FACULTY OF
MANAGEMENT & FINANCE
UNIVERSITY OF COLOMBO

Colombo Business Journal
Vol. 01, No. 01 - October 2007 (13-23)

Colombo
Business
Journal
International Journal
of Theory & Practice

The Role of Corporate Governance in the Economic Development

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Abstract

This paper presents a review of extant literature on corporate governance with a specific focus on its development impact. The paper finds that much of modern corporate governance literature is focused on the publicly held companies which are premised on the separation of ownership and control between shareholders and managers. However, it has been subjected to a paradigm shift from the stewardship theory-agency theory-stakeholder theory over the years widening the accountability of a company to encompass all its stakeholders not only the shareholders. The paper finds that effective corporate governance, benefits companies through greater access to financing, lower cost of capital and improved performance. This indicates that better corporate governance increases the likelihood that companies will satisfy the legitimate claims of all stakeholders and fulfil their social responsibilities ensuring the long-term, sustainable growth of companies, which is necessary for the economic development of a country.

Keywords: Corporate Governance, Economic Development, Capital Market, Stakeholders, Best Practice

1. Introduction

The term 'corporate governance' has become a global imperative today because of the unprecedented growth of investment in corporate entities particularly in publicly traded companies and the pivotal role they play in resource allocation process of the capital market. The private, market based investment process has now being recognised as both a major and a more effective device of channelling funds from surplus units to deficit units in the economy. Thus, firms and markets have to be more competitive in order to ensure the required flow of capital for their operations and development. This has also increased firms' exposure to market forces risk. In this context, the corporate governance has attracted public attention because of its apparent importance for the

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economic health of companies and society in general. Moreover, there is a renewed interest on corporate governance in recent times owing to growing evidence that both market and corporate failures are associated with governance issues. It was seen in many economies around the globe in 1990s that poor standards of governance, particularly in the area of transparency and disclosure, have been a major factor behind the instability in the financial markets across the world. These include the collapse of bubble economy in Japan, East Asian Crisis and Russian Crisis. Further, most recent evidence shows that poor corporate governance failed to prevent mismanagement and fraud that led to dramatic corporate failures in the USA. In the Sri Lankan context, the failures of Pramuka Bank and Vanik Incorporation have also resulted to a great extent due to poor corporate governance practices. Hence, it is important to investigate the contribution of corporate governance to financial market stability and investment growth, and thereby to the economic development of a country. In this context, the main issue addressed in this paper is how the governance structure and practices of corporate entities particularly of publicly traded companies function and how they influence the economic development of a country as these entities have become the dominant force in most of the economies in the world.

Being a theoretical paper, this aims at exploring the major developments and associated issues in corporate governance globally, the channels through which corporate governance leads to economic development, and the implications of these aspects to Sri Lankan companies. Hence, the paper carries out an extensive review of corporate governance literature specifically addressing the theories relevant to corporate governance; different corporate governance systems prevalent in the world; various global initiatives that focus on the best practice in corporate governance; and evidence on the broader relationship between these corporate governance arrangements, and economic growth and development. This review of literature focuses on what corporate governance should entail as well as how the governance structures actually function in corporate entities.

The paper is structured as follows. Section 2 discusses the concept of corporate governance and its theoretical foundation, which determines the scope of the research issue. Section 3 explores the different corporate governance systems prevalent in the world. Section 4 describes the global initiatives on developing corporate governance best practices and the associated issues. Section 5 discusses the various dimensions through which corporate governance affects the economic development of a country. Section 6 discusses the lessons that Sri Lanka companies could learn from these global developments in corporate governance. Section 7 presents the conclusion.

2. The Concept of Corporate Governance and Its Theoretical Foundation

Corporate governance is usually defined as the system and processes by which companies are supervised, directed and controlled as well as the way directors discharge their accountability to shareholders and other stakeholders of a company. Organisation for Economic Development and Corporation (OECD) (1999) defines corporate governance as "the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it provides the structure through which the objectives of the company are set, and means of attaining those objectives and monitoring performance." The board of directors plays the pivotal role in corporate governance as they are appointed by the shareholders to oversee the management on their behalf. They should ensure clear corporate direction, responsibility and accountability of those managing the company. Therefore, the process of corporate governance

involves: responsibilities (who should do what?); accountability (to whom should those with responsibilities, account? and how?); and checks and balances (the system of supervision and control procedures and communication flows). Thus, the corporate governance mechanisms encompass the legal and regulatory framework governing the actions of companies as well as the internal policies and controls established by the companies themselves to ensure that the board and management (who effectively control the company) act in the best interest of shareholders of the company (who invest in the company).

The definition of corporate governance shows that it involves a set of relationships between the management, board of directors, shareholders and other stakeholders of companies, and it provides the structure through which the objectives of the company are set, and the means of attaining those objectives. On the other hand, the corporate governance theories provide the foundation to understand these relationships and issues associated with corporate governance. Much of modern corporate governance theory is premised on the Berle and Means Hypothesis (1932) of the separation of ownership and control. According to Berle and Means, the most prevalent form of corporate entity is the widely held publicly traded companies, in which the ownership of capital is dispersed between small shareholders and control is concentrated in the hands of managers. This gives the managers the opportunity to pursue their own interests before the interests of shareholders. Hence, the literature on corporate governance is largely based on the agency theory and its variants.

The agency theory focuses on the divergence of interests of managers (agents) from those of the owners (principal). Jensen and Mackling (1976) who use the agency theory, as an explanatory theory of companies deal with the agency cost that arises due to the divergence of interests between owners and managers. They define agency cost as the sum of the monitoring expenditures by the principal, the bonding expenditures by the agent and the residual loss[1]. Hence, the agency theory states that the central issue in corporate governance is the construction of rules and incentives to effectively align the behaviour of managers (agents) with the desires of the owner (principal). These rules refer to those established by companies rather than by the legal, political or regulatory system of a country. Under the principal-agent paradigm, the two most important issues are 'adverse selection' and 'moral hazard'. Hence, these rules should ensure selection of right managers, alignment of their interests with shareholders, and appropriate monitoring and control of managers. Although much of the corporate governance literature has focused on the conflicts between managers and owners in widely held entities, the dispersed ownership is rare in the world. Except in countries such as USA and UK, insider controlled or closely held company is the norm. Shleifer and Vishny (1996) show that heavily concentrated shareholdings and a predominance of controlling ownership rule the world. Therefore, in most of the countries, the agency relationship is not between the managers and the owners. Instead it is between the controlling shareholders and the minority shareholders as reported in the studies of La Porta et al. (1999) and Claessens et al. (2000). The same case prevails in Sri Lanka as identified in the study of Senaratne and Gunaratne (2007). This conflict of interest between the controlling shareholders and the minority shareholders is commonly referred in the literature as the 'expropriation problem' as opposed to the 'agency problem' which is applied in relation to the agency relationship between shareholders and managers. Hence, in countries where the share ownership of companies is concentrated, the corporate governance systems should focus on protecting minority shareholders from the opportunism of controlling shareholders.

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[1]This refers to the reduction in welfare experienced by the principal due to the divergence of interests.

The other theories mainly used to explain these relationships are stewardship theory, stakeholder theory and political model. The stewardship theory assumes that the managers are good stewards of companies who work diligently to attain high levels of corporate profit and shareholders returns. Hence, it differs from the agency theory based on the motive of the managers. However, the inclination of individuals to act as stewards or self-seeking agents may be contingent upon the institutional context. On the other hand, the stakeholder theory specifies that the managers should take into account the wider interests of the society or all stakeholders of an entity. This theory could be reconciled with the agency theory by broadening the classical agency relationship between managers and owners in order to encompass the relationship between managers and all stakeholders. Further, the political model recognises that the allocation of corporate power, privileges and profits between owners, managers and other stakeholders is determined by how governments favour their various constituencies. It shows that the stakeholders' ability to influence the allocations between themselves at the micro level is subjected to the macro framework, which is interactively subjected to the influence of the corporate sector.

In addition, there are models of corporate governance based on culture, power and cybernetics, which provide alternative explanations to corporate governance. Hollingsworth et al. (1994) who explain the cultural perspective in corporate governance state that "transactions are conducted on the basis of mutual trust and confidence sustained by stable, preferential, particularistic, mutually obligated, and legally non-enforceable relationships. They may be kept together either by value consensuses or resource dependency - that is through 'culture' and 'community' - or through dominant units imposing dependence on others." This shows that the transactions are being governed by networks at the "mesolevel (e.g. the intermediate location between the micro-level of the firm and the macro-level of the whole economy)" rather than of the firm. While economists assume that the structure and behaviour of firms is determined by market forces, the power model perceives that the structure and behaviour of firms is determined by the management seeking greater power and security by introducing strategies such as "poison pill", "shark repellent" and etc, to repel market competition for their position of power. Dallas (1988) who developed an explicit power theory of the firm points out that in the legal reality the directors are the principal with only fiduciary duties to shareholders and the firms "act to decrease the uncertainty of its environment by increasing its power over, and autonomy from, its environment." On the other hand, cybernetic, the science of information and control provides a rigorous basis for grounding the study of corporate governance. As control is dependent upon power, a cybernetic investigation uses the power model of a firm and provides a basis for evaluating the integrity of corporate governance information and control systems.

These theories provide different perspectives to understand and assess the operation of various systems and mechanisms of corporate governance at both firm and country levels. However, no one theory or model is likely to be sufficient for understanding, evaluating or designing governance structures of companies. Therefore, the reliance on merely one perspective is unlikely to be rewarding in practical terms for improving corporate governance systems. Hence, an interdisciplinary holistic approach is required in improving corporate governance system of a country.

3. Corporate Governance Systems

Although some common elements could be identified in the governance structure of corporate entities, different systems of corporate governance are prevalent in the world. These contrasting systems of corporate governance could be classified into two main categories: The outside systems of market-based corporate governance (Anglo-Saxon Model) that prevails in Anglo-American countries

and the insider systems of relationship-based corporate governance in Continental European and Asian countries.

The central characteristics of the Market-Oriented /Anglo-Saxon Model are the widespread equity ownership with institutions having large shareholdings, shareholder interests as the primary focus of company law, an emphasis on minority shareholder protection in securities law, and regulation and a stringent requirement for disclosure. This system is characterised as disclosure based as the dispersed investors require reliable and adequate information flows in order to make informed investment decisions. The regulation is used only to ensure that all investors remain fully informed and to prevent privileged groups of shareholders sharing information among themselves.

Continental European Insider Model relies on the representation of diverse interests on the board of directors. A wider group of stakeholders is actively recognised which include employees, customers, banks, other companies with local ties, local communities and national governments. The long-term large shareholdings and inter-corporate shareholdings are wide spread in these companies. These long-term large shareholders give a degree of protection to the company from both the stock market and the threat of takeover. This system consists of a supervisory board for management, where banks play an active role and often companies have close ties with the political elite. Nestor and Thompson (2000) highlight that the major difference between this system and the Anglo-Saxon Model is that while the former emphasises on cooperative relationships and reaching consensus the latter emphasises on competition and market processes.

Most countries in the Asian region have corporate governance systems that are essentially based around close relationships, usually involving family control, and on going close relationships with creditors, suppliers and major customers. The main aspect of Asian countries is the considerable concentration of share ownership of companies where most companies either have a majority shareholder or a tightly-knight group of minority shareholders who act in concert to control it. Often, the company is a part of an extensive corporate network, which in turn has majority shareholders. Claessens et al. (op.cit.) find that ownership strategies such as pyramid ownership structure, cross-shareholdings and multiple classes of shares are extensively used in Asian countries. The potential danger of these techniques is that they create a strong incentive to the corporate insiders to pursue abusive self-dealing and related activities with the sizable corporate resources they control. In this context, it is difficult to protect the rights of minority shareholders. Prowse (1998) states though there are laws and penalties against insider-trading, related party transactions, as well as on the conduct of substantial transactions and takeovers, it is open to question how often and how rigorously these are enforced. As the majority shareholders usually dominate boards in Asian countries, the disclosure and transparency are often minimal. Furthermore, institutional shareholders and fund managers are underdeveloped in the region. The banks and other financial institutions, as the major supplier of corporate finance, play a dominant role in ensuring that companies follow governance principles and prudent financial controls.

These differences in the corporate governance systems of countries determine the way in which economies accumulate and allocate capital, and who plays the critical role in that process: professional managers, families, banks or the State. As Sheard (1998) states the key difference between these systems is related to "where the locus of corporate monitoring and control resides, and how circumscribed the rules of the game, and participation in it." These differences in the regional governance systems mainly reflect their different cultural traditions and aspirations, legal systems and economic priorities. However, there is also evidence of convergence in these systems due to the

adherence to some common international principles such as OECD Principles and International Accounting Standards. This is mainly attributable to the commitment to strive for the highest standards of governance around the world as a healthy corporate sector is an important requirement to most countries.

4. Corporate Governance Best Practice

As the critical issue today is what constitutes good corporate governance, it is worthwhile to consider the global initiatives on the development of best practice in corporate governance, which focuses on the best way of achieving the desired outcome and now it is broadly adopted internationally. These global initiatives include OECD Principles of Corporate Governance (1999 and 2004), corporate governance codes developed in UK (Cadbury Report 1992, Greenbury Report 1995, Hampel Report 1998, Turnbull Report 1999, Smith Report 2003, Higgs Report 2003 and Combined Code 2003) and USA corporate governance initiatives (COSO Frameworks-1992 and 2003, and Sarbanex-Oxley Act 2002). The OECD Principles represent a common basis that its member countries (as well as non-member countries) to consider as essential for the development of good governance practices and use as the basis of developing national corporate governance codes. These principles cover the following areas: ensuring the basis for an effective corporate governance framework; the rights of shareholders and key ownership functions; the equitable treatment of shareholders; the role of stakeholders; disclosure and transparency; and the responsibilities of the board. On the other hand, the codes of best practice of UK and USA address the basic issues of board effectiveness and accountability through the strengthening of shareholder influence, and control by boards over their companies. Hence, the key aspects addressed in these codes are the board independence, adequacy of controls and transparency.

These principles and codes are ultimately aiming at the same objective i.e. to produce effective corporate management and efficient resource allocation, although they possess very different architecture and ways of delivering those results. Further, there are several common features in them. These include independence of board membership and its committees to ensure objectivity and integrity of board decisions; a proper internal control and risk management system to ensure the transparency of information and to maintain a balance between performance and conformance strategies; recognition of long-term shareholder value and stakeholder interests by enforcing ethical and fair culture and attitudes in corporate activities; a transparent system of roles, authority and responsibility with performance based compensation policies for directors and managers; a robust process of auditor selection and appointment to ensure audit independence; and a continuous monitoring system of regulation to maintain the integrity of the markets and its information flow. Hence, there is a broader consensus on what constitutes good corporate governance.

These commonalities indicate that companies in different regions are eventually moving towards convergence and harmonisation with international best practices and standards. Millstein (1999) identifies that the underlying reason for this concern lies over the integrity of capital markets. There is a general consensus that corporate governance practices improve the quality of financial reporting, which in turn has an important impact on the investor confidence and also reduce the adverse effects of earnings management and the likelihood of misstatements arising from the frauds and errors. This aspect is reiterated in the IFAC Report[2] (2003) on 'Rebuilding Public Confidence in Financial

[2]This report concentrates on the impact of poor credibility on the financial reporting and corporate disclosure in listed companies.

Reporting', which was issued aftermath the major corporate scandals that shaken the capital markets around the world. Hence, a financial reporting system supported by strong corporate governance, high quality accounting standards and a sound regulatory framework are key to economic development of a country. The significance of corporate governance in improving market confidence is not limited to one country. It has become an international issue. This very fact has led to global corporate governance initiatives such as OECD principles of corporate governance which provide the minimum standard that countries with different traditions could agree upon, without being unduly prescriptive.

5. Corporate Governance and Economic Development

The preceding sections show that the corporate governance deals with the mechanisms used to ensure that the companies are managed in the best interest of shareholders and other stakeholders. Therefore, it affects the firm value and thereby the growth and development of the capital market and ultimately the economic development of a country. Hence, there is a general consensus that an effective corporate governance system leads to economic development and well-being. Claessens (2003) who synthesizes the research studies that investigates the relationship between corporate governance and economic development has identified the following channels through which the former affects the latter: increasing the access to external financing by firms; lowering the cost of capital and associated higher firm valuation; improving corporate performance through better allocation of resources and better management; reducing the risk of financial crises; and improving relationships with all stakeholders. These different channels through which the corporate governance mechanisms affect economic development are discussed in the subsequent paragraphs.

The governance system and structure play a critical role in determining the cost of capital and incentives for investment in an economy and a company, respectively since they provide means by which non-controlling shareholders are protected from the expropriation by managers or controlling shareholders. Seth (2004) identifies that this expropriation can include two types of actions: (1) the actions that divert resources away from investment and (2) actions that divert resources towards inefficient investment. He points out that the expectations of such expropriation would cause rational investors to demand a higher return for their capital or in the extreme case to desist from investing any capital at all. La Porta et al. (2000) also show that cost of capital is higher and valuation is lower in countries with weak property rights. On the other hand, Mckinsey & Company Survey[3] (2002) indicates that the majority of global institutional investors consider good governance is equally or more important than financial performance of companies and they are willing to pay a premium price for a company with strong corporate governance. This implies that investors apply a discount in their valuation of companies with poor corporate governance structure. Therefore, the nation as a whole benefits from a strong corporate governance system as it will lead to efficient allocation of resources and reduction in the cost of capital in the economy, which would enhance domestic productivity and international competitiveness.

A sound corporate governance system also leads to financial and capital markets development, which in turn increases the companies' access to external finance and thereby leads to larger investment, higher growth and greater employment generation. La Porta et al. (1997) provide empirical evidence that stronger the creditor rights, greater the depth of the financial system and better the quality of shareholder protection, larger the country's stock market. Oman (2001) reports that corporate governance has a role of growing importance to play in helping to increase the flow of

[3]Mckinsey Global Investor and Emerging Market Policy Maker Opinion Survey

financial capital in developing countries based on the case studies done in Argentina, Brazil, Chile, China, Malaysia and South Africa. Further, the importance of effective corporate governance for the capital market development was evident during all major financial crises of 1990s (the Mexican crisis 1994, the East Asian crisis 1997 and the Russian crisis 1998). These financial crises especially drew attention to the problems of 'crony capitalism' in emerging markets, which has resulted from large ownership concentration in these countries and to the potential benefits of improved corporate governance for overcoming the actions of vested interest groups. This is particularly important today as financial markets play a key role in the global economy due to the free movement of capital across borders. Therefore, the entrepreneurial role of companies should be bounding themselves to good governance practices to build investor confidence in order to improve their access to external finance.

Better corporate governance also adds value to companies by improving their performance through efficient management, effective resource allocation, better employment policies and etc. There is empirical evidence from USA (Gompers et al. 2003) and Korea (Joh 2003) that better corporate governance leads to increase in profits and sales growth of companies. These studies report a strong relationship between the quality of corporate governance framework and the performance of companies.

The quality of corporate governance particularly affects the behaviour of companies in times of economic shocks and actually contributes to the occurrence of financial distress with economy- wide implications. Lemmon and Lins (2003) show that some countries and companies performed better than others during the East Asian crises relying on differences in the strength of legal institutions and the structure of corporate governance mechanism that prevent the expropriation of minority shareholders. Further. Johnson et al. (2000) provide country-level evidence that weak legal institutions for corporate governance to be the key factor in worsening the stock market declines during the East Asian financial crisis. The economy-wide effects of poor corporate governance are also seen during the corporate collapses such as Enron and Worldcom, particularly in relation to market stability and investors' confidence. Further, the extant literature shows that poor corporate governance affects the functioning of a country's financial market through several channels. One channel is that it can increase financial volatility. Morck et al. (2000) provide evidence that worse transparency associated with weaker corporate governance leads to more synchronous stock price movements, which limit the price discovery role of the stock market. The other channel through which it affects companies and their valuation is mergers and acquisitions (M&A). Rossi and Volpin (2003) show that the volume of M&A activity and the premium paid were significantly higher in countries with better investor protection during 1990s.

The extant literature also shows that good corporate governance leads companies to maintain a better relationship with all its stakeholders not only with shareholders. This in turn helps companies to maintain a more socially responsible behaviour, which would ultimately contribute to the economic growth and development.

From these deliberations it is clear that corporate governance affects the economic development through several channels. These channels operate at both company level and country level, and the improved corporate governance yields benefits to both developing and developed countries. All these channels matter for economic growth, employment generation, reduction of poverty and enhance the well-being of the society generally and ultimately contribute to the economic development of a country. On the other hand, globalisation and liberalisation of financial markets have led to the restructuring of corporate governance practices of countries to create more transparency and to

facilitate smooth international exchange of capital and goods. Further, a range of factors affect the role and functioning of corporate governance as it is only a part of the larger economic context in which companies operate. Therefore, the impact of corporate governance on economic development of a country is shaped by a number of factors, which include macroeconomic policies; the degree of competition in product and factor markets; legal, regulatory, and institutional environment; business ethics; and corporate awareness of societal interests of the communities in which companies operate.

6. Lessons for Sri Lankan Companies

The review and analysis of literature in the preceding sections show that corporate governance could play a significant role in the economic development of a country. In this context, it is important to examine the important lessons that Sri Lankan companies could learn from these connections between corporate governance and economic development.

In the Sri Lankan context too corporate governance has moved higher up in the agenda of companies as the private capital has become the prime source of financing for investment. With the economic liberalisation policies introduced after 1977, private sector companies particularly the publicly held companies play the dominant role in the Sri Lankan economy and the stock market based financing has become a key ingredient of it in recent times. Further, Sri Lankan companies are also subjected to the waves of globalisation, and the integration of capital and factor markets in the world. Although Sri Lanka has not been subjected to severe market crises as in East Asian countries and mass scale corporate governance scandals as in USA and Europe, there had been a few isolated incidents where governance related issues have contributed to the collapse of certain companies in Sri Lanka. The two notable incidents are the fall of finance companies in 1980s and the recent closure of Pramuka Bank, which have contributed to the reduction of the investors' confidence on the financial system of the country to a certain extent. This indicates that the corporate governance issues have a significant bearing on the Sri Lanka's economy too. Hence, an effective corporate governance framework is a paramount interest for economic development in Sri Lanka. In this respect, Sri Lankan companies as well as regulators can learn from the corporate governance developments around the world when formulating the firm level and national level corporate governance policies.

In this respect one important consideration would be the high ownership concentration in Sri Lankan publicly traded (listed) companies and its implications on corporate governance and economic development. Senaratne and Gunaratne (op.cit.) find a high level of concentration of control rights in the hands of a business group or a family in most Sri Lankan listed companies via extensive use of pyramid and cross-holding ownership structures and participation in management by controlling shareholders. This study also finds that this concentrated ownership structure has a significant influence on the governance structure and practices of these companies. It is evident by the significantly higher level of compliance of widely held companies with the corporate governance best practice compared to that of the companies with a concentrated ownership. Further, this concentrated ownership structure acts as a barrier in having an effective corporate control market in Sri Lanka, which is an external corporate governance mechanism in developed capital markets. In the Sri Lankan context corporate takeovers usually take place not when there is a failure in the management, but to enhance the power of certain individuals or groups of companies. This shows that the ownership concentration in Sri Lankan companies could act as a force against improving corporate governance and thereby hinder the economic development of the country as these ownership arrangements could lead to severe waste, market distortions and often massive misallocation of resources. Hence, this aspect should be given due consideration in corporate governance reforms in Sri Lanka.

Out of the different corporate governance systems explained in the paper, the Anglo-Saxon Model of corporate governance is of great importance to Sri Lankan companies due to two main reasons: Firstly, the relevance of this model to the unitary board structure of Sri Lankan companies. Secondly, the strong historical ties of Sri Lankan companies to this model arising from British colonial rule (e.g. Sri Lankan company law is firmly rooted in the British company law). Hence, the Code of Best Practice[4] for Sri Lankan companies is primarily based on the corporate governance codes developed in UK. However, Sri Lankan capital market is still an emerging market and more funds are raised through banks and other financial institutions, and the ownership of most Sri Lankan publicly traded companies is highly concentrated in the hands of few key shareholders who often turn to be few wealthy families or individuals. These characteristics are similar to governance systems prevailing in Continental and Asian countries. Therefore, the biggest challenge to Sri Lankan companies is how to embrace the principles of international corporate governance models to suit local conditions.

Whilst considering these specific issues associated with corporate governance, the broader point that needs attention in corporate governance reforms in a developing country such as Sri Lanka is the relationship between corporate governance and public governance. It is not only that sound corporate governance requires sound public governance but also vice versa. Given the power of corporate insiders and their close relationships with those who exercise political power at the highest levels, a simultaneous movement in the institutions of corporate and public governance is required in Sri Lanka from highly personalized and strong relationship based systems to effective rule based systems. Hence, this shows that a broader outlook is required in discussing the role of corporate governance in the economic development in Sri Lanka.

7. Conclusion

The review of extant literature in the paper shows that corporate governance focuses on the way the individual companies are directed and controlled. However, cultural aspirations, ownership patterns, legal systems and economic development of all the countries are not the same. Hence, differences could be seen in the way the companies are directed and controlled in different countries. On the other hand, due to the wider economic and social significance of corporate governance, codes of best practice and international guidelines on corporate governance have been developed. These codes and guidelines reflect the role that good corporate governance can play in promoting business integrity and economic growth through improvement of investors' confidence and capital market development. Hence, in the broadest sense, corporate governance encourages the efficient use of resources and improves the accountability for the stewardship of those resources, and thereby contributes to the economic development of a country.

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