

Shariah and Corporate Conduct: Tracing the Evolution of Corporate Disregard in Saudi Arabia through Historical Perspectives

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Abstract

The framework of corporate governance in Saudi Arabia strongly aligns with Shariah law, which emphasizes principles of honesty, fairness, transparency, and social responsibility in business practices. This study delves into the historical context of corporate disregard in Saudi Arabia, tracing its origins and development within the country's legal framework. The analysis encompasses a comprehensive review of the evolution of corporate law, judicial precedents, and legislative reforms that have shaped the application and interpretation of corporate disregard in Saudi Arabia. The historical trajectory reveals the dynamic nature of corporate governance and liability in Saudi Arabia, highlighting the influence of cultural norms, economic imperatives, and legal adaptations. The nuanced understanding of historical developments offers a foundation for comprehending the contemporary application of piercing the corporate veil in Saudi Arabia and informs discussions on potential future trajectories in corporate law and business practices within the country.

Keywords: Corporate Governance, Corporate Disregard, Foreign Direct Investment, Shariah Law, Shareholder Rights

INTRODUCTION

Corporate disregard also referred to as "piercing the corporate veil," is a legal doctrine that allows courts to lift the veil of limited liability characteristically enjoyed by shareholders so that they could be held personally liable for a corporation's malfeasance or misappropriation⁵. In standard corporate law, protection of shareholder personal liability exists only to that level of investment in the corporation, but in case of fraud, unethical activities, or serious abuse of corporate structure, protection can be withdrawn⁶. A court raises its defense of corporate disregard when clearly showing shareholders are misusing the corporate form to escape debt or other obligations or for the perpetuation of wrongful conduct without accountability⁷. By lifting the veil, the courts hold liable beneficiaries of corporate action that causes harm or is involved in noxious corporate activities. This principle helps check for abuse of the corporate form while ensuring the issue of fairness and accountability, notably in a system such as Saudi Arabia's judicial, founded in Shariah law.

The Mid-20th century saw Saudi Arabia emerge as an economic power, and the sudden development of the nation brought with it a change in corporate culture⁸. Companies sought to adapt to global standards and reach farther markets by setting traditional values aside, among which was their allegiance to Shariah principles⁹. The newly emerging multinational companies and Western models served as a dilemma for them and the ways they can economically grow while being ethically and religiously correct. Based on this conflict between modern corporate behavior and Islamic values, we today identify what forms the basis of corporate disregard¹⁰. In Saudi

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⁵ Pace, H. Justin. "Rogue Corporations: Unlawful Corporate Conduct and Fiduciary Duty." *Mo. L. REv.* 85 (2020): 1.

⁶ Bant, Elise. "Culpable corporate minds." *UW Austl. L. Rev.* 48 (2020): 352.

⁷ Thomas, W. Robert. "Corporate Criminal Law Is Too Broad-Worse, It's Too Narrow." *Ariz. St. LJ* 53 (2021): 199.

⁸ Alrebh, Abdullah F. *Saudi Arabia in the Anglo-American Press: Covering the Kingdom During the 20th Century*. Taylor & Francis, 2023.

⁹ Boville, Bruce Bintliff. *Saudi Official Religion: Bringing New Meaning to Old Ideas*. The University of Texas at Austin, 2020.

¹⁰ Alanzi, Awad Ali. "Development of the civil legal system in Saudi Arabia." *J. Legal Ethical & Regul. Issues* 23 (2020): 1.

Arabia corporate governance have shown significant evolvement, this evolvement has particularly occurred in the past few decades, reflecting modern business standards along with Islamic values¹¹.

Corporate disregard holds an important place in Saudi Arabia since it aligns with the principles of Shariah law and the traditional elements of society in determining shareholders' responsibility¹². Shariah law accords significant attention to the duty of accountability and observes rigid adherence to morality, stating that anyone should lead his affairs with honesty and justice while transacting business. Unlike general corporate structures that substantially depend upon the principle of limited liability, the Shariah doctrine seeks to prohibit the application of the corporate entity to evade moral and monetary obligations¹³. By alignment, this environment, which is both legal and cultural, pushes the courts towards piercing the corporate veil when occasioned by a shareholder's misuse so as to ensure justice and, by extension, societal trust¹⁴.

The framework of corporate governance in Saudi Arabia strongly aligns with Shariah law, which emphasizes principles of honesty, fairness, transparency, and social responsibility in business practices¹⁵. These values highlight the country's effort to establish an approach that allows corporate behavior to align with the core societal and religious values of the public¹⁶. However, Saudi Arabia has been constantly under pressure to globalization and establish a modern economy, as currently, it is making efforts to meet the goals of Vision 2030, which aims to reduce dependency on oil, diversify the economy, and attract investment from foreign entities¹⁷.

Culturally, the collectivist culture in Saudi Arabia ponders collective good versus individual gain. It further justifies this expectation: shareholders, as custodians of corporate entities, are expected to act in ways that do not harm society but bring good¹⁸. According to this definition, fraud or environmental damage is not merely a legal breach but also a transgression of social and moral norms. Recent reformation, especially that found in Vision 2030 has elegantly remarked on transparency and accountability in corporate governance through the inculcation of Shariah-compliant mechanisms for dealing with misconduct¹⁹. The recourse of personal responsibility bestowed to shareholders in case of corporate abuse accounts for not only the Shariah tenets but also the cultural expectations of adapting in such a way so that in the Saudi context, businesses are conducted ethically and responsibly as well²⁰.

The pressure to diversify the economy, attract international investment, and reduce dependency on oil has greatly amplified these forces²¹. Globalization introduces Western corporate practices obsessive in the pursuit

¹¹ Hassan, Abul, M. Sadiq Sohail, and Md Mahfuzur Rahaman Munshi. "Shari'ah governance and agency dynamics of Islamic banking operations in the Kingdom of Saudi Arabia." *ISRA International Journal of Islamic Finance* 14, no. 1 (2022): 89-106.

¹² Umar, Umar Habibu, Egi Arvian Firmansyah, Muhammad Rabi Danlami, and Mamdouh Abdulaziz Saleh Al-Faryan. "Revisiting the relationship between corporate governance mechanisms and ESG disclosures in Saudi Arabia." *Journal of Accounting & Organizational Change* 20, no. 4 (2024): 724-747.

¹³ Al-Faryan, Mamdouh Abdulaziz Saleh, and Jassem Alokla. "Do publicly listed insurance firms in Saudi Arabia have strong corporate governance?." *Economics* 11, no. 1 (2023): 21.

¹⁴ Kouaib, Amel. "Corporate sustainability disclosure and investment efficiency: The Saudi Arabian context." *Sustainability* 14, no. 21 (2022): 13984.

¹⁵ Bin Hagshah, Abdulaziz Farraj. "The new Saudi Corporate Governance Framework: a comparative legal study with the UK and Delaware." PhD diss., University of Glasgow, 2022.

¹⁶ Al-Faryan, Mamdouh Abdulaziz Saleh. "Corporate governance in Saudi Arabia: An overview of its evolution and recent trends." *Risk Governance and Control: Financial Markets & Institutions* 10, no. 1 (2020): 23-36.

¹⁷ Bashir, Mohamed Sharif, and Abdo Aglan Babiker. "EVALUATION OF SHARI'AH GOVERNANCE PRACTICES IN SAUDI ARABIAN BANKS." *Malaysian Journal of Syariah and Law* 11, no. 2 (2023): 243-270.

¹⁸ Alasmri, Ahmed Dhaifallah. "Exploring the relationship between the board of directors and the Shari'ah Supervisory Board in Islamic financial institutions in Saudi Arabia." (2020).

¹⁹ Boulanouar, Zakaria, Rihab Grassa, and Faisal Alqahtani. "The dynamic interplay of Shariah compliance rank and financial performance: nonfinancial listed firms in Saudi Arabia as a testing ground." *Journal of Financial Reporting and Accounting* (2024).

²⁰ Abdulrahman, Zunaiba, Tahera Ebrahimi, and Basil Al-Najjar. "Exploring the nexus between Islamic financial institutions Shariah compliance disclosure and corporate governance: New insights from a cross-country analysis." *International Journal of Finance & Economics* 29, no. 4 (2024): 4590-4612.

²¹ Alqarni, Ahmed Ali M. "The impact of corporate governance on major shareholdings: the case of Saudi Arabia." PhD diss., Newcastle University, 2021.

of shareholder value and high growth-which can create tensions between such approaches with the Shariah sensibilities of social responsibility, transparency, and moral accountability²². Within this context, corporate disregard becomes an issue that deeply affects Saudi businesses and makes alignment with Islamic values fail in having complete public trust, investor confidence, and social stability²³. The study explores how Saudi Arabia's corporate practices, influenced by globalization and Vision 2030's economic goals, are affecting the way the corporate disregard concept is evolving.

The financial regulatory authority of Saudi Arabia which is known as the Capital Market Authority (CMA) plays an important role in enforcing corporate governance standards, ensuring accountability, and promoting transparency²⁴. The CMA also issues Saudi Corporate Governance Regulations (SCGR), which provide proper guidelines for the rights of shareholders, disclosure requirements, and board responsibilities. These regulations are developed to align with the balance between Shariah values and international best practices²⁵. Despite the major efforts made by the Saudi government, there are still many situations that are yet to be addressed including the effort to adopt corporate global practices without compromising the principles of Shariah²⁶.

Shariah law comes from the principles of Quran and Hadith and it is the primary legal and moral framework for business, social, and personal attributes in Saudi Arabia²⁷. Shariah has a major influence on the corporate behavior of the country which focuses on strict guidelines regarding major issues. For instance, the Shariah guidelines on *riba* (interest) are very strict as it is majorly prohibited in Islam, it emphasizes prohibiting practices that exploit the principle of Islamic finance²⁸. As a result of these guidelines the corporate industry, and the banking industry of Saudi Arabia cannot collect interest like the Western banks, instead, they use leasing arrangements, profit-sharing models, or equity-based financing which are per Shariah values²⁹. However, the forces of globalization and modernization have compelled some companies to sidestep these constraints, therefore, leaving room for corporate disregard whereby ethical principles may be compromised for bottom lines or when embracing Western practices³⁰.

Moreover, other unethical practices are prohibited under Shariah law including *maysir* (gambling or speculative risk) and *gharar* (*excessive uncertainty*), as these practices majorly affect corporate making³¹. According to this, the companies operating in Saudi Arabia may not invest in alcohol, speculative trading, or the gambling industry as these are inconsistent with the principles of Shariah. Instead of these industries businesses focus on contributing positively to the community by investing in infrastructure, real estate, and education³². Similarly, many companies integrate *zakat* into their Corporate Social Responsibility (CSR) strategies, where profit portions are allocated to social development projects, poverty alleviation, and charitable initiatives. Whereas in the CSR

²² Hassan, Abul, M. Sadiq Sohail, and Md Mahfuzur Rahaman Munshi. "Shari'ah governance and agency dynamics of Islamic banking operations in the Kingdom of Saudi Arabia." *ISRA International Journal of Islamic Finance* 14, no. 1 (2022): 89-106.

²³ Akgün, Oğuzhan. "Political Economy of Transformation in Saudi Arabia." Master's thesis, Middle East Technical University, 2022.

²⁴ Alzhrani, Abdulrahman AA. "The role of The Ministry of Commerce and The Capital Market Authority (CMA) in Protecting Shareholders and Holding Directors accountable in Saudi's Corporations." *International journal of computer science and network security: IJCSNS* 22, no. 8 (2022): 187-196.

²⁵ Ibid 12

²⁶ Sari, Ali Al. "The Regulatory Framework of the Market of Corporate Control Legal and Economic Analysis of the Saudi Case." (2020).

²⁷ Al-Farsi, K. "Exploring sharia law in Islamic jurisprudence." *Social Science Chronicle* 1, no. 1 (2022).

²⁸ Alshammari, Khaled. "Corporate governance from an Islamic perspective: exploring the telecommunications sector in GCC countries." PhD diss., University of Sheffield, 2022.

²⁹ Murphy, Maurice J., and Jan M. Smolarski. "Religion and CSR: An Islamic "political" model of corporate governance." *Business & Society* 59, no. 5 (2020): 823-854.

³⁰ Ibid 15

³¹ Talha, Mohammad, Syed Mohammad Faisal, and Ahmad Khalid Khan. "Shariah Law in Commercial Banking and Stock Market: Recent Development, Challenges and Practices." *International Journal of Religion* 5, no. 6 (2024): 620-630.

³² Ahmed, Syed Zubair. "An Evaluation of the Anti-Fraud Regime in Saudi Arabia from the Islamic Shariah Perspective." *Universal Journal of Business and Management* (2021): 94-120.

standards of the West social responsibility is not considered as an obligation but as an individual's optional activity³³.

These principles make the business culture of Saudi Arabia unique, where corporate success is measured by adherence to religious and ethical standards along with financial success³⁴. Companies that do not follow the values of the country face legal penalties, reputable damage, and loss of public trust. However, there is a notable gap in research on corporate disregard and ethical conduct in the Saudi context, more particularly on the influence of Shariah on business³⁵. While Islamic finance principles are well-documented few studies examine their practical application in diverse business industries. Another major gap is the lack of studies analyzing the balanced adaptation of Shariah rules and Western business standards in the Saudi corporate industry³⁶. Addressing these gaps can help illuminate the real-world challenges and adaptations in economic transformation and regulatory reforms of Saudi corporate governance while shedding light on situations that lead to corporate disregard³⁷.

This paper addresses the evolution of corporate disregard in Saudi Arabia, looking at how Shariah law addresses the abuse of corporate power. It weighs the balance for a modern corporate structure, such as a limited liability company, and its ethical requirements against Shariah law, which calls for personal accountability and justice. Using an analysis of the role of Shariah in forging the structure of corporate governance, this paper explains how legal and cultural frameworks will evolve to make sure that corporate malpractices are dealt with at their best when shareholders are held accountable for their actions even within a prison of limited liability. For tracing Saudi Arabia's evolution of corporate disregard chronologically, a structured timeline approach will help highlight key historical periods, shifts in corporate practices, and regulatory responses. This research will provide insight into the dynamic correlation between contemporary business practices and religious values in Saudi Arabia.

Saudi Corporate Law

The Establishment of the Kingdom of Saudi Arabia

The unification of Saudi Arabia by King Abdulaziz Al-Saud, based on Islamic principles and centrally governed, is a great insight into one way of addressing corporate disregard within the Kingdom's legal and corporate framework³⁸. Just like King Abdulaziz brought these disparate governance systems under one single, Shariah-driven structure, this is exactly how Saudi Arabia's present corporate governance system finds an address to abuse of corporate power, through Shariah-based principles; that is, further amplified by ethical accountability and justice in governance and business practices³⁹.

King Abdulaziz's gradual approach to unification minimized disturbances while securing stability when submitting to the premise of Islamic values⁴⁰. Similarly, addressing corporate disregard requires the incremental integration of Shariah principles into corporations' frameworks with little economic uncertainty and without

³³ Naim, Nadia. "The Ethical Considerations for a New Model of Intellectual Property Protection Under Sharia Law Principles in the GCC States." *Ethical Discourse in Finance: Interdisciplinary and Diverse Perspectives* (2021): 247-270.

³⁴ Ibid 15

³⁵ Alamri, Maree Ali, and Ibraheem ahmed Alshekmubarak. "Corporate Governance and Business Ethics in Saudi Arabia Listed Banks: An Accountability Perspective." *Journal of Accounting Research, Organization and Economics* 6, no. 3 (2023): 229-240.

³⁶ Alfordy, Faisal D., and Rohana Othman. "Legal Challenges Towards Achieving Corporate Governance Transformations in Emerging Economies—Minority Shareholders' Rights Protection: The Case of Saudi Arabia." *European Business Organization Law Review* 23, no. 4 (2022): 997-1023.

³⁷ Ibid 24

³⁸ Algahtani, Ahmad Mohammad. "Legal Uncertainty and the Effect of Legal Duality on the Legal System of Saudi Arabia." PhD diss., University of Kansas, 2021.

³⁹ Almulhim, Zakaria A. "Judicial Review of Governmental Actions: A Constitutional Transformation of the Acts of State Doctrine in Saudi Arabia." PhD diss., University of Minnesota, 2022.

⁴⁰ Ibid 34

destabilizing the economic environment⁴¹. The Kingdom's system of governance, resting upon local and tribal accountability in Islam, provides a historical precedent for enforcing personal responsibility, even within the decentralized or limited liability structure⁴².

As Saudi Arabia develops into more traditional forms of governance like the General Shura Council, this mirrors its corporate transformation⁴³. Such systems represent a commitment to ethical accountability and modern practices wrapped in a fabric of Islamic principles. It is also in step with the legacy of sensitizing one to corporate disregard, reflecting a system that promotes a corporate culture fully in step with Saudi Arabia's historical stand for justice, unity, and Shariah values⁴⁴.

Historical Economic Data and Development of Saudi Arabia

Another very influential factor that has shaped Saudi Arabia's structure and behavior, aside from the two previous elements- Islamic instruction and centralization of power is its significant oil deposits⁴⁵. Most of this oil, accounting for a quarter of the world's total, has played a role in financing massive social development as well as placing Saudi Arabia in a list of the world's twenty richest countries. However, this dependence on oil has also resulted in creating an environment that provides for corporate disregard, since corporations are increasingly driven by revenues and fast-paced growth⁴⁶. Furthermore, due to excessive use at home and the lack of alternative sources of income, such apprehensions also raise doubts about long-term economic sustainability.

Saudi Arabia's growth in GDP was very much in line with the fluctuation in oil prices as it had high growth during the oil boom in the 1970s and early 2000s, and the economy grew very slowly during the oil price decline in the 1980s and the 2010s⁴⁷. The early development plans, essentially established between 1970 and 1985, aimed to develop most other sectors such that this economy would not be so vulnerable to fluctuations in the oil price. These plans focused on adding schools, universities, hospitals, and roads because those were set to be a fundamental basis for such economic strategies in the future⁴⁸. In this, however, the uneven change in progress kept the price of oil volatile, in turn, showing the sensitivities of the global oil market shifts to the economy⁴⁹. Corporate misconduct manifested in often insufficient planning or myopic strategies by business groups, as they focused on short-term gains at the expense of developing sustainable development practices rather than sponsoring resilience, which further entrenched reliance on oil⁵⁰.

Although the oil dependence that many of these plans were designed to fight weighed so heavily upon them and derailed many, the foundation was laid for more aggressive economic policies to rescue corporate

⁴¹ Ibid 35

⁴² Alrebh, Abdullah F. *Saudi Arabia in the Anglo-American Press: Covering the Kingdom During the 20th Century*. Taylor & Francis, 2023.

⁴³ عبدالكريم, الذبيبي, and عبدالكريم. "Judicial Evolution in the Kingdom of Saudi Arabia: An Analysis of Structural Reforms and its Role in Enhancing Legal Consistency." 43 *Journal of Islamic Law*, no. 43 (2024).

⁴⁴ Abir, Mordechai. *Saudi Arabia in the Oil Era (RLE Saudi Arabia): Regime and Elites; Conflict and Collaboration*. Routledge, 2020.

⁴⁵ Ibid 40

⁴⁶ AlzaidAlsharif, Hadeel Ibrahim. *The transition of Saudi Arabia from a resource-based economy to a knowledge-based economy: Developing human, social, and moral capital in the 21st century*. LINCOM GmbH, 2022.

⁴⁷ Almohaimeed, Mohammed. "Economic Growth in Oil-Rich Countries: A Theoretical Analysis with an Application to Saudi Arabia." PhD diss., University of York, 2021.

⁴⁸ Moshashai, Daniel, Andrew M. Leber, and James D. Savage. "Saudi Arabia plans for its economic future: Vision 2030, the National Transformation Plan and Saudi fiscal reform." *British journal of Middle Eastern studies* 47, no. 3 (2020): 381-401.

⁴⁹ Hathroubi, Salem, and Chaker Aloui. "Oil price dynamics and fiscal policy cyclicity in Saudi Arabia: New evidence from partial and multiple wavelet coherences." *The Quarterly Review of Economics and Finance* 85 (2022): 149-160.

⁵⁰ Razeq, Noha HA, and Brian McQuinn. "Saudi Arabia's currency misalignment and international competitiveness, accounting for geopolitical risks and the super-contango oil market." *Resources Policy* 72 (2021): 102057.

complacency in the long run⁵¹. The early efforts, however narrow they may have been, formed a basis on which today's transformational plans function, big enough to power the shift away from oil as GDP's primary fuel⁵². Nonetheless, even as the Saudi business sector gradually adjusts to those workable models, nagging issues of business neglect remain relevant, particularly where businesses compromise Shariah-based ethics for short-term advances in financial profit, a malady that leaves many corporate governance and sustainability practices much more bereft of better integration with national priorities⁵³.

Private investment, religious tourism, and non-oil exports are the key drivers of sustainable growth in research. As private investment has been one of the most important drivers of GDP growth, this development would boost the economy well into the future⁵⁴. When Saudi Arabia continues its quest to diversify its economy more and more, policy and legal reforms will be essential to drive its financial ecosystem forward to reach the standards of the rest of the world⁵⁵. However, corporate disregard remains a concern at large because some corporations may be more concerned about making more money rather than abiding by the new reforms, which would contradict the very nature of the sustainability and diversification of an economy⁵⁶. The much-needed strengthening of the governance framework would therefore be necessary to ensure that Saudi Arabia's transition to an infinitely more stable and diversified economic model is not thwarted by corporate disregard⁵⁷.

Foundations of Saudi Arabia's Economic and Corporate Evolution

Shariah-Based (Saudi Arabia) vs. Western Corporate Governance Models

Corporate governance models and Shariah-based corporate governance in Saudi Arabia have both similarities and major differences, which are shaped by their legal and ethical frameworks⁵⁸. One of the significant features that the two systems share is accountability and transparency, which are critical aspects of instilling integrity and confidence in corporate practices. They will protect the interests of the employees, shareholders, as well as other customers⁵⁹. When companies sidestep or do not live up to these principles at all, largely through being driven by Western business models that reward profit and shareholder value over any ethical concerns, thus corporate disregard is practiced⁶⁰. Both Shariah, as well as international corporate governance regimes, recognize the obligation to uphold the rule of law in avoiding the failure of moral mandate.

The principles of Shariah law are highly dependent on personal liability and also emphasizes the personal responsibility of those who make decisions in the corporation⁶¹. Deception and dishonesty are abhorred and business practices must be transparent and clean. People transacting business are also expected to behave in

⁵¹ Bordoff, Jason, and Meghan L. O'Sullivan. "The age of energy insecurity: How the fight for resources is upending geopolitics." *Foreign Aff.* 102 (2023): 104.

⁵² Ibid 46

⁵³ Saeed, Suhail A. "An Analysis of Saudi Arabia's Natural Resource." PhD diss., 서울대학교 대학원, 2020.

⁵⁴ Beck, Martin, and Thomas Richter. "Pressured by the decreased price of oil: Post-2014 adjustment policies in the Arab Gulf and beyond." In *Oil and the political economy in the Middle East*, pp. 1-35. Manchester University Press, 2021.

⁵⁵ Alharbi, Mohammed. "Identifying an Optimal Foreign Currency Reserve Composition to Mitigate the Volatility Spillover Effect of Declining Oil Price: The Case of Saudi Arabia." PhD diss., Victoria University, 2020.

⁵⁶ El Azhary, Mohammad S., ed. *The impact of oil revenues on Arab Gulf development*. Taylor & Francis, 2023.

⁵⁷ Azad, Shama. *Ushering in the Post-Oil Era: A Functional Finance Approach to Development, Diversification and Sustainability in Saudi Arabia*. University of Missouri-Kansas City, 2023.

⁵⁸ Mahsoon, Tahani. "Shariah corporate governance and risk management in Saudi Arabian banks." (2023).

⁵⁹ Khatib, Saleh FA, Dewi Fariha Abdullah, Hamzeh Al Amosh, Ayman Hassan Bazhair, and Ali Shariff Kabara. "Shariah auditing: Analyzing the past to prepare for the future." *Journal of Islamic Accounting and Business Research* 13, no. 5 (2022): 791-818.

⁶⁰ Tumewang, Yunico Karina, Indri Supriani, Herlina Rahmawati Dewi, and Md Kausar Alam. "An extended review on Sharia governance studies from 1985 to 2022." *Journal of Islamic Accounting and Business Research* (2023).

⁶¹ Calder, Ryan. "Shari'ah-compliant or shari'ah-based? The changing ethical discourse of Islamic finance." *Arab Law Quarterly* 35, no. 1-2 (2020): 50-73.

line with the dictates of Shariah to avoid fraudulent steps that may hurt others⁶². This applies even to corporate shareholders, who do not have immunity from the responsibility even if it is behind a limited liability structure. For fraud or harm through the actions of the corporation, Shariah demands that these shareholders must be held responsible for the wrong. The believers are considered trustees in ethical business and unethical business is not allowed⁶³. This aligns with the greater Islamic principle of "Amanah" meaning trustworthiness, emphasizing that individuals within the business have the responsibility to act in the best interest of society. Hence, Shariah ensures that businesses operate not for sole profitability but for the greater good of society by ensuring justice, equity, and accountability in all corporate dealings⁶⁴.

Shariah Mechanisms for Addressing Corporate Disregard

Evolutionary mechanisms of Shariah law on the approach toward addressing corporate misuse and corporate disregard have been greatly transformed over time, assimilating modern legal concepts of higher accountability⁶⁵. Among such developments is a new approach to incorporating Shariah-compliant corporate governance frameworks, allowing Shariah courts to bypass limited liability protections where the corporation has misbehaved mainly against stakeholders or breached ethical norms⁶⁶. Such frameworks are now directed at ethically led business practices with higher transparency and accountability.

Today, the Shariah audit finds an application in corporate audit activities to investigate ethical malpractices, identifying cases of corporate malpractice wherein business enterprises' owners misuse legal structures to shun individual responsibility⁶⁷. Current trends in such judgment by the court introduce CSR applied through a Shariah lens. Here, companies are not only held guilty of financial malpractices but also of social and environmental ones. The progressive mechanisms reflect a modernized approach, ensuring that there is personal accountability of business owners for their misuse while orienting towards both ethical and legal expectations⁶⁸.

Historical Evolution of Corporate Conduct in Saudi Arabia

Pre-Modern Saudi Arabia

The concept of *amanah* (trustworthiness), was the core value in that era as it required merchants to uphold transparency and honesty⁶⁹. The key practices were influenced by the Sunnah of Prophet Muhammad which included the insistence on honoring commitments and mentioning clear terms in trading. There was a self-regulation system in the markets known as *bisbab*, in which a market inspector (muhtasib) was appointed to ensure that market trading aligned with ethical standards⁷⁰. This ended up forming a strong ethical foundation,

⁶² Yahya, Nurhidayah, Muhammad Nazmul Hoque, Norbalkish Zakaria, Farah Aida Ahmad Nadzri, and Sharifah Norzehan Syed Yusuf. "GOVERNANCE AND ACCOUNTABILITY IN PROMOTING SHARIAH AND SUSTAINABLE PRACTICES: THEMATIC ISSUE ON GOVERNANCE AND ACCOUNTABILITY [FROM THE EDITORS]." *Journal of Nusantara Studies (JONUS)* 8, no. 3 (2023): 480-491.

⁶³ Arshad, Zubair, Talat Hussain, and M. Mahmood Shah Khan. "Does Shariah governance eliminate default risk: A Shariah governance index for banking sector." *Paradigms* 14, no. 2 (2020): 180-188.

⁶⁴ Ibid 59

⁶⁵ Ibid 22

⁶⁶ Aldahmash, Abdullah Nasser. "The liabilities of company directors in Saudi Arabian law and Islamic law." *Journal of University Studies for Inclusive Research* 5, no. 15 (2023): 9744-9782.

⁶⁷ Almajri, Ibrahim. "The enhancement of accountability and transparency in corporate governance framework in Saudi Arabia." PhD diss., University of Sussex, 2021.

⁶⁸ Alsadhan, Khalid Sami O. "Takeovers of publicly traded companies in KSA: a critique of regulations and minority shareholders protection rules in the takeover context." PhD diss., Newcastle University, 2023.

⁶⁹ Grasso, V.A., 2023. *Pre-Islamic Arabia: societies, politics, cults and identities during Late Antiquity*. Cambridge University Press.

⁷⁰ Ramaioli, Federico Lorenzo. "The Saudi Model and Shari'a as Constitution." In *Shari'a and the Constitution in Contemporary Legal Models: Two Worlds in Dialogue*, pp. 123-155. Cham: Springer International Publishing, 2024.

which fostered a commercial environment based on trust and respect for community welfare adhering to Islamic laws on fair trade, this acted as a core component for developing corporate ethics in Saudi Arabia⁷¹.

However, as companies grew in modern times, the movement from personal to impersonal practices proved challenging in maintaining such ethics⁷². The *amanah* principle, as that principle would seem to proclaim and encourage personal responsibility, might operate at odds with the limited liability structure of the corporation and the exploitative use of the corporate veil⁷³. It is an exploitation of this veil to avoid financial responsibility or ethical standards that presents a lack of respect for the foundational values of transparency and trust in their most blatant form⁷⁴. These forms of corporate disregard undermined the integrity of not only commerce but also social and ethical bonds central to the *amanah* conception of the Islamic tradition. Therefore, for shaping corporate conduct in Saudi Arabia it was considered important to maintain a balance between traditional values and modern corporate governance⁷⁵.

Post-Oil Boom and the Rise of Corporate Entities (1950s–1970s)

Saudi businesses began to be highly influenced by the corporate practices of the West during this period⁷⁶. Practices including contracts, performance-based management, and standardized accounting were brought by multinational corporations and Western oil companies that partnered with Saudi companies. Many firms embraced Western corporate models, in this case, on growth and profitability principles⁷⁷. This led to the beginning of corporate disregard as companies started focusing on profit rather than being Shariah compliant. Which in turn caused a moral dilemma for judges leading them to disregard the corporate veil of these companies whenever something violates Shariah principles. However, the intersection of local values with Western corporate frameworks laid the foundation of a modern corporate culture in Saudi Arabia, highlighting the ongoing challenge of aligning modern corporate systems with foundational Shariah principles of fairness and accountability⁷⁸.

Consolidation of the Saudi Corporate Sector 1980s–1990s

The corporate sector in Saudi Arabia witnessed significant consolidation within the 1980s-1990s; it was precisely within these periods that not only were state-owned businesses growing but also private companies substantially⁷⁹. The government took such initiatives to expand companies in creating economic diversification as well as shifting reliance away from oil-related revenues. The process of economic diversification advanced through all sectors led by state-owned firms like Saudi Basic Industries Corporation (SABIC) and Saudi Aramco, while the private sector was developing new ventures in the construction, banking, and retail sectors, which meant more investment opportunities⁸⁰. The government went ahead to introduce several policies and

⁷¹ Ibid 66

⁷² Ibid 12

⁷³ Helms, Christine. *The Cobesion of Saudi Arabia (RLE Saudi Arabia): Evolution of Political Identity*. Routledge, 2020.

⁷⁴ Hashed, A., and F. Almaqtari. "The impact of corporate governance mechanisms and IFRS on earning management in Saudi Arabia." *Accounting* 7, no. 1 (2021): 207-224.

⁷⁵ Boshnak, Helmi A. "Corporate governance mechanisms and firm performance in Saudi Arabia." *International Journal of Financial Research* 12, no. 3 (2021): 446-465.

⁷⁶ Ibid 53

⁷⁷ Ghoble, Vrushal T. "Saudi Arabia After the Arab Spring the Oil Era and Reforms." In *Arab Spring and Its Legacies*, pp. 122-133. Routledge.

⁷⁸ Mohammed N, Alshehri Abdulrahman, Geng Xianhui, and Syed Ahsan Ali Shah. "Non-oil economic transition for economic and environmental sustainability in Saudi Arabia: a multi-factor analysis under fuzzy environment." *Environmental Science and Pollution Research* 28, no. 40 (2021): 56219-56233.

⁷⁹ Hallak, Hala. "THE IMPACT OF MERGER AND ACQUISITION ON SHAREHOLDERS WEALTH: EVIDENCE FROM MENA REGION." *Economic and Social Development: Book of Proceedings* (2022): 108-120.

⁸⁰ Ibid 71

programs that became additional measures under the umbrella of the Foreign Investment Act towards the enhancement of standards of corporate governance as well as encouraging more international investments⁸¹.

However, this growth came at the expense of sometimes crossing over ethics and regulation in the corporate sector as growth and profit became the goals⁸². Corporate disregard cases appeared because some of these corporations used the growing complexity of business structures as a means of dodging accountability issues that seemed to run against the very foundation of Islam regarding fairness and social responsibility⁸³. This, therefore, highlighted the tension between fostering rapid economic progress and maintaining a robust ethical framework for preventing abuses of the corporate veil⁸⁴.

Globalization and Increasing Corporate Disregard 2000s–Present

The corporate landscape of Saudi Arabia has continuously been evolving and globalized since the 2000s, as many corporate industries of the country have expanded and adapted to Western business models⁸⁵. The influence of foreign companies and global pressure has brought competitive practices with new management styles and operational efficiency standards. Besides these influences driving huge economic growth, many corporate industries sometimes neglect the core values of the country that are rooted in local regulations and Shariah principles⁸⁶. This can be observed from the practices of many construction, finance, and energy companies, which often bypass labor law and engage in practices that are environmentally harmful to meet global standards⁸⁷. This has also led to inappropriate usage of limited liability structures and corporate frameworks to circumvent accountability, which reflects corporate disregard. This highlights the importance of strengthening the regulatory frameworks that relate economic growth to core values related to equality and community welfare in Saudi Arabia⁸⁸.

Emergence of Corporate Disregard in Saudi Arabia

Modern Corporate Structures and Limited Liability

The establishment of Limited Liability Companies (LLCs) and the adoption of Western-style corporate forms in Saudi Arabia marked an important break from the past in the business world, most notably during the 20th-century oil boom⁸⁹. The key tenet of this law became the institution of limited liability, where shareholders were protected from financial loss on their account by being liable only for the debts incurred by the company up to their investments⁹⁰. It helped the growth of this type of enterprise as more local and foreign investors were attracted to it because it offered a haven to make investments⁹¹. However, once the LLC concept started gaining

⁸¹ Alfalih, Abdullah Abdulmohsen, and Tarek Bel Hadj. "Foreign direct investment determinants in an oil abundant host country: Short and long-run approach for Saudi Arabia." *Resources Policy* 66 (2020): 101616.

⁸² Ibid 44

⁸³ Ibid 12

⁸⁴ Hepburn, Jarrod, Martins Paporinskis, Lauge N. Skovgaard Poulsen, and Michael Waibel. "Investment law before arbitration." *Journal of International Economic Law* 23, no. 4 (2020): 929-947.

⁸⁵ Lebeau, Yann, and Jaber Alruwaili. "Convergence and local orders in the dynamics of change in higher education: a perspective from Saudi Arabia." *Policy reviews in higher education* 6, no. 1 (2022): 6-26.

⁸⁶ Ibid 12

⁸⁷ Alshammari, Abdulrahman Abdullah. "The impact of human resource management practices, organizational learning, organizational culture and knowledge management capabilities on organizational performance in Saudi organizations: a conceptual framework." *Revista Argentina de Clínica Psicológica* 29, no. 4 (2020): 714.

⁸⁸ Ibid 12

⁸⁹ Ibid 12

⁹⁰ Alkahtani, Abdullah Wahtan. "Family-owned businesses in Saudi Arabia: Challenges and solutions from a legal perspective." *Int. J. Contemp. Manag. Inf. Technol* 1, no. 2 (2021): 16-22.

⁹¹ Al-Hazzani, Muneerah, and Khalid Al-Adeem. "Do corporations' annual reports address shareholders as proprietors? Evidence from Saudi Arabia." *International Journal of Auditing and Accounting Studies* 9, no. 2 (2020): 175-192.

more popularity, questions began to be raised over the abuse of these limited liability protections that would protect shareholders from the outcome of corporate malfeasance⁹².

This increase in the complexity and magnitude of corporations led to the emergence of cases of corporate disregard⁹³. Some business owners and investors took advantage of this limited liability structure by engaging in fraudulent practices, maladministration, and even environmental damage, without any direct consequent liability on their persons⁹⁴. This rapidly growing demand also came from the growth of these abuses itself the public became increasingly aware of the social and economic harms caused by irresponsible corporate behavior⁹⁵. The tension between the legal benefits of limited liability and the ethical demands for personal responsibility underscored the need for reforms aimed at corporate disregard so that business owners could not deflect responsibility for actions damaging the community as a whole⁹⁶.

Conflicts between Limited Liability and Shariah-Based Accountability

Vision 2030 is not Saudi Arabia's first attempt at economic diversification, in reality, since 1970, many plans have attempted to turn the country into a global player and develop non-oil sectors of the GDP⁹⁷. There have been recent concerns with the roles of private investment and corporate sectors in improving GDP, but reforms to codify and modernize corporate structure have been in the works since at least 1965⁹⁸. This was the year that set the first codification efforts of corporate law, as Saudi Arabian Business Law or SABL was first implemented, modeled upon the Egyptian/French business code but modified to include principles of Islam⁹⁹. Though the SABL introduced such principles of corporate law as limited liability, its early adoption is not problem-free; inconsistent application and enforcement of corporate law would be the major problem due to judicial strictures on adherence to Shariah principles¹⁰⁰.

Limited liability does not sit well with Islamic teachings for several reasons rooted in Shariah principles. Shariah law propounds justice and accountability and demands that the wrongdoers have to pay for the wrongs caused, irrespective of any corporate shield¹⁰¹. The very notion of the protection of the shareholders from the liabilities of a company goes against the grain of Islamic practice of full accountability of the individuals¹⁰². Shariah law emphasizes justice, therefore, in any act that caused damage or resulted in debt, the person had to personally sort out the issue¹⁰³.

⁹² Alalmal, Somaiyah, Abdullah M. Al-Awadhi, M. Kabir Hassan, and Arja Turunen-Red. "The influence of religion on the determinants of capital structure: the case of Saudi Arabia." *Journal of Islamic Accounting and Business Research* 11, no. 2 (2020): 472-497.

⁹³ Tlemsani, Issam, Mohamed Ashmel Mohamed Hashim, and Robin Matthews. "The impact of IFRS adoption on Saudi Arabia." *Journal of Islamic Accounting and Business Research* 15, no. 3 (2024): 519-533.

⁹⁴ Rashid, Mamunur, Dk Siti Nur Khoirunnisaa Pg Hj, and Selma Izadi. "National culture and capital structure of the Shariah compliant firms: Evidence from Malaysia, Saudi Arabia and Pakistan." *International Review of Economics & Finance* 86 (2023): 949-964.

⁹⁵ Bakr, Sara Abdullah, and Christopher J. Napier. "Adopting the international financial reporting standard for small and medium-sized entities in Saudi Arabia." *Journal of Economic and Administrative Sciences* 38, no. 1 (2022): 18-40.

⁹⁶ Ibid 90

⁹⁷ Almutairi, Abdulhamid Hamed R. "Resolving insurance disputes in the Kingdom of Saudi Arabia: a critical assessment of the Insurance Dispute Committee." PhD diss., University of Sussex, 2020.

⁹⁸ Bashayreh, Mohammad. "The Authority of Judges under Shariah: Perspectives on Recent Legal Reforms in Saudi Arabia." *J. Int'l L. Islamic L.* 18 (2022): 42.

⁹⁹ Ibid 28

¹⁰⁰ Ibid 55

¹⁰¹ Alkhamees, Ahmad A. *A critique of creative Shari'ah compliance in the Islamic finance industry*. Vol. 11. Martinus Nijhoff Publishers, 2017.

¹⁰² Mansour, Walid, and M. Ishaq Bhatti. "The new paradigm of Islamic corporate governance." *Managerial Finance* 44, no. 5 (2018): 513-523.

¹⁰³ Abd Rahman, Nurulhuda, Muhammad Nazmul Hoque, Muhamad Rahimi Osman, and Norazam Mastuki. "Internal Shariah audit change: an identification of specific Islamic legal maxim in Islamic banking institution." *Qualitative Research in Financial Markets* (2024).

Repayment of debts is equally taken as a moral obligation in Islam¹⁰⁴. The Prophet Muhammad warns of the seriousness of debts, and Islamic teachings hold that an individual's obligations do not end at death¹⁰⁵. The concept of limited liability, which restricts the amount that the individual would be obliged to accept responsibility for, undermines the Islamic view that one must fully repay his debts¹⁰⁶. This often resulted in difficulties in terms of coherency of the precepts of traditional Islam and the current practices of corporate law, especially the separate legal personality and its aftermath, and this would require much litigation and procedure hassle to business ventures¹⁰⁷.

This can cause unequal application of corporate law, as evident in case number 403\1\ق in 1985 and 1983 case number 89\2\ق in 1983¹⁰⁸. Here, the lower courts, relying solely on Sharia principles, largely allowed the piercing of the corporate veil and held shareholders personally liable¹⁰⁹. The higher courts reversed most of those decisions, emphasizing the importance of observing principles of corporate law, including limited liability. This inconsistency threw light on the fact that in Saudi Arabia, the two divergent lines of traditional Islamic values and modern corporate practices continue to conflict with each other¹¹⁰.

The 1965 SABL was modified over several decades to strengthen the concepts of separate legal entities as well as limited liability and was devised more to illustrate why they were essential to the courts¹¹¹. In 2015, there was a complete overhaul when this new SABL was formed, which reinstated the concept of the corporate veil and placed clear guidelines for piercing under certain conditions¹¹². It was a new version of practice and an adaptation of Saudi corporate law, pushing it toward international practices but in accordance with the specifics of Shariah principles¹¹³.

This restructuring was highly necessary given the decline in investor confidence in the Saudi commercial sector¹¹⁴. This can be grasped from the decreased ranking of Saudi Arabia in the Business Confidence Index and the continued last ranking on the Ease of Doing Business index in the category of Resolving Insolvency¹¹⁵. It registered a steep decline, going down to -2 points, in the third quarter of 2016 compared to 3 points in the

¹⁰⁴ Ahmed, Essia Ries, Tariq Tawfeeq Yousif Alabdullah, Azlan Amran, and Sofri Bin Yahya. "Indebtedness Theory and Shariah Boards: A Theoretical Approach." *Global Business and Management Research* 10, no. 1 (2018): 127-134.

¹⁰⁵ Ullah, Ghufuran, and Sardar Ali. "Sharia Perspective On The Legitimacy Of Debt: Core Principles And Consideration." *Al Misbah Research Journal* 4, no. 02 (2024): 27-40.

¹⁰⁶ Malati, Fianita, Muhammad Andri Radiany, Wulandari Harjanti, Ali Farhan, and Etin Puspitasari. "Debt in a Business and Islamic Perspective." *Debt in a Business and Islamic Perspective* 11, no. 10 (2021).

¹⁰⁷ Rahim, H., Salimah Yahaya, Khalijah Mohd Nor, and Amirah Hazimah Borhanordin. "Debt in Islam: Survey in Consumer Perception." *International Journal of Academic Research in Business and Social Sciences* 11, no. 2 (2021): 165-176.

¹⁰⁸ Case number 403\1\ق

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رقم الحكم الابتدائي 1/د/16 لعام 1406هـ

رقم حكم هيئة التدقيق 1/ت/23 لعام 1407هـ

تاريخ الجلسة 1407/3/3هـ

¹⁰⁹ Burton, D. "Consumer debt prevention and discharge in the Arabian Gulf." *Journal of Consumer Policy* 44, no. 1 (2021): 21-42.

¹¹⁰ Saâ, Liman, and AbdulWahab Muhammad Jamiu Elesin. "Consideration of Mithliyy and QĀ «miyy in Debt Service under the Islamic Law of Contract." *Journal of Islamic Economic and Business Research* 2, no. 1 (2022): 39-50.

¹¹¹ Ibid 12

¹¹² Alomari, Mohammad A., and Raphael J. Heffron. "Utilising law in the transition of the Kingdom of Saudi Arabia to a low-carbon economy." *Environmental Innovation and Societal Transitions* 39 (2021): 107-118.

¹¹³ Ibid 71

¹¹⁴ Alsalloum, Abdullah SM. "The Impact of the Financial Reforms Influenced by Religious Financial Principles on the Stock Market in the Kingdom of Saudi Arabia." PhD diss., Victoria University, 2023.

¹¹⁵ Aldahoum, Abdulaziz. "The Effect of Royal Decrees and Economic Announcements on the Saudi Stock Market: A High-Frequency Data Analysis." PhD diss., Victoria University, 2021.

prior quarter. Saudi Arabia's Business Confidence was averaged at 29.06 points for the period of years 2009 to 2016¹¹⁶. The highest all-time recorded was in the third quarter of 2011 at 63.00 points, while the lowest was seen as a record-low of -12.00 points in the first quarter of 2016 (Trading Economics- Saudi Arabia Business Confidence)¹¹⁷. According to Resolving Insolvency, Saudi Arabia ranked last at 168 on the Ease of Doing Business rankings from the World Bank¹¹⁸.

Cases of Piercing the Corporate Veil in Saudi Law

In case number 439165552 in the year 2022, a creditor was seeking to have the shareholders liable for unpaid rent after finding out that the debtor LLC has not dissolved and is still carrying out business informally¹¹⁹. The lower court advised the creditor against reliance on Article 181¹²⁰. The appellate court was in disagreement with the above decision and held that a company need not be in dissolution before shareholders can be made liable since there exists a judicial decree with no statutory requirement to that effect¹²¹.

Contrary to a case filed in 2020, case no. 4062; the court was presented with evidence of insolvency by the Saudi Monetary Fund Authority, but the process of holding the shareholders liable personally on grounds of an act of desperation by the creditor had been dismissed¹²². The court held that the creditors had to exhaust all avenues of collecting from the company before targeting the shareholders, and shareholder liability could only be determined upon the dissolution or bankruptcy of the said company¹²³.

Despite the fact that the circumstances in all these cases called for piercing, the courts did not apply Article 181¹²⁴. The courts seem to be hesitant to pierce even when the circumstances call for it and the law is clear in its support for piercing¹²⁵. These inconsistencies appear to create far more hurdles before creditors seek redress: This aversion could be due to familiarity and acquiescence with the corporate veil and limited liability, leaving the judges less effective in recognizing and applying the piercing doctrine¹²⁶. The lack of binding precedents, also distinct in the overall system of civil law, makes Saudi Arabia a complicated legal environment for the judicial application of such a principle.

Modern Reforms and Regulatory Changes

Enhancements in SABL

The SABL, major reforms aimed at enhancing corporate governance and investor confidence. Articles 153-157 and 159 were to describe the scenarios under which the corporate veil could be pierced¹²⁷. Specifically, Article

¹¹⁶ Mason, Robert. "The nexus between state-led economic reform programmes, security, and reputation damage in the Kingdom of Saudi Arabia." In *Oil and the political economy in the Middle East*, pp. 124-144. Manchester University Press, 2021.

¹¹⁷ Ramady, Mohamed A. *Financial Regulation and Liberation: Saudi Arabia's Path Towards True Global Partnership*. Springer Nature, 2021.

¹¹⁸ Almutairi, M., and M. MohammedZain. "Administrative law reforms for enhancing business environment in Saudi Arabia." *Management Science Letters* 14, no. 4 (2024): 239-246.

¹¹⁹ Saudi Commercial Court, First Level Court, Case number 439165552, Year 2022.

¹²⁰ Weidemaier, W. Mark C. "Piercing the (Sovereign) Veil: The Role of Limited Liability in State-Owned Enterprises." *BYU L. Rev.* 46 (2020): 795.

¹²¹ Alanazi, Badar Mohammed Almeajel. ",Piercing the corporate veil in various jurisdictions—principled or unprincipled?" *Corporate Board: Role, Duties and Composition* 16, no. 2 (2020): 47-53.

¹²² Saudi Commercial Court, Court of Appeal, Case number 4062, Year 2021.

¹²³ Ramli, Nazri, Zuhairah Ariff Abd Ghadas, and Hartinie Abd Aziz. "Comparative Study on the Legal Framework of Corporate Group Under Common Law and Shariah." In *International Conference on Sustainable Innovation on Humanities, Education, and Social Sciences (ICOSI-HESS 2022)*, pp. 32-52. Atlantis Press, 2022.

¹²⁴ Alzhrani, Abdulrahman AA. "The Concept of Corporations In Saudi Law and Its Relationship With Islamic Law." *International Journal of Computer Science & Network Security* 22, no. 8 (2022): 425-431.

¹²⁵ Thomas, Katherine Reece. "Defining a "state" and the role of the commercial activity exception." In *The Commercial Activity Exception to State Immunity*, pp. 105-131. Edward Elgar Publishing, 2024.

¹²⁶ Weidemaier, W. Mark C. "Piercing the (Sovereign) Veil: The Role of Limited Liability in State-Owned Enterprises." *BYU L. Rev.* 46 (2020): 795.

¹²⁷ Ibid 114

153 holds shareholders liable in their own and individual capacities for committing bad faith in the form of premature dissolution of the company, failure to distinguish their acts as personal rather than the company's, or doing business in the name or on behalf of the company before its incorporation¹²⁸. Article 159 makes the list of the LLC's business endeavors narrow, with a set of corporate governance rules that would require them strictly to adhere to all of these requirements to avoid liability beyond their capital contribution¹²⁹. Therefore, these provisions aimed at harmonizing the need for the protection of shareholders with accountability and transparency in corporate governance to enhance investor confidence in the Saudi commercial legal sector as a protective measure against corporate disregard¹³⁰.

However, these clear codifications did not help the case, since lawsuits that attempted to pierce the corporate veil relied on Article 181 (Alatawi, 2024)¹³¹. This article stated that shareholders are liable for the company's debts whenever losses surpass half of its capital and the business keeps operating¹³².

The cause of such overreliance on Article 181 rather than Articles 153-157 and 159 is the misinterpretation and high hurdle of proof that accompanies the latter¹³³. The phrasing of Articles 153-157 and 159 made many lawyers believe these applied only to single-owned LLCs¹³⁴. To boot, proving bad faith or commingling of assets under the provisions of these articles was perceived as being immensely difficult as well. Contrasted with this is that the requirements under Article 181 appeared easier and more straightforward to establish¹³⁵.

Challenges and Future Directions in Addressing Corporate Disregard

Current Issues with Corporate Misuse of Limited Liability

The establishment of LLCs and their incorporation of Western corporate forms introduced a new dimension to the Saudi business landscape, mostly in the era of the so-called oil boom of the 20th century¹³⁶. Limited liability became a foundation of corporate law, whereby shareholders were protected from personal financial loss in that they could only be liable for a company's debts up to the extent of their investment¹³⁷. This framework allowed entrepreneurship to flourish within its territories because it constituted a relatively safer investment proposition and attracted local and international investors alike. Escalating penetration by LLCs was joined by increasing concerns about the bad governance over eventual LLC abuse to shield shareholders from corporate disregard¹³⁸.

As corporate entities grew larger and more complex, instances of corporate disregard began appearing¹³⁹. The advent of limited liability made it easy for a few owners and stockholders to misuse the structure of the company

¹²⁸ Ibid 39

¹²⁹ Alhejaili, Mohammad Omar Mohammad. "SECURING THE KINGDOM'S E-COMMERCE FRONTIER: EVALUATION OF SAUDI ARABIA'S CYBERSECURITY LEGAL FRAMEWORKS." *Journal of Governance and Regulation* / Volume 13, no. 2 (2024).

¹³⁰ Ibid 12

¹³¹ ALHARBI, DHOHA, and A. AMEED. "The Role of the Kingdom of Saudi Arabia's Interaction and Engagement with International Human Rights Law on Improving and Developing Its Human Rights Law." PhD diss., Durham University, 2019.

¹³² Amuda, Yusuff Jelili, and Sarah Alabdurahman. "Reinforcing policy and legal framework for Islamic insurance in Islamic finance: towards achieving Saudi Arabia Vision 2030." *International Journal of Law and Management* 65, no. 6 (2023): 600-613.

¹³³ "Basic Law of Governance | the Embassy of the Kingdom of Saudi Arabia," Saudiembassy.net, 2024, <https://www.saudiembassy.net/basic-law-governance>.

¹³⁴ Fallatah, Hussam Ibrahim. "The Efficiency of Current Measures to Protect Intellectual Property Rights in E-commerce in Saudi Arabia." *Journal of the Iraqi University* 50, no. 2 (2021): 518-525.

¹³⁵ Ibid 34

¹³⁶ Aldahmash, Abdullah Nasser. *Powers, duties and liabilities of company directors: A comparative study of the law and practice in the UK and Saudi Arabia*. Lancaster University (United Kingdom), 2021.

¹³⁷ Ibid 12

¹³⁸ Almajed, Abdullah. "A Legal Comparative Critique of the Saudi Arabian Board of Grievances System in its Current Context with Insights from the Experience in England and Wales." PhD diss., University of Essex, 2024.

¹³⁹ Ibid 86

for the sake of questionable practice, such as fraud or mismanagement, to the point of harming the environment, while being ensured not to lose personally¹⁴⁰. With these acts of malpractice growing, accountability calls strengthened especially if society became more aware of the social and economic ills caused by irresponsible corporate activities. This tension between the legal benefits accruing from limited liability and the ethical demands for personal responsibility underscored a need for reforms that would address corporate disregard and ensure business owners could not shirk away from responsibility for actions that harmed the broader community¹⁴¹.

Future Prospects for Shariab-Informed Corporate Governance:

Looking ahead, continued development in Saudi Arabia's corporate law is going to be a contributory element for creating an atmosphere that can help boost business growth and investment. There are several recommendations that may be made upon improving the Pierce corporate veil legal framework, including avoiding judicial arbitrariness, and developing clear statutory provisions and definitions for piercing the corporate veil. This will give the judges clear guidelines in making decisions, hence making their decision less judgmental.

Improvement in the clarity of the judicial decisions and reporting of precedents should result in a more predictable environment. The legal practitioners and businesses would better predict what likely outcome the veil-piercing case would have. Islamic scholars and legal practitioners need to engage each other continually and develop harmony between Shariah principles and modern business practices. This would involve finding consensus on matters such as limited liability and corporate responsibility. Encouraging best corporate governance practices among firms will reduce the possibility of such scenarios as those described above where corporate disregard is required. This would include such elements as clear segregation between the assets belonging to the corporation and personal assets, as well as practice and promotion of ethical business practices by the companies.

CONCLUSION

The historical evolution of piercing the corporate veil in Saudi Arabia highlights the dynamic interplay between legal reforms, judicial practices, and socio-economic factors. The journey from the initial codification of corporate law in 1965 to the recent reforms in 2022 illustrates the kingdom's efforts to align its legal framework with global standards while respecting its unique cultural and religious context. Understanding this historical trajectory provides valuable insights into the current state of corporate governance in Saudi Arabia and informs discussions on potential future developments. As the kingdom continues to pursue its Vision 2030 goals, the ongoing adaptation of corporate law will play a crucial role in fostering a conducive environment for business growth and investment.

¹⁴⁰ Ibid 17

¹⁴¹ Almatrafi, Hassan Ali. "Making sense of Saudi Arabian personal bankruptcy law." (2019).