reveal means, standard deviations, as well as maximum and minimum values that aid in locating the trend and variance in the data.

The following table shows the basic statistical values for the study variables:

Table 3

Descriptive statistical analysis

Variable	Obs	Mean	Std. Dev.	Min	Max
Cash holding	886	.07	.077	.002	.404
BSIZE	772	8.056	1.59	4	14
B IND	770	.911	.103	.556	1
B Gender	770	.012	.038	0	.2
Riskmangment	755	.433	.496	0	1
AUDQUAL	766	.456	.498	0	1
AC INDEPENDENCE	769	100%	.007	.8	100%
AC Size	769	3.54	.739	2	8
MB	771	1.769	1.287	.155	8.442
ROA	771	.027	.093	-.357	.284
LEV	767	.428	.234	.024	.924
SIZE	771	9.373	.683	7.148	12.014

The descriptive statistics of the study variables describe various features of the companies forming the sample.

The mean ratio of cash holding was around 0.07, and the standard deviation was 0.077 which indicates that companies typically keep a relatively low level of cash. It can be inferred that most companies would rather use their available liquidity to make investments or cover their operational needs rather than holding cash. The cash holding ratio varied widely and was as low as 0.002 and as high as 0.404. Such a discrepancy in ratios probably reflects the differences in financial policies or liquidity requirements between the companies.

As for the governance variables, the average board size (BSIZE) was nearly 8 people, with the standard deviation of 1.59, indicating the existence of moderate variance in the board size of the companies studied. This is consistent with the Saudi Governance Code, which recommends boards of 5 to 9 members.

The average percentage of independent directors (BIND) was around 91.1%, severally above the minimum requirement of one, third, thus showing a high level of commitment to the independence of the board and corporate governance compliance.

In contrast, the presence of women on boards (B Gender) was quite limited, as the mean value was only 0.012, which implies that, on average, the proportion of female board members is very low. This result resonates with the overall socio, economic milieu in Saudi Arabia where women are just starting to be engaged in leadership roles.

The percentage of companies that have set up a risk management committee was on average 43.3%, which shows the different levels of adoption of this governance mechanism among the sample companies.

The average external audit quality (AUDQUAL) was 0.456, which means that slightly less than half of the companies opted for top, notch auditors from the Big Four, and the rest hired other auditing firms, thereby showing variation in auditing procedures.

There was almost universal agreement among companies as to the independence of the audit committee (AC INDEPENDENCE), which is evident from the average value of 1 and the very low standard deviation of 0.007. This means that the majority of companies

have audit committees made up of all independent members, thus, they are complying with the governance requirements that enhance oversight and lead to more trustworthy financial reporting.

Through the financial variables, the mean of return on assets (ROA) was around 2.7%, the average financial leverage (LEV) was 42.8%, and the mean size of the company (SIZE) was close to 9.37 (log of total assets), which means that there is a level of performance and financial scale diversity among the selected companies. These figures give a detailed summary of the sample's corporate governance and finance, related aspects.

3.3 Correlation coefficients between variables

The following table shows the Correlation coefficients between variables:

Table 4*Correlation coefficients between variables*

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Pairwise correlations										
(1) Cash holdings	1.000									
(2) BSIZE	-0.058	1.000								
(3) B_IND	-0.044	0.163*	1.000							
(4) B_Gender	-0.010	0.082*	0.119*	1.000						
(5) AC_INDEPENDANCE	0.028	-0.022	0.047	-0.095*	1.000					
(6) AC_Size	-0.046	0.332*	0.150*	0.016	-0.071*	1.000				
(7) MB	0.181*	-0.104*	-0.144*	0.038	0.005	-0.113*	1.000			
(8) ROA	0.067	0.142*	0.053	0.077*	0.081*	0.071	-0.013	1.000		
(9) LEV	-0.169*	0.050	-0.001	-0.042	-0.078*	0.063	-0.120*	-0.340*	1.000	
(10) SIZE	-0.129*	0.473*	0.272*	0.032	0.018	0.405*	-0.238*	0.291*	0.218*	1.000

* shows significance at $p < 0.05$

The research attempts to figure out how different corporate governance factors affect the use of cash in companies. Corporate governance variables considered in this study are: size of the board, percentage of independent directors, female representation on the board, quality of external audit, and the independence of the audit committee. These elements are considered major indicators of the quality of corporate governance and the level of oversight effectiveness, which, in turn, are believed to impact financial decisions, especially the ones related to cash holding.

The results of the bivariate correlation analysis unveiled the initial signs of the influence of governance variables on cash, holding. Some correlations with the dependent variable were in a positive direction, while others were in a negative direction; nevertheless, not all of the relationships were statistically significant.

Alongside the above, the study brings in financial control variables such as market, to, book value (MB), leverage (LEV), and firm size (SIZE). These variables showed significant correlations with cash holdings thereby emphasizing their substantial impact on the decision of a company to hold liquid assets and at the same time explaining their place in the models used for analysis.

Most of the correlations between the independent variables were quite low, indicating low multicollinearity among them. The strongest correlation found was 0.473 between the variables firm size and board size, thus, adequately justifying the inclusion of these variables in the statistical models. In doing so, the effects of corporate governance mechanisms on the cash, holding policies are thoroughly evaluated.

3.4 Regression result

Table 5

Regression result

VARIABLES	(1) Cash holdings	(2) Cash holdings	(3) Cash holdings	(4) Cash holdings
BSIZE	0.00300 (0.00190)	0.00314 (0.00191)	0.00315 (0.00194)	0.00330* (0.00193)
B_IND	-0.0181 (0.0330)	-0.0197 (0.0329)	0.0297 (0.0288)	0.0283 (0.0288)
B_Gender	-0.0492 (0.0607)	-0.0625 (0.0617)	-0.0695 (0.0677)	-0.0845 (0.0684)
Risk management committee	0.0163*** (0.00599)	0.0168*** (0.00604)	0.0162** (0.00650)	0.0164** (0.00652)
AUD QUAL	0.0150** (0.00657)	0.0146** (0.00663)	0.0122* (0.00661)	0.0120* (0.00666)
AC_INDEPENDANCE	0.151** (0.0728)	0.193** (0.0881)	0.118 (0.0903)	0.157 (0.0963)
AC_Size	-0.000492 (0.00351)	-0.000880 (0.00353)	-0.000124 (0.00338)	-0.000462 (0.00340)
MB	0.00830** (0.00323)	0.00771** (0.00330)	0.00961*** (0.00325)	0.00909*** (0.00332)
ROA	0.0131 (0.0479)	0.00507 (0.0475)	0.00629 (0.0465)	-0.00273 (0.0460)
LEV	-0.0362*** (0.0126)	-0.0383*** (0.0125)	-0.0528*** (0.0131)	-0.0549*** (0.0131)
SIZE	-0.0204*** (0.00532)	-0.0202*** (0.00556)	-0.0169*** (0.00552)	-0.0167*** (0.00577)
Constant	0.0908 (0.0853)	0.0604 (0.0999)	0.0462 (0.100)	0.0172 (0.107)
Year Dummy	No	Yes	No	Yes
Industry Dummy	No	No	Yes	Yes
Observations	749	749	749	749
R-squared	0.081	0.088	0.139	0.146

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

The regression findings in Table (4.4) reveal that some corporate governance mechanisms are the significant factors that corporate firms' cash holdings policies in Saudi Arabia. Particularly, the existence of the risk management committee and quality external auditing that is highly evaluated both are positively and significantly related to cash holdings. The risk management committee's role is very remarkable in Saudi companies due to the unique features of the local business environment. The Saudi economy is witnessing major transformations under Vision 2030 such as increased investment openness, the oil price volatility, and the non, oil sectors' development.

These factors have pushed the firms to be extremely careful in their liquidity management. A dedicated risk committee gives the companies a framework to deal with these uncertainties in a controlled manner which ultimately results in a higher probability of saving cash as a buffer against unexpected cash flow disruptions. To give an example, the risk committee, unlike other governance mechanisms such as board size or independence, is the one that directly address the risks that destabilize the company, hence explained its powerful impact on the decision of keeping cash.

This result is consistent with Almulhim et al. (2024), who reported that independent and financially competent risk committees are a way to lower agency costs and subsequently promote the adoption of conservative corporate financial policies, and among these policies is the holding of cash at a higher level.

Regarding external audit quality, the first reason a company moves towards conservative financial policies is to make sure that they always have liquidity running through their accounts which is an indication of their capacity to honor the financial commitments. As commonly known, companies that take the services of the Big Four auditors are usually bigger in size, exposed to the public eye and hence the pressure to reduce financial risks by maintaining a reasonable level of cash is natural among them. In the Saudi context where the financial markets are still budding, liquidity is one of the handrails that can hold the eyes of investors and financiers' firm as to the solvency and operational stability of a company.

In addition, the results are in line with Hassanein & Kokel (2019) who pointed out that quality auditing may positively impact the level of cash holding via the channels of enhancing cash utilization efficiency and raising its market value.

On the other hand, this result stands in opposition to the findings of Peng & Chau (2023), Muhammad et al. (2023), and Hunjra (2025) who reported a negative audit quality and cash holdings relationship, arguing that a strict checking audit limits managerial discretion and hampers the excessive cash hoarding. The discrepancy in the results suggests that the impact of audit quality on cash policies varies according to the different contexts with the developing market in Saudi Arabia and the emphasis on financial signaling being the reasons behind the positive correlation.

On the other hand, some variables like, for example, board independence, gender diversity, and audit committee size don't have consistent or significant relationships with cash holdings. The board size exhibits only a weak and marginal effect, implying that less attention is placed on board structure in the Saudi financial policy context. These findings agree with those from prior studies in emerging markets.

For example, Wirianata (2024) discovered no significant influence on cash reserves of board meetings, audit committee size, and managerial ownership for Indonesian listed companies; in the meantime, board structure exerted only a minor effect. Likewise, Saudi, based articles (Al-Mubarak, 2023; Al-Yati & Al-Mubarak, 2022) suggested that board characteristics may have an impact on agency costs and performance but not necessarily on effective cash management.

Furthermore, Nashi & Saad Eldeen (2025) concluded that changes in audit committee size alone didn't significantly affect cash reserves.

Nonetheless, several corporate governance mechanisms may have a bearing on liquidity in very specific circumstances. Internal governance, according to the findings of Akhtar et al. (2018) and Chen et al. (2020), is strong enough and when combined with efficient risk management they are capable of reducing agency costs and financially prudent policies are the result of the two going hand in hand.

Studies in Egypt and Oman (Afifi, 2015; Dwaikat, 2023) have revealed that, depending on the different institutional frameworks, board composition, ownership concentration, and executive management ownership may be factors that influence the amount of cash that a company is willing to hold with the variations in the nature and strength of the effect.

Therefore, this research points out that while some board characteristics such as size, independence, gender diversity, and audit committee size seem to be of little or no significance in the Saudi context as far as cash, holding behavior is concerned, governance mechanisms, on the whole, may or may not have impacts on cash, holding behavior depending on the national and institutional context.

In terms of the characteristics of the firms under review, the study revealed that the firms which have greater growth opportunities (as presented by the market, to, book ratio) have a higher tendency to keep more cash for funding future investments internally. Thus, it can be said to be in accordance with the previous research (Dittmar & Mahrt-Smith, 2007; Harford et al., 2008) that investment opportunities in a firm are positively correlated with cash holdings used for internal financing.

On the other hand, the companies that are more highly leveraged and bigger in size hold less cash probably because they have less need for cash and have easier access to external financing. The profitability of a firm which is its ability to generate earnings from its resources has no significant effect on the level of cash holdings. It can be summarized that the study's results are a confirmation that corporate governance and firm, specific factors jointly determine the cash, holding behavior of Saudi listed firms.

3.5 Results of Dynamic GMM Estimation

Table 6

Results of Dynamic GMM Estimation

VARIABLES	(1) Cash holdings	(2) Cash holdings	(3) Cash holdings	(4) Cash holdings
L.Cash holdings	1.303*** (0.203)	1.220*** (0.168)	1.271*** (0.386)	1.244*** (0.292)
L2.Cash holdings	0.593* (0.346)	0.545* (0.294)	0.506* (0.296)	0.461 (0.371)
B_SIZE	-0.002 (0.006)	-0.001 (0.006)	0.005 (0.007)	-0.000 (0.007)
B_IND	-0.113 (0.114)	-0.032 (0.100)	-0.562 (0.356)	-0.103 (0.224)
B_Gender	0.923* (0.556)	0.106 (0.449)	2.168** (1.052)	0.228 (0.801)
Risk management committee	-0.071*** (0.027)	-0.052** (0.022)	-0.074 (0.065)	-0.046 (0.038)
AUDQUAL	-0.035 (0.035)	0.028 (0.037)	0.032 (0.063)	0.026 (0.036)
AC_INDEPENDANCE	38.843 (25.523)	-0.351 (19.948)	67.285** (30.829)	6.011 (22.907)
AC_Size	0.022 (0.025)	-0.005 (0.019)	0.057* (0.031)	-0.001 (0.027)
MB	-0.002 (0.009)	-0.009 (0.010)	-0.017 (0.010)	-0.012 (0.012)
ROA	-0.147 (0.214)	0.058 (0.200)	-0.249 (0.169)	0.052 (0.209)
LEV	0.156** (0.076)	0.055 (0.055)	0.267*** (0.095)	0.081 (0.056)
SIZE	0.098 (0.061)	0.011 (0.047)	-0.001 (0.033)	0.016 (0.035)
Constant	-39.791 (26.082)	0.257 (20.354)	-67.115** (30.468)	-6.120 (22.542)
Year Dummy	No	Yes	No	Yes
Industry Dummy	No	No	Yes	Yes
Observations	534	534	534	534
Number of firms	125	125	125	125
ar1p	0.00237	0.00403	0.0297	0.0155
ar2p	0.786	0.688	0.890	0.919
Hansenp	0.179	0.110	0.477	0.110

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

The results of the dynamic GMM, System estimations shed light on how corporate governance mechanisms relate to cash holdings within firms from Saudi Arabia in a more comprehensive manner. Static models primarily capture contemporaneous associations; however, the dynamic panel methodology incorporates the healing of financial behavior over time and further isolates the causal influences.

This is especially applicable in Saudi Arabia where the institutional frameworks are gradually changing and companies might encounter atypical governance and market situations.

A significant discovery of the GMM research is that cash holdings are strongly dependent on the past. The positive and statistically significant coefficients for both the first and the second lags of cash holdings imply that liquidity levels from the past are a major determinant of current cash policies. The company's liquidity strategies are usually deliberately adjusted and changed only gradually rather than fast, abrupt changes according to this study.

Stability in financial behavior together with adjustment costs and risk aversion, which is deeply rooted in the habits, may all have influenced this result, thereby strengthening the idea that cash holding decisions are part of a firm's strategic plan for the future rather than simply being a short, term financial or governance reaction.

Surprisingly, the link between the risk management committee (RMC) and cash holdings presents a complete reversal when the dynamic model is applied. The static models, on the contrary, showed result differently by the positive relationship between them. The GMM results, however, demonstrate a negative and statistically significant effect in that case, which means that after controlling for endogeneity and firm, specific effects, the evidence shows that companies with risk committees tend to have lower levels of cash reserves.

What this means is that good risk management enables a firm to use its resources more efficiently in dealing with uncertain situations and, therefore, it can do without the excessive cash hoarding that serves as a precaution.

To put it differently, risk committees seem to move companies from the mere symbolism of governance towards the real functional oversight, which is in line with the

arguments of Chen et al. (2020) and Al, Najjar and Clark (2017) who indicate that good internal governance leads to optimal liquidity management rather than over-accumulation.

Audit quality demonstrated significance in the static models but had no statistical relevance in the dynamic GMM analysis, thus, the latter analysis explains that external audits may have an effect on compliance and reporting functions only and not on decisions related to liquidity on a daily basis.

Similar to this, board size and board independence remain largely insignificant, thus it further confirms that formal board structures may not necessarily have much effect on cash policy especially in situations where decision, making power is either centralized or informal governance practices are predominant.

The finding reported here is consistent with the mixed results of the studies such as Hassanein and Kokel (2019), Peng and Chau (2023), and Kim et al. (1998) which demonstrate that the effects of governance on cash holdings may vary considerably.

One model, in particular, identifies board gender diversity as an important factor, thereby, establishing a positive and statistically significant correlation with cash holdings. The reason behind the trend that more diverse boards tend to lean towards more conservative and risk, aware financial practices can be the increase in diversity or it could be a sign of the overall improvement in governance, thus strategic planning being one of it. Nevertheless, since the impact is inconsistent across different specifications, it must be interpreted with caution.

Moreover, the GMM findings indicate that audit committee independence is a matter of concern because in one specification an unusually large coefficient was produced. This huge magnitude most probably signifies model instability or multicollinearity; thus, it is important to interpret such results carefully and in the light of the entire model.

The analysis of the control variables also reveals changes in the dynamic models. Whereas, leverage was negatively related to cash holdings previously, at times it associates positively with cash holdings, which could imply that highly leveraged companies hold more cash as an insurance against the risks which are still almost always present in newly developing capital markets.

Other explanatory variables such as profitability, size and growth possibilities do not have statistical significances any longer; they show that their effects which are apparent in the static models have been influenced by unobserved factors within the firm or confounding dynamics.

To sum up, the dynamic GMM, System estimations demonstrate a much complicated and in certain respect, developing, scenario of the way governance mechanisms which are interrelated with corporate liquidity choices. They emphasize the necessity of going beyond static correlations so as to take into account the internal workings, risk considerations, and past behavior.

Results in Saudi Arabia under Vision 2030 show that for governance mechanisms to influence strategic financial decisions like cash holdings, it is not enough for them to exist only formally; they must also be effective. Moreover, as corporate governance keeps developing, it is becoming more and more probable that it will have regular and significant impacts on liquidity management.

Chapter Four

Summary and Conclusion

4.1 Introduction

This chapter summarizes the main results of the study about the influence of corporate governance mechanisms on the cash holding policies of Saudi non-financial firms listed on the Saudi Stock Exchange. It brings together descriptive statistics, correlation analyses, regression results, and dynamic GMM estimations, thus giving a comprehensive illustration of the extent to which governance structures influence corporate liquidity behavior. The findings from each method of analyses were debated against the background of previous empirical studies as well as the unique institutional, economic, and cultural environment of Saudi Arabia.

Moreover, the chapter demonstrates how the discoveries can be of help corporate managers, policymakers, and investors by shedding light on the role of governance mechanisms, such as risk management committees, board composition, and audit quality, in the decisions regarding cash holdings.

The study's limitations are also outlined, such as conceivable data issues, the idiosyncrasies of the sample, and contextual elements that might influence the generalizability of the findings. On the whole, the chapter outlines the future research possibilities and provides some practical suggestions for the improvement of corporate governance and the enhancement of liquidity management in emerging market contexts such as Saudi Arabia.

4.2 Summary

The descriptive findings indicate that the level of cash holdings retained by Saudi non-financial companies is generally low; however, there is a significant variation in cash holdings among companies, which reflects differences in financial policies, operational needs, and investment strategies. Governance mechanisms also vary: characteristics such as board size, board independence, and gender diversity differ among companies, while other aspects such as the presence of a risk management committee or the quality of external audit show only moderate variation, and audit committee independence is largely uniform.

Market, to, book ratio, leverage, and firm size, which are firm, specific characteristics, have some degree of relationship with cash holding, and the absence of multicollinearity among the independent variables helps to validate the regression analyses.

Static regression results reveal that a risk management committee and high external audit quality are positively and significantly associated with cash holding. In contrast, board size, board independence, and gender diversity do not show significant effects. Firm, specific variables also play a role in determining cash holding policies: firms with more investment opportunities keep a larger portion of cash to finance future growth internally, while bigger and more leveraged companies have lower cash holdings, which is in line with their greater ability to obtain external financing.

Dynamic GMM results give a more detailed picture by showing that cash holding is highly persistent over time and that the level of cash in the past strongly determines the current level. The dynamic analysis further shows that the association between risk management committees and cash holding turns negative when firm, specific factors are controlled for, implying that firms with well, functioning risk committees may be able to handle uncertainty effectively and therefore do not need to accumulate excessive cash.

Equally, the importance of external audit quality and other governance variables is reduced in some models, while board gender diversity has a positive impact in one model, indicating that diverse boards may lead to more conservative and risk, aware financial policies.

The research convincingly demonstrates that the cash, holding behaviors of companies are influenced by corporate governance as well as firm characteristics. Besides, the dynamic analyses shed light on the patterns and complexities of the governance liquidity nexus and point to the significance of factoring in time, dependent aspects and firm, specific situations when studying corporate financial policies.

Saudi Arabia differs from other traditional emerging markets, which are usually characterized by capital constraints and a lack of liquidity, as it represents a high-income emerging economy with a structural surplus of liquidity largely driven by oil revenues.

4.3 Implications of the Study

The results reflect that the effects of corporate governance mechanisms on cash holding are various. More specifically, the establishment of a risk management committee definitely has a significant direct effect on cash holding policies while other standard governance measures such as board size and board independence generally fail to show a statistically significant impact in the majority of models. These findings imply that traditional governance structures may need to be reconfigured in order to capture the distinctive features and institutional settings of emerging markets like Saudi Arabia.

The study further reveals that even though some traditional indicators such as board size and independence may not have a direct effect on cash holding, gender diversity and specialized committees, especially risk management committees, exert a positive influence in dynamic models. This illustrates the need to come up with more context, specific and localized instruments for measuring governance quality and its effect on strategic financial decisions.

Though the establishment of a risk management committee is a discretionary move under the Saudi governance system, the evidence shows that such a committee: i) allows companies to be more resilient while facing market volatility and uncertainty; ii) facilitates a more efficient cash holding policy; hence the value of optimally utilizing chosen, but voluntary, governance committees for improving internal control, risk oversight and liquidity management is clearly underlined.

4.4 Recommendation

Based on the results of the study, the following suggestions are made:

1. Enhancing Diversity on Boards

Given the underrepresentation of women on boards in the studied sample, it is suggested that their participation be increased. Increasing gender diversity is also part of promoting gender equality, as emphasized by Saudi Vision 2030, which considers women's participation a key component of broader economic diversification efforts and a key objective of Vision 2030, specifically women's participation in leadership positions.

2. Strengthening Committee Independence

Audit and risk management committees should be granted greater independence, even if it is currently optional under the Saudi governance framework. Independent committees have the potential to significantly enhance internal control and oversight, thereby reducing conflicts of interest and improving cash flow management. The concept of committee independence aligns with Saudi Vision 2030's goal of promoting transparency and accountability within a plan for a thriving economy.

3. Establishing Clear Regulatory Guidelines

Regulators should establish specific standards to enable the effective functioning of risk management committees and require them to disclose their policies and activities transparently. This not only ensures accountability but also encourages the standardization of risk management practices across different companies. This is part of Saudi Arabia's Vision 2030 to develop clear and binding governance regulations.

4. Hiring high, quality external auditors

Corporations ought to trust their external auditors being from Big Four firms, as the research shows that the quality of the audit is a major factor that influences cash management. High, quality audits are instrumental in keeping liquidity control at a good level and in closing the door to cash misappropriation.

5. Giving the appropriate training programs

It is necessary that board members and top executives be trained in risk management, corporate governance, and liquidity management. Training can lead to better financial decisions, improved monitoring, and lessening of issues related to managerial authority thus coordinating with the study's emphasis on effective governance as a major factor in the management of cash holding policies.

4.5 Limitation and Future Research

This paper identifies its limitations, some of which are also the source of further research areas. First, the number of samples is small, only 134 non-financial firms, which might be a factor that limits the extendibility of the findings to other companies listed on the Saudi Stock Exchange or in different markets.

Moreover, the data refer to a short period covering, thus, the possibility of concluding on the long, term effects of governance mechanisms on cash holding policies is limited. In order to increase the external validity and to better understand the governance liquidity dynamics, future research could consider larger and more representative samples of populations and use a time frame long enough to include, for instance, periods of economic turbulence so that one can evaluate the persistence as well as the long, term behavior of corporate cash holding.

Secondly, this study considered board size, risk management committees, and external audit quality as different governance mechanisms. However, other mechanisms may significantly affect the determination of cash holding policies. These are, for example, management incentives, ownership structure, and compensation systems. There is a need for further research to investigate these other or additional mechanisms that can give a more holistic picture of how governance influences cash holding.

Responding to these issues will allow the findings to be more generalizable and help to achieve a deeper and more accurate comprehension of the nexus between corporate governance and cash holding in emerging markets such as Saudi Arabia.

The period from 2017 to 2023 coincided with significant amendments to corporate governance regulations. This, in turn, may reflect some changes in corporate behavior and the effects of implementing these regulations; they are not merely improvements to governance rules. Therefore, future research could utilize the difference-differences methodology to isolate the impact of governance during this period.

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Appendices

Appendix A

Study Sample

sector name	NAME	
Basic Materials Sector	Advanced Petrochemical Company	1
Basic Materials Sector	Al-Yamamah Steel	2
Basic Materials Sector	Al-Jouf Cement	3
Basic Materials Sector	Al-Kathiri Holding Company	4
Basic Materials Sector	Al-Lujain Company	5
Basic Materials Sector	Arabian Cement Company	6
Basic Materials Sector	Arabian Pipe Company	7
Basic Materials Sector	Basic Chemical Industries Company	8
Basic Materials Sector	Al-Madinah Cement Company	9
Basic Materials Sector	Eastern Province Cement Company	10
Basic Materials Sector	Packaging Materials Manufacturing Company	11
Basic Materials Sector	Hail Cement Company	12
Basic Materials Sector	Methanol Chemicals Company	13
Basic Materials Sector	Middle East Paper Manufacturing Company	14
Basic Materials Sector	Najran Cement Company	15
Basic Materials Sector	Nama Chemicals Company	16
Basic Materials Sector	National Gypsum Company	17
Basic Materials Sector	National Industrialization Company	18
Basic Materials Sector	National Company for Manufacturing and Casting Metals	19
Basic Materials Sector	National Petrochemical Company	20
Basic Materials Sector	Northern Province Cement Company	21
Basic Materials Sector	Qassim Cement Company	22
Basic Materials Sector	Sahara International Petrochemical Company	23
Basic Materials Sector	Saudi Arabian Fertiliser Company	24
Basic Materials Sector	Saudi Arabian Mining Company	25
Basic Materials Sector	Saudi Basic Industries Corporation (SABIC)	26
Basic Materials Sector	Saudi Cement Company	27

Basic Materials Sector	Saudi Industrial Investment Group	28
Basic Materials Sector	Saudi Kayan Petrochemical Company	29
Basic Materials Sector	Saudi Paper Manufacturing Company	30
Basic Materials Sector	Saudi Steel Pipe Company	31
Basic Materials Sector	Southern Province Cement Company	32
Basic Materials Sector	Tabuk Cement Company	33
Basic Materials Sector	Takween Advanced Industries Company	34
Basic Materials Sector	National Glass Industries Company	35
Basic Materials Sector	Umm Al-Qura Cement Company	36
Basic Materials Sector	Union Wire Factories Company	37
Basic Materials Sector	Cement Company Al Yamamah Cement Company	38
Basic Materials Sector	Yanbu Cement Company	39
Basic Materials Sector	Yanbu National Petrochemical Company	40
Basic Materials Sector	Zahrat Al Waha Trading Company	41
Basic Materials Sector	Zamil Industrial Investment Company	42
Basic Materials Sector	Riyadh Cement Company	43
Energy sector	National Shipping Company of Saudi Arabia	44
Energy sector	Al-Drees Petroleum and Transport Services Company	45
Energy sector	Saudi Arabian Oil Company	46
Energy sector	Saudi Arabian Refineries Company	47
Energy sector	Rabigh Refining and Petrochemical Company	48
Energy sector	Arabian Drilling Company	49
capital goods	Saudi Ceramic Pipes Company	50
capital goods	Saudi Industrial Exports Company	51
capital goods	Amiantit Saudi Arabia Company	52
capital goods	Ayan Investment Company	53
capital goods	Al Babtain Energy and Communications Company	54
capital goods	Saudi Ceramics Company	55
capital goods	Middle East Specialized Cables Company	56
capital goods	Electrical Industries Company	57
capital goods	Al Omran Industrial and Trading Company	58
capital goods	Saudi Cables Company	59

capital goods	Bawan Company	60
capital goods	Astra Industrial Group	61
Business and professional services	Saudi Printing and Packaging Company	62
Business and professional services	Saudi Airlines Catering Company	63
Business and professional services	Mahara Human Resources Company	64
Business and professional services	Sadr Logistics Services Company	65
Transportation	Saudi Ground Services Company	66
Transportation	Saudi Industrial Services Company	67
Transportation	Saudi Public Transport Company	68
Transportation	United International Transportation Company	69
Transportation	Dheeb Rent a Car	70
Transportation	Batk Investment and Logistics Company	71
Durable goods	Saudi Industrial Development Company	72
Durable goods	Abdul Latif Industrial Investment Company	73
Durable goods	Thob Al Aseel Company	74
Durable goods	Lazurde Company For Jewelry	75
Durable goods	Naseej International Trading Company	76
Durable goods	Naseej International Trading Company	76
Durable goods	Futtaim Holding Group	77
Consumer services	National Education and Training Company	78
Consumer services	Gulf Training and Education Company	79
Flags and Entertainment	Saudi Research and Marketing Group	80
Flags and Entertainment	Tihama Advertising and Public Relations Company	81
Luxury goods retail	Saudi Automotive and Equipment Services Company	82
Luxury goods retail	Saudi Hardware and Tools Company	83
Luxury goods retail	United Electronics Company	84
Luxury goods retail	Al-Hassan Ghazi Ibrahim Shaker Company	85
Luxury goods retail	Baazeem Trading Company	86
Luxury goods retail	Jarir Marketing Company	87

Luxury goods retail	Abdullah Saad Mohammed Abu Moati Libraries Company	88
Food Retail	Saudi Marketing Company	89
Food Retail	Thimar Development Holding Company	90
Food Retail	Abdullah Al-Othaim Markets Company	91
Food Retail	Bin Dawood Holding Company	92
Food Retail	Anam International Holding Group	93
Food production	Saudi Fisheries Company	94
Food production	Saudi Dairy and Food Products Company	95
Food production	National Agricultural Development Company	96
Food production		97
Food production	Al-Jouf Agricultural Company	98
Food production	Eastern Development Company	99
Food production	Qassim Investment Holding Company	100
Food production	Almarai Company	101
Food production	Tabuk Agricultural Development Company	102
Food production	Jazan Energy and Development Company	103
Food production	Halwani Brothers Company	104
Food production	Wafra for Industry and Development Company	105
Food production	Savola Group	106
health care	Food Development Company	107
health care	Saudi Chemical Holding Company	108
health care	National Medical Care Company	109
health care	Al-Hammadi Development and Investment Company	110
health care	Middle East Healthcare Company	111
health care	Al-Mowasat Medical Services Company	112
health care	Company Dallah Healthcare	113
Pharmaceutical	Dr. Sulaiman Al Habib Medical Group	114
Technology Applications and Services	Saudi Pharmaceutical Industries & Medical Appliances Corporation	115
Applications and Technology Services	Al Moammar Information Systems Company	116
Telecommunications	Bahr Al Arab Information Systems Company	117

Telecommunications	Etihad Etisalat Company	118
Telecommunications	Etihad Atheeb Telecommunications Company	119
Telecommunications	Saudi Telecom Company	120
Utilities	Saudi Mobile Telecommunications Company	121
Utilities	Saudi Electricity Company	122
Utilities	National Gas & Industrialization Company	123
Utilities	Al Khorayef Water & Energy Technology Company	124
Real Estate Management and Development	International Water & Energy Works Company	125
Real Estate Management and Development	Emaar Economic City	126
Real Estate Management and Development	Saudi Real Estate Company	127
Real Estate Management and Development	Al Andalus Real Estate Company	128
Real Estate Management and Development	Red Sea International Company	129
Real Estate Management and Development	Riyadh Development Company	130
Real Estate Management and Development	Jabal Omar Development Company	131
Real Estate Management and Development	Dar Al Arkan Real Estate Development Company	132
Real Estate Management and Development	Taiba Investment Company	133
Real Estate Management and Development	Makkah Construction & Development Company	134



جامعة النجاح الوطنية
كلية الدراسات العليا

دور حوكمة الشركات في تشكيل ممارسات الاحتفاظ بالنقد: رؤى
من المملكة العربية السعودية كإقتصاد ناشئ عالي الدخل

إعداد
نور طلعت حافظ الضميري

إشراف
د. إسلام عبد الجواد

قدمت هذه الرسالة استكمالاً لمتطلبات الحصول على درجة الماجستير في التمويل،
من كلية الدراسات العليا، في جامعة النجاح الوطنية، نابلس - فلسطين.

دور حوكمة الشركات في تشكيل ممارسات الاحتفاظ بالنقد: رؤى من المملكة العربية السعودية كاققتصاد ناشئ عالي الدخل

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الملخص

هدفت هذه الدراسة إلى تحليل أثر آليات الحوكمة في تشكيل ممارسات الاحتفاظ بالنقد في الشركات السعودية المدرجة في سوق الأسهم السعودي، مع التركيز على متغيرات الحوكمة مثل حجم مجلس الإدارة، ونسبة الأعضاء المستقلين، وتمثيل المرأة في المجلس، وجودة التدقيق الخارجي، واستقلالية لجنة المراجعة. كما شملت الدراسة لجنة إدارة المخاطر، وهي لجنة اختيارية بموجب نظام الحوكمة السعودي. كما شملت الدراسة بعض متغيرات الرقابة المالية مثل العائد على الأصول، والرافعة المالية، وحجم الشركة، ونسبة القيمة السوقية إلى القيمة الدفترية.

استخدمت الدراسة الإحصاء الوصفي، ومعاملات الارتباط، ونماذج الانحدار الثابت، والتحليل الديناميكي (GMM) لتحليل البيانات.

خلصت الدراسة إلى أن آليات الحوكمة وخصائص الشركة تلعب دوراً هاماً في تشكيل سياسات الاحتفاظ بالنقد، مؤكدةً على أهمية الفعالية العملية للحوكمة، وخاصةً لجان إدارة المخاطر، بدلاً من مجرد وجودها الرسمي. كما قدمت الدراسة توصيات لتعزيز استقلالية اللجان، وزيادة التنوع في مجالس الإدارة، واعتماد سياسات نقدية متحفظة. كما قدمت توجيهات لأبحاث مستقبلية ودراسة العوامل النوعية والثقافية المؤثرة على الاحتفاظ بالنقد.

الكلمات المفتاحية: حوكمة الشركات، الاحتفاظ بالنقد، لجنة إدارة المخاطر، جودة التدقيق، استقلال

مجلس الإدارة، تنوع مجلس الإدارة، الشركات السعودية.