Analysis of Corporate Governance Theories and their Implications for Sri Lankan Companies

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Abstract

During the past two decades various scholars, researchers and investors have demonstrated a high degree of exigency to accentuate the importance of Corporate Governance in private sector organizations. Recent corporate scandals such as World. Com that shook the economic foundations in those countries, have reiterated the importance of enacting sound Corporate Governance practices in the private sector companies. In Sri Lanka too, several corporate entities dramatically collapsed due to poor Corporate Governance practices causing much amusement and disgust in the investor community and the stakeholders, in the recent past. With the competition becoming stiff and fierce around the world, introduction of sound Corporate Governance practices has become of paramount importance.

This research paper which critically analyses the various established theories such as the agency theory, stewardship theory, stakeholder theory, theories of hegemony, legal theory, Anglo-US Model, the Cadbury Code, Resource Dependency theory etc., develops a typology of Corporate Governance and suggests implications especially focusing on private sector companies in Sri Lanka.

The analysis reveals that a typology of Corporate Governance theories can be developed by using 03 dimensions, namely: the shareholders, directors and the corporate management of a company. Critical analysis further unveiled that theories and codes that evolved in the last decade paid greater emphasis towards "Directors" than the other two dimensions. Out of all eight (08) theories and codes discussed, the study reveals that five theories can be implemented in order to enhance the degree of Corporate Governance in Sri Lankan companies. The balance three (03) theories are detrimental from the Sri Lankan perspective.

This paper focuses only on the management and academic perspective, and not on the finance or business perspective. Another limitation is that only the established theories and codes have been discussed.

Keywords: Corporate Governance, Theories, Sri Lankan private sector, Directors

Introduction

The importance of Corporate Governance has emerged in the contemporary world as a crucial arena due to corporate frauds and scandals around the world such as Enron, World.Com, Satyam and some local corporate giants. These scandals have exposed the pathetic state of Corporate Governance not only in less developed countries but also in so-called developed nations. Due to globalization, companies attempt to expand their horizons in borderless and seamless markets. As a result, competition has become stiff and fierce, and the corporate companies strive to enhance their profitability under trying conditions. Similarly, investors and shareholders demand a higher return for their investments and an appreciation of the share value. Under such a degree of unprecedented pressure, companies ignore accepted norms in business which has led to the meltdown of several large companies in Sri Lanka and around the world. This has triggered an exigency in Corporate Governance especially in listed companies in Sri Lanka.

Corporate Governance: A definition

Corporate Governance is the relationship between corporate managers, directors and the providers of equity (shareholders), people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable and responsible for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations, (International Chamber of Commerce, 2007: 01).

Cadbury (1993) defined Corporate Governance as the system by which companies are directed and controlled.

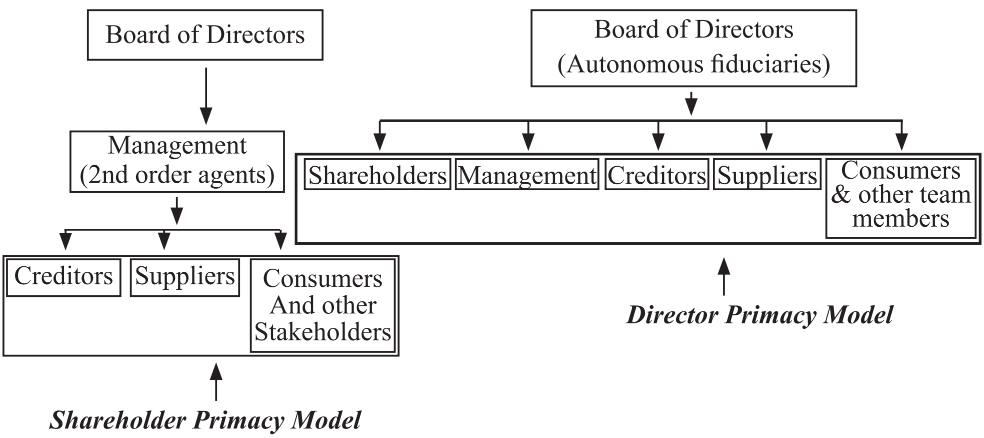
Implications of Agency and Legal Theories from a Sri Lankan Perspective

Berle & Means (1932) developed the agency theory which is the cornerstone of modern day Corporate Governance. Agency theory can be defined as the agency conflicts arising from a divergence between agents' and principals' utility functions, creating the potential for mischief, (Dalton, Daily, Certo, & Roengpitya, 2003). The rationalisation for this is that the directors are agents of the shareholders. This theory was further improved by Meckling and Jensen (1976).

The agency theory fundamentally entails the relationship where one party known as the 'principal' delegates work or some activities to another person called the 'agent'. From the company's perspective, owners (shareholders) are the principals and the directors are the agents. Though explicitly not stated, it implies that shareholders who are the owners of the company hand over the company to directors who are the agents to run the company on their behalf.

The legal theory which is the legal perspective of the agency theory, emulates a lot of exciting arguments purely from the legal dimension. Based on the agency theory, Heracleous (2010) argues three (03) major points. The first argument is that the 'principal' is not the shareholder, but the company. Elaboration of the second argument is that the board of directors is not agents but an autonomous fiduciary that has been entrusted with the powers to act on behalf of a beneficiary. The third argument is that the intention of the board and that of the shareholders (principals) should be one that is to take action to maximize the principal's returns. But Heracleous (2010) argues that the board's role is not a 'monitoring role' but a different role that balances and acts as mediators between the managers and the owners to avoid conflict of interest, allocate resources, control company assets and make key strategic decisions. The illustration in Figure 01, displays the difference between the agency theory and the legal theory argued by Heracleous (2010).

Figure 01; Comparison of Shareholder Primacy and Director Primacy Model



(Source: Heracleous 2010: 302, Rethinking of Agency Theory).

To reiterate, the agency theory was constructed by Berle & Means (1932) on the premise that there's a relationship between the principal and the agent (directors). This involves the risk of whether the agent will act to meet the expectations of the principal (due to conflict of interest). Okpara (2011) states the common question is whether the agent will be driven by self-interest rather than a decision to maximize the profits for the principal. Another concerned attribute is that the agency theory was originally introduced by Berle & Means (1932) about 08 decades ago, in an era when competition was at a lower ebb than in contemporary times. Also, one can argue that the Corporate Governance components such as "ethics' were considered as perpetual and parties were assumed to have higher levels of values in the 1930's. However, one may wonder whether the agency theory can be applied in Sri Lanka due to the fact that all perceived and non perceived attributes are measured in monetary terms. The reality in Sri Lanka is that the shareholders have become the agents and the directors have become the principal. In certain companies, directors are non-shareholders. Therefore, under such circumstances, and with the perceived conflict of interest, implementation of the agency theory can be detrimental from the Sri Lankan perspective.

Upon perusal and the comparison of the legal theory with the agency theory, one can conclude that the director primacy theory is quite evident in Sri Lanka. This is due to the fact that the shareholders instead of managing the directors, are being managed by the directors. For instance, this is evident from the way directors run the companies, the way they conduct the Annual General Meetings (AGM), the way negligible amount of attention is paid towards the minority shareholders etc. which is the reverse of the agency theory. Hence the fundamental crux of the agency theory does not align with the reality of Sri Lankan companies.

On closer scrutiny of the director primacy diagram (Figure 01), one can see that the directors not only manage the shareholders, but also manage the creditors, suppliers and all other stakeholders. This undoubtedly augments the directors' degree of dominance over all stakeholders. From the legal theory perspective, attempting to manage all other stakeholders could create a detrimental and unhealthy situation to the company and the shareholders. This is the exact and simple reason for most of the scandals. Hence from the Sri Lankan perspective, agency and legal theories are unfavourable for Corporate Governance.

Implications of the Stewardship Theory

This theory is mainly viewed from the 'financial' perspective. Donaldson & Davis (1991) contributed to this theory. Stewardship theory is a process through which shareholders, directors and stakeholders seek to influence companies in the direction of long term sustainability, which derives by sufficiently contributing to the organization, human beings and the environment (Reisberg, 2011). This is the modern day "triple bottom line" concept. Michael, McCuddy & Wendy (2007) argue that the stewardship theory should be an integral component in financial decision making. Reisberg (2011) even connects this theory to spirituality attributes and says that the way directors are answerable to God, they are answerable to the shareholders. Leopold (1998) described this theory as the protective restraint, taking care of resources through nurturing and managing them properly on behalf of the shareholders.

Recently, having experienced the recession, a "stewardship code' was enacted in the United Kingdom in 2009, the first of its kind for the Financial Reporting Council (FRC). The prime objective of this enactment is to protect the institutional investors, (Reisberg, 2011). This theory further discusses the situation if the company is growing or declining (under turbulent circumstances), that the directors have to understand the situation, evaluate opportunities, assess the risks in the environment and act accordingly.

The question that arises with regard to stewardship theory is, do directors act as stewards in modern day Sri Lankan companies? Do they possess or apply the required degree of spirituality? If so, how is there any possibility of avoiding corporate scandals such as Ceylinco in Sri Lanka?

This theory rationalizes the necessity for the directors to act as stewards of the company striving to achieve long term sustainability, and to maximize the wealth of the shareholders while paying equal attention towards human beings, and the environment. This aligns with the concept of sustainability in the contemporary world where corporates have to focus on '3Ps' namely the People, the Planet and Profitability. This has so much of relevance to Sri Lanka. Also as Reisberg (2011) says with the addition of spirituality, directors are answerable to shareholders at all times. Practicing the stewardship theory will pave the way to have "well and ethically" governed companies in Sri Lanka, not focusing only on profitability but also on the people, and the planet (ecology). Hence, this evaluation suggests that implementation of the stewardship theory should be given priority in Sri Lanka.

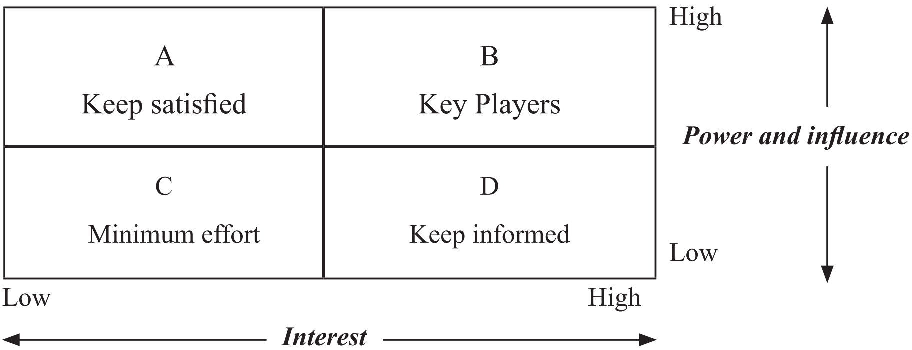
The 'stewardship code' which was introduced recently in Great Britain for Financial Reporting, has much relevance as directors should know not only to perform in emerging and booming eras but also to read the future well and to have meticulously planned contingency strategies to manage turbulent times. This displays a true sense of professionalism as they have to assess the risk, evaluate the environment and take accurate decisions to protect the company. Managing turbulent times is important in Sri Lanka taking into consideration the prevailing degree of volatility and vulnerability in the economy. Therefore, the stewardship theory is well accepted and can be applied to Sri Lankan companies.

Implications of the Stakeholder Theory

Stakeholder theory accounts for a wider range of parties than focusing only on shareholders. As per Freeman, (1984), a stakeholder of a company can be defined as an individual or a group who can affect the business or can be affected by the achievement of the organization's objectives. From the corporate perspective, Bhagat & Black (1999) state that stakeholders are employees, customers, suppliers, creditors, and shareholders as well.

In-depth analysis of this theory reveals that there are two types of stakeholders for a company: normal (not so important) stakeholders, and crucial stakeholders. Hence the organization has to give voice to these powerful stakeholders as they can "make or break" the company. Spitzech and Hansen (2009) state that from a normative perspective these powerful stakeholders have to be included in corporate governance in order to respect their moral rights (Mendalow, 1991), [as cited by Johnson, Scholes & Wittington (2008)]. (Figure 02)

Figure 02: Mendalow Matrix[1]



(Source: Johnson, Scholes & Wittington, 2008)

Based on the matrix given in Figure 02, any company can pay attention to important stakeholders and give a hearing to their views and suggestions.

Antic and Sekulic (2006) discovered five major categories of stakeholders of a company. (Refer Exhibit No. 01)

1 Mendelow, A. L. (1991). *Stakeholder Mapping*. University of Ohio, USA. Retrieved sketch on 10th March 2012 from www.google.lk

Exhibit No. 01

Stakeholder Group	*Primary Measures*	*Secondary Measures*
Shareholder	Return on shareholder Investment	- Revenue - Productivity - Liquidity
Customer	Customer satisfaction and service quality	Customer survey for different products and markets
Employee	Employee commitment Employee competence Employee productivity	- Analysis of employee opinion - Financial ratios of employees - Costs and revenues
Suppliers	Continuity of orders and payments	- Analysis of suppliers' requirements - Quality raw material
Community	Public image Market reputation	Level of public / societal needs

(Source: Antic & Sekulic, 2006: 74)

As per the Mendelow Matrix, the primary attributes for these stakeholders are fundamentally result oriented and the secondary measures are directed as primary result drivers. It clearly elucidates the importance of shareholders as well as paying attention to key stakeholders in a company.

Stakeholders are important for any company. However, from the Sri Lankan standpoint, though the stakeholder theory highlights the role of the employees as stakeholders, they are, except for a few companies, considered as mere employees, workers or the 'work force'. As per Mendelow Matrix, employees fall into 'C' category.

Another rationalization to negate this theory is that in the corporate sector, directors should maintain a close rapport with the institutional investors / shareholders. Cadbury (2000) also confirms the importance of this aspect. However, practically, directors maintain a rapport with the institutional investors and the major shareholders only for their benefit as generally directors perceive them as a threat as they have the ability to buy further shares and strengthen the ownership claim to become a director, or at any moment they can dispose such shares to another potential buyer who is vying to purchase the company as a 'hostile takeover'. But if the directors, maintain a close rapport with the institutional shareholders and high net worth investors, risk of such hostile takeovers can be minimized as they feel if consulted, that they can play a role in leading the company. Pragmatically directors avoid category 'B' in the matrix. This is a paradox.

From the suppliers' perspective, directors do not consider them as stakeholders unless they possess bargaining power in the industry. The community is also not considered as important stakeholders as the company's objective is to maximize its wealth. Most of the companies target the society/ community for their CSR (Corporate Social Responsibility) activities not because they are stakeholders but to use CSR as a strategic marketing tool. Only the customers are considered important to a certain extent as they assist companies to generate their revenue. Hence suppliers, society and the consumer fall into 'D', 'C' and 'A' in the matrix respectively.

Though the stakeholder theory identifies 05 categories, practically, only one segment (customers) is considered as stakeholders in Sri Lanka. Stakeholder theory, if implemented properly, would cover a wider range of stakeholders with enhanced bargaining power which would eventually pressurize the directors to govern the company professionally. Hence implementation of this theory checkmates the directors, and strengthens the company ownership by having different types of stakeholders.

Implications of the Theory of Hegemony

The theory of hegemony was first introduced by Gramsci (1937) [as cited by Alvarado & Boyd-Barrett, 1992] while in jail. This theory has two dimensions namely "Class Hegemony" and "Managerial Hegemony." Class hegemony explains that directors view and perceive themselves as en elite set of people at the top of the company and they will recruit or appoint other directors who are of the same caliber and can align with them (Fahr, 2010).

Managerial hegemony is that corporate management members run the day to day operations of the company and as a result directors lose control to a certain extent. This not only weakens the influence of the directors, but also casts a passive role on the directors who become mere statutory bodies, (Okpara 2011).

Analysis of the theory of hegemony demonstrates a great deal of relevance with regard to 'class hegemony' from the Sri Lankan viewpoint. A few companies have appointed directors who are well received in business echelons, value integrity and ethics with high esteem as the class hegemony theory explains. This can be termed as a class of ***'positive hegemony'***. "Positive" means that the directors appoint another director who has "good" perceived qualities, values and ethics. However, the majority of the directors who fall into the 'negative' ***(negative hegemony)*** category where one director or the main investor appoints another director who would align with her/him, to be a ‘yes’ master or a henchman or a “remote controller” of the main investor. For instance, “negative” means, if the board of directors is a group of unethical and corrupt set of directors, they will appoint directors with similar perceived unethical qualities to the board rather than a person who is “positive’ and values honesty and integrity above all. However, the question is where to draw the line to demarcate and classify ‘positive’ and ‘negative’ hegemony.

Careful evaluation of the board members in the corporate sector in Sri Lanka proves this fact to a great extent. The theory of class hegemony is quite true from the Sri Lankan perspective, yet, very unpleasant from the ethical and shareholder perspective as a sizeable portion of the directorate falls into the class of negative hegemony. In the absence of an effective monitoring mechanism on money laundering, and due to other unethical means of earning money in Sri Lanka, negative hegemony is rampant and unrestrained, grooming unethical directors in companies. Here one can argue; is money the only criterion to become a director in Sri Lanka?

Another dimension which is quite visible in the Sri Lankan scenario is the emergence of business tycoons in the recent past, who are in a hurry to expand their corporate horizons and business empires. As a result, they can purchase bulk shares in various companies and can ‘plant’ their ‘yes’ masters and ‘henchmen’ to look into the affairs of those companies. The implications are that these tycoons use their henchmen even to purchase millions of shares in other companies utilizing the tycoon’s wealth to control such companies. For instance, last year, (in 2010) a leading weekend newspaper (*The Sunday Leader,* 17/10/2010) reported how a store keeper became a billionaire overnight by selling his shares financed by a tycoon. This is the “perceived notion” of the general public, although such acts cannot be legally substantiated. Due to these atrocities, shareholders’ powers and influence have become phenomenal, and employees have little say in Sri Lanka.

Another prominent fact is that most of these so-called tycoons opt to or are content to remain as a “normal director” or the deputy chairman of the board and do not wish to be the Chairman of the company. In Sri Lanka, upon careful analysis of several companies, not even 20% of the boards have appointed the major investor or the tycoon as the Chairman. In practical terms, a ‘known’’ or ‘loyal’ person is appointed as the Chairman to lead the company and the tycoon acts from behind the scenes, and does not come to the forefront. But all activities of the company take place according to the whims and fancies of this major investor or tycoon.

The majority of the boards in the corporate sector form “inner circles” using little over 50% of the numbers of directors who belong to the same ‘class of hegemony’ (say 4 out of 7 directors). This circle makes life ‘uneasy’ for the other directors if they do not adhere to their requests. As a result, due to frustration or to avoid confrontation with a group of unethical directors, they resign when their term ends on the board without contesting. Another director with the same class of negative hegemony would then be appointed to the board thus increasing the number of members in the circle. The author of this research paper stated in a magazine that “most of the board decisions are made while playing golf and not in the board room” (Mendis, 2010:157). This is due to the existence of ‘inner circles’. Another example is that of three company directors who took legal action against the major investor as he was attempting to manipulate the system to sideline these three directors for voicing their honest opinion against a particular decision taken by him, (www.nation.lk, 03/12/2006; *Sunday Times*, 31/10/2010).

These are some of the published cases though there are several unpublished cases which can be highlighted to prove the existence of the class of negative hegemony. The directors with class of positive hegemony face repercussions if they oppose an unethical proposal put forward by the main investor. This also raises the question of director independence and the level of democracy in the board room. Hence ‘class of negative hegemony’ is very visible in Sri Lanka. Therefore, the regulators and the authorities should work hand-in-hand to avoid the class of negative hegemony and to develop a mechanism to negate the “perceived notion’ of the general public due to certain ‘acts’ performed by the directors. Therefore the “class of negative hegemony” is inappropriate from the Sri Lankan point of view.

Implications on ‘managerial hegemony’ reveal that generally, corporate management (top management) makes day-to-day decisions in the company as professionals. This sounds satisfactory as they generally make rational decisions upon evaluation of pros and cons. Also, they are employees of the company, and with the given culture in Sri Lanka, they look for job security and status rather than the directors who can move to another company after the Annual General Meeting (AGM) or by merely disposing of their shares to another buyer through the stock exchange.

Another positive factor of managerial hegemony is that if the top management is effective, as the theory states, directors become impotent and will play a passive and an advisory role and their influence over all activities will be curtailed. This undoubtedly pushes the directors to be more professional and aggressive, in order to outperform the corporate management and also to challenge their decisions.

Hence the theory of managerial hegemony is more appropriate and suitable from the local perspective.

Implications of the Cadbury Code

The Cadbury code (1993) was published in the United Kingdom in order to pressurize British boards to change their behaviour and to adopt new practices in corporate governance. All companies quoted in the London Stock Exchange (LSE) were required to adhere to this code with effect from 1993. Stiles and Taylor (2003) point out six major areas for boards in the UK.

- There should be a clearly accepted division of responsibilities at the head of a company. i.e. the chairman and the CEO should be two people.*(Cadbury Code, 1.2)*
- The pay packages of the Chairman and the highest paid U.K director should be disclosed in the annual accounts. *(Cadbury Code 3.2)*
- The board of directors should include at least three non-executive directors two of whom are independent of management and free of other business links with the company *(Cadbury code 1.3)*
- The board should have an audit committee composed of at least three non-executives *(Cadbury Code 4.3)*
- Each board should have a remuneration committee made up mainly of non-executive directors *(Cadbury code 3.3)*
- The board should have a nomination committee composed wholly of non-executives *(Cadbury Code7)*

As per Stiles and Taylor (2003), this code was developed due to the huge public outcry in Great Britain in the late 80's and early 90's demanding a legal framework to run public quoted companies in a better and professional way.

The implementation of the Cadbury code is favourable from the Sri Lankan perspective as the code accentuates the appointment of two separate individuals as the Chairman and the Chief Executive Officer (CEO) in the company. The CEO who is appointed by the board of directors, is an employee of the company, and answerable to the board. Having two individuals for two crucial positions is fitting for sound decision making, rational thinking and avoidance of bias.

The Cadbury code (1993) explains the importance of non-executive directors. However, the effectiveness of non-executive directors is questionable considering the recent corporate scandals which took place in Sri Lanka. Similar sentiments were also expressed by Stiles & Taylor (2003) from a 'real life scenario' in Great Britain, in 1997, where even with the appointment of former Attorney General of the British Government and the Lord Chancellor as non-executive directors in the company, could not prevent a major fraud in Maxwell Communication Corporation where the two dominant directors namely Lords Hanson and White were so powerful. Similar scenarios are amply evident from the Sri Lankan perspective as well. Furthermore, though there are loopholes, it is still advisable to have non executive directors to mitigate the risk of bad governance in Sri Lanka, at least to some extent.

A different argument from a different perspective is that the board should be a ‘team of professionals” from various fields such as law, accountancy, banking, manufacturing, business etc., with more expertise if necessary, from the relevant field, depending on the nature of the company. For instance, if the non-executive director is a Chartered Accountant, s/he can head the audit committee. This evinces not only the degree of professionalism in the board but also would be an asset and guiding light to the external auditors of the company.

All these noteworthy conditions in the Cadbury code are practically possible and well accepted around the world. Hence, such conditions can be easily implemented in Sri Lanka. Successful implementation of these conditions will enhance the degree of Corporate Governance, encompassing several dimensions in companies in Sri Lanka.

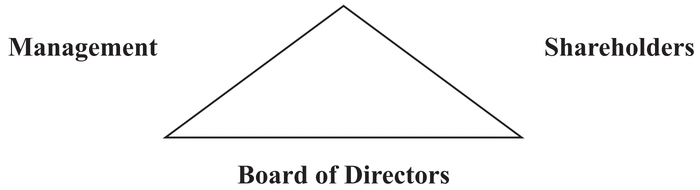
Implications of the Anglo-US Model

The Anglo-US Model

A comprehensive study on Anglo-US systems of Corporate Governance (Roberts, 2001), found that the Anglo-US model is characterized by share ownership of individual, and increasingly institutional investors not affiliated with the corporation (known as outside shareholders or “outsiders”); a well-developed legal framework defining the rights and responsibilities of three key players, namely the management, directors and shareholders; and a comparatively uncomplicated procedure for interaction between shareholder and corporation as well as among shareholders during or outside the AGM.

Players in the Anglo-US model include management, directors, shareholders (especially institutional investors), government agencies, stock exchanges, self-regulatory organizations and consulting firms which advise corporations and shareholders on corporate governance and proxy voting. Of these, the three major players are the management, directors and shareholders. They form what is commonly referred to as the "corporate governance triangle" (Roberts, 2001). The interests and interaction of these players may be diagrammed as follows:

Figure 03: Corporate Governance Triangle; Anglo-US Model



(Source: "Three Models of Corporate Governance," Lectures on Corporate Governance; East, West Management Institute, Partners for Financial Stability, Dec. 2005 p. 02. Retrieved on 12/12/2010 from www.ewmi.hu p. 1-10.)

The Anglo-US model, developed within the context of the free market economy, assumes the separation of ownership and control in most publicly-held corporations. This important legal distinction serves a valuable business and social purpose: investors contribute capital and maintain ownership in the enterprise, while generally avoiding legal liability for the acts of the corporation (Zetlin & Herrigel, 2004; Zetlin, 2003).

Most importantly, they prescribe the election of a board of directors by shareholders and require that boards act as fiduciaries for shareholders' interests by overseeing management on behalf of shareholders. Heracleous (2010) also states that the directors are fiduciaries in the legal theory.

It is good to identify the three main categories: namely, the investors (shareholders), the outsiders (non executive directors) and the insiders (top management) due to the following reasons.

The first being clear demarcation of three categories. The Anglo-US model specifies and clearly defines who is an outsider and who is an insider. Also, this adds value to the system by explaining that there should be at least three outsiders, which means these three outsiders are not involved in the day to day business of the company.

The second reason is that these three parties have to play different roles to make sure that the company performs well. When the company performs well, investors can earn their dividends, which are the return for their investment. This creates more opportunities for the top management, and the reputation and the remuneration of the directors will swell accordingly.

The third reason is that this model clearly says that outsiders are independent directors who should not be influenced by anybody. This amply demonstrates the importance of maintaining independence in the board, if the company is to prosper.

The fourth reason is as per Roberts (2001); this model focuses especially on institutional investors and important parties such as the stock exchange, government corporations, consultancy firms who advise the shareholders about proxy voting on crucial decisions. This is really sound as all these parties are equally important in Corporate Governance. Hence, this is an acceptable model from the Sri Lankan perspective.

Implications of the Resource Dependence Theory:

Boards of directors are the driving force for various resources (Hillman & Dalziel, 2003). The accepted proposition is that, if the labour market is efficient, intellectually capable directors can be accessible and competitively found from the market. The degree of resource dependency increases if the market is competitive in nature. This theory also argues that not only the directors, but also the top caliber corporate management members can be recruited from the labour market if the market and the environment are competitive.

This theory is effective if the market is efficient, and competitive. However, the reality is that anyone who has legal or illegal means can invest in the stock market and become a director. Market competitiveness, intellectual capabilities, acceptance in society etc., are secondary, irrespective of the level of efficiency and the competition in the market. Also, with class of negative hegemony being more evident in Sri Lanka, any firm will not be able to fully implement the resource dependency theory.

Conclusion

This paper discussed the theories such as the agency theory, legal theory, stewardship theory, stakeholder theory, theory of hegemony, the Cadbury code, the Anglo-US model and the resource dependency theory. Considering all these theories and models, the conclusion is that the stewardship theory, stakeholder theory, managerial hegemony, Cadbury code and the Anglo-US model are sound, acceptable, and can be fully implemented to improve the standard of Corporate Governance in Sri Lanka. However, other theories such as the agency theory, legal theory, resource dependency theory and class hegemony theory are detrimental from the Sri Lankan perspective.

Based on the analysis of the dimensions that are examined and debated, a typology with 03 dimensions has been developed as depicted in Exhibit No. 02.

Exhibit No 02:

Theory		***Directors***	***Shareholders***	***Corporate Management***	***Others***
Agency Theory		x	x		
Legal Theory		x	x	x	
Stewardship Theory		x	x		
Stakeholder Theory		x	x	x	x
Theory of Hegemony	*Class hegemony*	x			
	Managerial hegemony	x		x	
Cadbury code		x	x		
Anglo-US Model		x	x	x	
Resource Dependency Theory		**x**		**x**	

The above typology clearly demonstrates the significance of the directors, shareholders and the corporate management members in Corporate Governance. Hence, we can conclude that these 03 parties are important and equally significant to enhance Corporate Governance in private sector companies in Sri Lanka.

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