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Corporate Governance, Socio-Economic Factors and Economic Growth: Theoretical Analysis

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Abstract

Corporate governance (CG) fosters dynamic economic growth through managing stakeholder interest and reducing the cost of capital which ultimately lead towards the development of financial markets and better firm performance. Recently, regulators and policy makers around the world either have revised extensively or introduced new laws, codes and listing regulations to enhance effectiveness and transparency of corporate governance practices. Established economic theories were already aware of the significance of corporate governance for development and economic growth. This study assesses the link between corporate governance, socio-economic factors and economic growth through a consistent literature review. A majority of studies show a positive effect of corporate governance on economic growth of a country through stock market development. Moreover, theoretical and empirical research reveals that socio-economic factors are also a pivotal determinant of corporate governance mechanisms. This study summarizes the key findings and concludes that dynamic and flexible corporate governance system claims more demand as compared to rigorous corporate governance principles especially in emerging countries. This study also finds the need of methodological advancement in corporate governance research. Nevertheless, the social economic factors, political and legal system of the country should be blended in introduction and adaption of corporate governance system. The regulators and policy makers can use theoretical grounds of study for reforms of the corporate governance system.

Keywords: corporate governance, economic growth, socio-economic, political and legal,

shareholder, stakeholder

1. Introduction

One key element of improving microeconomic efficiency is corporate governance. Corporate governance (CG) is considered as a tradeoff between individual and shared goals in one hand while economic and social on the other hand. The rising academic interest in corporate governance is triggered by enduring reasons and recent corporate scandals (Dorff, 2014). Corporate governance plays a dominant role in the allocation of resources and responsibilities within and across firms. Consequently, it also plays a crucial role in economic performance and provides mechanisms that affect return on investment. It requires accountability and boosts the usage of resources. The intention is to align interests of individuals and society. Weimer and Pape (1999) have found that country specific framework of legal, institutional and cultural factors, shaping patterns of sway that stakeholders exert on managerial decision making. The aim of good corporate governance framework would be the maximization of firm's contribution to economy involving stakeholders. Claessens (2006) argued that internationally accepted governance standards have diverse enticements for companies and states. Those not only help companies in attracting more investment but also assist the state strengthening its economy and encouraging business scrupulousness. The study also asserted that the strategic objective of a good corporate framework is to maximize the contribution of firms towards overall economy of the country. Under the umbrella of this definition, it can be documented that best practice in corporate governance includes the association between creditors, shareholders, financial markets and also employees (Claessens, 2006). In this regard, a vast body of economic and legal literature tried to define the concept of corporate governance. However, definitions are quite alike but still divergent from each other. Gokhan Gunay (2008, p. 1) cited the definition of corporate governance presented by MacMillan and Downing (1999) "*CG as a system that is implemented to direct and control, aiming for high firm performance*". In contrast, Gokhan Gunay (2008) cited the definition of Letza, Sun, and Kirkbride (2004) as the institutional measures for alignment of interest between various groups that undertake direct or indirect benefits in the successful prospect of the organization. However, both definitions are divergent from author's point of view; the first definition is from shareholder perspective while the second definition is broader and considering stakeholder perspective. Gangone and Ganescu (2014) documented that corporate governance scholars focused either from pro shareholder or pro stakeholder perspective and consequently, they view either shareholder governance model or stakeholder governance model. Škare and Golja (2014) documented that countries spotting good corporate governance accomplish a high level of income and growth rate which is quite similar to those who have larger share of socially responsible firms. The measuring of corporate governance impact on firm's performance also has a spillover effect on the stock market and economic growth. Extensive literature review unfolds that tie between corporate governance and financial performance is highly biased. Some studies found positive relationship between CG and firm performance (Gompers, Ishii, & Metrick, 2003; Haniffa & Hudaib, 2006; Ntim, Lindop, Osei, & Thomas, 2014) while some studies documented negative (Bebchuk & Weisbach, 2010; Kiruri & Olkalou, 2013), mixed (Black, Jang, & Kim, 2006; Munisi & Randøy, 2013) or even no relationship (Aboagye & Otieku, 2010; Pham, Suchard, & Zein, 2011). The findings of studies are not aligned with each other due to the application of a different CG indicators but also difference in socio-economic environment of countries. This study not only addresses such methodological limitations but also provides recommendations and future directions for assessing best practice on corporate governance effect on firm performance and ultimately economic growth in the socio-economic context of the related country. Prior studies employed diverse proxies for corporate governance and financial performance including Tobin's Q, ROA, ROE, profit margin and growth in sales (Ehikioya, 2009; Huang, 2010; Makki & Lodhi, 2014). Moreover, studies also found that ownership structure has profound impact on innovation dynamics and consequently on economic growth (Ntim & Soobaroyen, 2013). This study also addresses the effect of socio-economic factors like religion, culture, political and legal system on corporate governance and provides guidelines for future research.

This theoretical analysis of CG practices will continue to explain CG in the first section followed by shareholder and stakeholder governance models in the second and third sections, respectively. The discussion will sustain in section four, considering the suitability of CG systems and followed by the effect of socio-economic factors on CG. The relationship between CG and firm performance from theoretical and empirical view point is presented in the fifth and sixth sections while the relationship between economic growth and CG is included in section seven. Conclusion and remarks are presented in the last section of the paper.

2. Corporate Governance

Traditionally, corporate governance has been associated with the agency or principal agent problem. This problem arises when there is a separation between ownership and control. In one hand, principals hire agents who could generate profit and run their business. On the other hand, agents need principals who can invest as they do not have enough resources to run a business. Berle and Means (1932) documented the separation between ownership and control; they argued that it is crucial to understand possible effect of corporate governance on economic performance and firm behavior before going any further. The term corporate governance has been widely used in different ways. Two different types of models of corporation are presented in economics debate regarding the nexus between corporate governance and performance. The first model is stakeholder model which is used in wider context to describe formal or informal relations with corporations. The second model is shareholder model which is used in a narrow sense to make senior management accountable to shareholders. In one hand, stakeholder approach emphasizes not only the contribution of stakeholders towards long term performance but also the shareholder value. On the other hand, shareholder approach also identifies and documents that stakeholder relation and business ethics play a pivotal role in achieving reputation and long term success of corporations. Consequently, this lack of consensus between different definitions of corporate governance also reflects in debates regarding corporate governance reforms. Therefore, different analyses and solutions of problems have been provided during reforming process. Hence, a clear understanding of different models can provide deeper insight and details. The next section provides insights about shareholders governance model.

Shareholder Governance Model

In this model, the prime objective of a firm is to maximize the wealth of shareholders through dynamic, productive and allocative efficiency. Consequently, shareholders are considered as the co-owners of the company and only their interests are kept into consideration in the governance of corporations (Demsetz, 1983; Fama, 1980; Jensen & Meckling, 1976). Consequently, directors are treated as agents who work on behalf of shareholders and responsible for maximization of principals' profit. Additionally, Researchers documented shareholders as residual claimants and also argue that their share value should be maximized (Agrawal & Knoeber, 2012; Fama & Jensen, 1983; Gokhan Gunay, 2008).

Stakeholder Governance Model

In contrast to shareholder governance model, the interests of all stakeholders are kept into consideration in the governance of corporations (Clarke, 1998; Mills & Weinstein, 2000; Post, Preston, & Sachs, 2002). In the extended literature, researchers documented that shareholders are not only the residual claimants (Blair, 1998) but other parties are also involved in specificity (Gokhan Gunay, 2008) and employees (Penger & Černe, 2014). Furthermore, researchers also documented that concept of shareholders as residual risk taker is not applicable in the modern Anglo-Saxon corporation, as most of the shares are owned by financial institutions (Gokhan Gunay, 2008; Plender, 1998). They advocated that financial institutions diversify their risks through investment or creating portfolios. It is also evident that diverse types of corporate governance systems exist across countries in terms of corporate ownership and control. These systems can be differentiating on the basis of control, ownership structure and identity of controlling shareholders. Some systems have dispersed ownership structure called outsiders systems while other has concentrated ownership called insider systems. The conflict of interest arises between agents, controlling and weak minority shareholders. Those conflicts and differences depend upon socio-economic factors that include cultural, historical, legal, institutional and regulatory differences. The structure of ownership is dispersed in Anglo-Saxon countries. Consequently, shareholders are weak and unable to control firm managers who act opportunistically on their behalf and control the company. As cited by Jensen and Meckling (1976, p. 305), Adam (1776) was the first who noticed this phenomenon and argued that "*The directors of joint stock companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartner frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honor, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company".* Later on, Jensen and Meckling (1976) documented this problem as principal agent problem and introduced it in agency theory. Researchers also recommend that companies should implement such corporate governance system which persuades directors to act in the best interest of principal (Maurović & Hasić, 2014). The structure of ownership is concentrated in Continental European countries and some emerging economies which mean one or few shareholders involve in decision making and control the company. Consequently, agency problem does not exist or negligible within companies of such jurisdictions. However, there is a divergence between interests of controlling and non-controlling shareholders. Research studies also documented it as a second leveled of agency problem in economic theory (Armour, Hansmann, & Kraakman, 2009; Davies, 2000). Being a member of a company, the shareholders have only voting rights not ownership of the company. They can exercise their voting right in the annual general meeting of the company. Consequently, scholars also argued that directors should take decisions in best interest of the company rather than the interest of shareholders (Cahn & Donald, 2010). Pistor and Xu (2002) documented that shareholders are obliged to work in best interest of company rather than their personal interest. In Anglo-Saxon jurisdictions, the directors carry their fiduciary duties by working sincerely in the companies with care and loyalty. Consequently, they are also indulged doing in best interest of company only and considering long term interest of the company. By taking a brief overview of corporate governance definitions, it can be documented that corporate governance as a tool for increase in shareholders' profit seems to be outdated. It is also noticed that every company which an has intention to produce first class products by employing first class employees, accessing capital, is also forced to follow best practices of corporate governance. The stock exchange markets of countries have issued Codes of Corporate Governance and those companies that are implementing those recommended practices of corporate governance are honored to be listed on stock exchange. The last statement is not utterly correct. The Codes of Corporate Governance are not obligatory instruments in all the countries. In some countries, those are either comply or explain function as first introduced in the UK by Cadbury's Code (Cadbury Code, 1992). In contrast, those companies that have not implemented best practices of corporate governance can be listed on stock exchange only if they are explaining the reason for not comply the code recommendations. However, companies that have not implement code recommendations are indirectly admitting that they are not interested in investing it. The purpose of best corporate governance practices is to ensure satisfaction of stakeholders and long term sustainability of the company. On the other hand, long term profitability of a company is the ultimate goal of every shareholder. Consequently, it can be concluded that divergence in definitions of corporate governance supplement each other. The corporate governance has been expounded in a broader sense by the OECD principles (2004) which define it as a set of relationships between management, board, and stakeholders. Good corporate governance is a pivotal fragment in the economic growth of a country since firms can play a significant role in improving country's economy.

To conclude this section it is permissible for authorities in implementing or enhancing the current CG principles or rules they should pay extreme attention to the socio-economic environment of the country to support the idea of developing a suitable CG guidelines. As recommended by the extended literature the stockholder orientation may gain priority. The discussion will continue in the following section.

3. Suitability of Corporate Governance System

It is well documented that corporate governance system differ from country to country and industry to industry due to the difference in socio-economic context. Consequently, there is no one best model for best practice in corporate governance and companies need to develop a band of mechanisms to overcome agency problems including its three levels. The three levels include (1) Director vs Shareholders, (2) Minority vs Majority Shareholders and (3) Company vs Stakeholders. In the literature, researcher documented that role of corporate governance system is to reduce agency cost either by reducing or overcoming the conflict between principals and agents (Mijoc et al., 2014). The system of corporate governance also depends on many factors including socio-economic, legal framework, shareholders' perspective and it is mentioned in articles of association. Scholars documented that generally two types of corporate governance systems are used i.e. two tier system and one tier system. Sometimes, founders are limited by legal framework in their decisions. One tier system is generally used in the Anglo Saxon countries where most of the companies have dispersed structure of shareholders. Two tier system of corporate governance generally prevails in Continental European countries and some emerging economies where mostly ownership structure is concentrated. However, it is also possible to choose either one tier or two tier system of corporate governance in most of the European countries like Iceland, Macedonia, Italy, France, Lithuania, Slovenia and Croatia. This choice is usually deliberated by founders of company. It is also noteworthy to document that one tier and two tier system of corporate governance are not only models of corporate governance in Sweden and across Asian countries. These models are taken as "carcass" as they only regulate governance of company either by general meeting, supervisory board and board of directors. Similarly, it might be possible that company "A" has to disclose every decision taken by the board of directors on company's website and one third of non-executive directors must be employees' representatives. In contrast, it might be possible that company "B" does not need to disclose any decision on company's website or neither need for employees' representatives. Consequently, the need arises to implement the system of corporate governance which is more apposite to combat those conflicts of interests that can create a threat to company's best interest. In this way, the founders of companies will be limited by legislative framework and consequently, this legislative framework will prevent them to establish the system of governance that is best in their own interests rather than the overall interest of the company. Moreover, ownership concentration, pyramid structures, and cross shareholdings is very common outside UK and US. Consequently, it creates misallocation of economic resources and ultimately reduces economic growth of the country. This problem can also be addressed by introducing suitable corporate governance system.

To conclude this section, it can be documented that conflicts arise due to divergence in interests of different stakeholders and these conflicts are dynamic in nature. This problem gives arise the opportunity to align interests of different stakeholders and make stakeholders accountable to best interests of the company rather than their individual interests.

The next section presents studies documenting the effect of socio-economic factors on corporate governance system.

4. Effect of Socio-Economic Factors on Corporate Governance

Prior studies documented that corporate governance practices are significantly influenced by political, legal and other socio-economic factors (Chahine & Safieddine, 2011; Mallin & Ow-Yong, 2012). Usually, there is nothing between religion and corporate governance issue but it can have an impact on the ideological countries. Amir et al., (2005) and Bebchuk and Roe. (1999) documented that ideology and culture of the country also determine governance mechanisms and choice of corporate law. Additionally, many scholars advocated that investor protection can vary due to country's main religion (Stulz & Williamson, 2003). They found that creditor rights were strong in Protestant countries as compared to Catholic countries. Hilary and Hui (2009) conducted a study in the US and found that religiosity also matters in decision making process of the firm. They found that firms with high religiosity show lower investment, less risk exposure, and higher undiscounted profits. In similar vein, researchers also found a negative association of religiosity with earnings management, option backdating and executive compensation in the US (Grullon, Kanatas, & Weston, 2009). In this regard, McGuire, Omer, and Sharp (2011) investigated the impact of religion in financial reporting. They found a negative relationship between religiosity and accrual based earnings management. In prior literature, researchers documented that ethical norms and social commitments are key components of Islamic business within the framework of Sharia (Ahmad, 2000). In a similar vein, Asyraf (2006) documented that Sharia embargoes intermingle Islamic financial transactions for ethical and socially responsible in one hand while prohibiting illegal activities on the other hand. Although, researchers tried to establish link between religion and corporate governance but it is still emerging (Amir N. Licht et al., 2005; Asyraf, 2006; Bebchuk & Roe., 1999; Grullon et al., 2009; McGuire et al., 2011; Stulz & Williamson, 2003). There is dire need to blend effect of ideology and religiosity in the corporate governance system of the countries and region. Culture is distinct (Ronen & Shenkar, 2013). As per social identity theory (Tajfel, 1981), cultural norms affect individual behavior that persist within the environment. Religion and culture are positioned at the top and affect economic outcomes (Williamson, 2000). In a similar vein, Zheng, El Ghoul, Guedhami, and Kwok (2012) suggest that individuals' behavior and decision making is affected by informal constraints such as culture which ultimate influence economic outcome. Roe (2000) documented that political and ideological conditions have an impact on the development of corporate governance system of a specific country. Besides this, a number of studies also documented that country characteristics excluding state investor protection have substantial effect on the country level measure of corporate governance. Bushman, Piotroski, and Smith (2004) support this argument. They documented that political environmental physiognomies are pivotal for some types of financial disclosures. Hope (2003) conducted a study to investigate impact of culture and legal origin on disclosure. He found that culture is important and provides explanatory power for disclosure. Following the thread of discussion, Daniel, Cieslewicz, and Pourjalali (2012) conducted a study to investigate impact of culture and institutional environment on corporate governance practices. They employed structural equation modeling. They found that culture has influence on corporate governance practices through institutional environment. Recently, researchers documented socio-economic, culture, political and legal system may affect corporate governance practices of individual country (Aslan & Kumar, 2014; Kumar & Zattoni, 2013). (Globerman et al., 2011) argued that understating of institutional framework is essential to identify rationale and consequences of corporate governance model. Keeping in view the above discussion, it is incumbent to consider the effect of socio-economic factors including social values, culture and politics in corporate governance system of country. Moreover, corporate governance practice is linked to country level variables, industry, and nature of firms. The next section expounds the nexus between corporate governance and firm performance from a theoretical perspective.

5. Corporate Governance and Firm Performance –Theoretical Analysis

This section highlights the nexus between corporate governance and firm performance. In the extended literature, the debate about best practice in implementing governance on firm financial performance is unresolved. A number of indicators reflect the performance of stock exchanges and firms. The mostly documented indicators for firm performance are return of capital, stock prices and return on assets while stock market indices are used for indicating stock market performance (Attiya, 2012; Black et al., 2006; Bozec, 2005; Ehikioya, 2009; Huang, 2010; Makki & Lodhi, 2014). Financial performance is considered as evidence for the success of firms and most of studies documented link between good corporate governance and financial performance. Nonetheless, it is problematic to find type and causality empirically between these two. In prior literature, researchers found diverse relationships in this regards. Some studies found positive relationship between CG components and financial performance while some found negative, mixed or no relationship at all. Additionally, literature provides correlation of some specific governance measures with financial performance while link with overall governance mechanisms is still unresolved (Aguilera, Florackis, & Kim, 2016). The extent of relationship of individual and specific governance features on financial performance is still challenging. Moreover, endogenous and exogenous forces may affect financial performance (Aguilera et al., 2016; Souha & Anis, 2016). In a similar vein, the share price of the firm may be affected by multiple factors that include but not limited to economics, political and security issues. Besides this, domestic and global incidents may have also affect share price of firms that ultimately will have an impact on the market index. Such external variables that affect performance, are exogenous factors (Connor & Korajczyk, 1986). The overall structure of the firm, distribution of powers between directors and shareholders, statutory governance mechanism, and structure of the board of directors come in demesne of endogenous forces. The separation of effect among both exogenous and endogenous variables is also problematic and it is thought-provoking to find a casual relation between overall governance components and financial performance (Bhagat & Bolton, 2008). The compliance of good corporate governance practices provides an opportunity for firms to attract more investment. It also aids in getting the confidence of investors thus facilitates in access to capital in one hand. On the other hand, researchers also documented that mostly investors are anxious about performance rather than the compliance of good governance practices (MacNeil & Li, 2006). Consequently, if the firm is already performing well, investors may ignore compliance of good corporate governance practices. It is also noteworthy that caution is required in adaptation of such approach especially in underdeveloped countries where social values are very high. Though, it is well acknowledged that performance is key to investors, companies who are following best corporate governance practices may establish an example for other companies. Consequently, it may create the culture of compliance of corporate governance best practice that ultimately may boost investment. Therefore, compliance with corporate governance best practice can help in endorsing and enhancing investors' confidence in the country which ultimately will lead towards economic growth. Additionally, it will provide incentives and attract investment for poorly performing firms and will also assist in boosting stock markets. Table 1 presents qualitative studies in corporate governance.

Table 1. Qualitative studies in corporate governance

Sr#	Studies	Findings
1.	O"Higgins (2002)	Incisive thinking, beneficial contribution, and practical business experience were pivotal in selection of non-executive board of directors (BoDs)
2.	Roberts, McNulty, and Stiles (2005)	Live experience of non-executive and other BoDs are quite divergent from traditional agency theory and stewardship
3.	Parker (2007)	Boardroom culture is compelling factor in internal corporate governance process
4.	Brundin and Nordqvist (2008)	Emotions matters in board meetings and tasks performance of its board members
5.	Soobaroyen and Mahadeo (2012)	Found substantial change in BoDs and noted empowered maximalist board

Table 1 reveals that demographic and socio-economic factors play a crucial role in adaptation and effectiveness of corporate governance system in developed and developing countries. There is dire need to conduct qualitative studies on the country level to explore individual behavior regarding corporate governance system. The next section presents empirical evidence stating the relationship between corporate governance and firm performance.

6. Corporate Governance and Firm Performance – Empirical Evidence

In the recent decades, a plenty of studies have been conducted to investigate impact of corporate governance (CG) on financial performance but a comprehensive literature review reveals dearth of consensus among researchers (Bhagat & Black, 2001; Bozec, 2005; Davidson, Nemec, & Worrell, 1996; Eisenberg, Sundgren, & Wells, 1998; Haniffa & Hudaib, 2006; Iqbal, 2006). Some studies reported significant positive effects of CG on financial performance while some not. Drobetz, Schillhofer, and Zimmermann (2004) conducted a study among German firms to investigate the relationship between CG and firms. They documented that firm's values such as Tobin's Q and market to book value are significantly related to CG best practice. In same area, Brown and Caylor (2006) constructed CG index with 51 external and internal attributes and found a significant positive association between Tobin's Q and constructed CG index. Additionally, Mohanty (2003) also documents the same significant positive relationship between CG practices and financial performance in context of developing economies. He employed Tobin's Q and excess stock return as measure of financial performance among Indian firms. Black et al. (2006) conducted a study among Korean public companies to investigate the association of overall CG index with market value. They documented that strong CG predicts higher market values. Moreover, they also documented that investors appreciate better CG and ultimately it leads towards reduction in the cost of capital. Besides these, Ehikioya (2009) conducted a study to examine link between CG structure and firm performance by taking sample of 107 Nigerian listed firms. He documented positive relationship between ownership concentration and firm performance in one hand while on the other hand, no association is found between board composition and firm performance. He further documented that concentrated ownership protects interests of stakeholders and investors. Huang (2010) conducted a study to investigate the relationship between board ownership and performance of banks in Taiwan. The findings provide evidence of a positive influence of board size, number of outside directors and family owned shares on performance of banks. This voicing is consistent with findings of Varshney, Kaul, and Vasal (2012), who documented that good CG has positive effect on firm performance as measure by economic value added. Nonetheless, this relationship becomes invalidated when traditional performance measurements like return on capital, Tobin's Q and return on assets are employed. Although, marvelous efforts have been made by OECD (2004) to improve the linkage between CG best practice and firm performance but this association is still no clear in both emerging and transition economies. Consequently, Aboagye and Otieku (2010) conducted a study among rural and community banks of Ghana and found no association between CG and financial performance. In contrast, Hassan Al-Tamimi (2012) conducted a study among UAE national banks and documented an insignificant positive relationship between CG practices and performance level. Additionally, Elsayed (2007) conducted a study to investigate the relationship between CEO duality and corporate performance among Egyptian firms. By taking 92 firms for period 2000 to 2004, he did not find any effect of CEO duality on corporate performance. Nevertheless, significant positive effect can be noted in presence of low corporate performance. Omran, Bolbol, and Fatheldin (2008) took a sample of 304 firms from Arab equity markets including Jordan, Oman, Egypt and Tunisia to investigate association between ownership structure and corporate performance. They documented no significant impact of ownership concentration on firm performance. In contrast to agency theory and stewardship theory, Elsayed (2010) expounds that appropriateness of board leadership structure depends upon age, size and ownership structure of firm. Furthermore, he also documented that board size has positive association with corporate performance in absence of CEO duality while this association becomes negative in presence of CEO duality (Elsayed, 2011). In a similar vein, Wahba (2015) documented that increase in proportion of non-executive directors have a negative effect on firm financial performance in presence of CEO duality. Table 2 provides the list of studies that reveal the nexus between corporate governance and firm performance both in developed and emerging countries.

Table 2. Studies evaluating nexus between corporate governance and firm performance

Sr #	Authors	Country	Nexus
1.	Gompers et al. (2003)	US	Positive
2.	Fernandez et al., (2004)	Spain	Positive
3.	Foerster and Huen (2004)	Canada	Positive
4.	Bai, Liu, Lu, Song, and Zhang (2004)	China	Positive
5.	Drobetz et al. (2004)	Germany	Positive
6.	Cremers and Nair (2005)	US	Positive
7.	Klein, Shapiro, and Young (2005)	Canada	No Relation
8.	Brown and Caylor (2006)	US	Positive
9.	Black et al. (2006)	Korea	Mixed
10.	Beiner, Drobetz, Schmid, and Zimmermann (2006)	Switzerland	Positive
11.	Haniffa and Hudaib (2006)	Malaysia	Positive
12.	Chhaochharia and Grinstein (2007)	US	Negative
13.	Cheung, Thomas Connelly, Limpaphayom, and Zhou (2007)	Hong Kong	Positive
14.	Elsayed (2007)	Egypt	No Relation
15.	Reddy, Locke, Scrimgeour, and Gunasekarage (2008)	New Zealand	Positive
16.	Bauer, Frijns, Otten, and Tourani-Rad (2008)	Japan	Positive
17.	Bhagat and Bolton (2008)	US	Mixed
18.	Garay and González (2008)	Venezuela	Positive
19.	Henry (2008)	Australia	Positive
20.	Ehikioya (2009)	Nigeria	Positive
21.	Morey, Gottesman, Baker, and Godridge (2009)	Cross Country	Positive
22.	Toledo (2009)	Spain	Positive
23.	Bebchuk and Weisbach (2010)	US	Negative
24.	Bauer, Eichholtz, and Kok (2010)	US	Positive
25.	Daines, Gow, and Larcker (2010)	US	No Relation
26.	Renders, Gaeremynck, and Sercu (2010)	Cross Country	Positive
27.	Huang (2010)	Taiwan	Positive
28.	Aboagye and Otieku (2010)	Ghana	No Relation
29.	Ammann, Oesch, and Schmid (2011a)	Cross Country	Positive

30.	Ammann, Oesch, and Schmid (2011b)	Cross Country	Mixed
31.	Jiraporn, Kim, and Kim (2011)	US	Positive
32.	Giroud and Mueller (2011)	US	Positive
33.	Pham et al. (2011)	Australia	No Relation
34	Al-Manaseer, Al-Hindawi, Al-Dahiyat, and Sartawi (2012)	Jordon	Mixed
35.	Gordon, Hrazdil, and Shapiro (2012)	Canada	Positive
36.	Hassan Al-Tamimi (2012)	UAE	Positive
37.	Attiya (2012)	Pakistan	Positive
38.	Jayachandran, Kalaignanam, and Eilert (2013)	US	Positive
39.	Kiruri and Olkalou (2013)	Kenya	Negative
40.	Munisi and Randøy (2013)	Cross Country	Mixed
41.	Tariq and Abbas (2013)	Pakistan	Positive
42.	Hasan, Kobeissi, and Song (2014)	MENA Countries	Positive
43.	Ntim et al. (2014)	South Africa	Positive

Compiled by researchers

Keeping in view the studies presented in Table 2, it can be concluded that most studies found positive nexus between corporate governance and firm performance both in developed and emerging economies. Additionally, it can be documented that benefits of best corporate governance practice vary from one country to another country due to differences in their socio-economic factors, political and legal system. The next section tries to expound link between corporate governance and economic growth.

7. Economic Growth and Corporate Governance

In a broader sense, corporate governance has a significant effect on functioning and development of capital markets. It influences not only the behavior of firms but also effects on innovative activity and development of SME sector. Better corporate governance system can lead towards better corporate performance and ultimately higher economic growth. OECD Principles (2004) provide a basis that OECD member countries should develop corporate governance practice in one hand. On the other hand, it also provides an economic rationale that why corporate governance matters and need to explore link between corporate performance and economic growth. The corporate governance system contrasts in the ownership and control across countries. Some systems are characterized by outer systems while others are insider systems. Moreover, OECD (2004) issued 12 key standards "*OECD Principles of Corporate Governance*" for a sound financial system which inevitably document that corporate governance affects positively on economic growth. Firms have a fundamental role in the economy of a country, consequently, corporate governance is pivotal in economic growth (OECD, 2004, p. 3). Additionally, corporate governance enhances investors' confidence which is necessary for proper functioning of the economy and thus improves economic efficiency (OECD, 2004, p. 11). Subsequently, cost of capital becomes lower and it underpins economic growth (OECD, 2004, p. 11). Roe (1991) documented that dispersed ownership was occurred not due to economic efficiency in the US but it was due to historical developments and political forces. In similar vein, Varshney et al. (2012) documented that good CG has a positive effect on firm performance as measured by economic value added. Nonetheless, this relationship becomes invalidated in the utilization of traditional performance measurements. Claessens (2006) documented that importance of corporate governance for economic growth is best implicit from a broader perspective. He also documented a positive relationship between financial development and level of GDP per capita growth. Moreover, as stated earlier, ownership concentration, pyramid structures, and cross shareholdings are very common outside UK and US especially in emerging economies (Attiya, 2012). Consequently, it creates misallocation of economic resources and ultimately reduces the economic growth of the country. The last section concludes the findings of the study and also presents future guidelines.

8. Conclusions

This study addresses the effect of socio-economic factors on CG practices in the natural settings. In this regard, the study assertion that corporate governance is essential for achieving economic growth and distributes benefits of growth throughout the society. Although, researchers found the effect of corporate governance implementation on the firm performance and ultimately economic growth but economic theory is still silent in theories the incident. Nevertheless, Schumpeter (1942) documented that creative destruction is essential for capitalism. His view about capitalism is right; capitalism is the method of economic change but can never be stationary. The fundamental impulse that sets and keeps the capitalist engine in motion comes from new markets, methods of production and new forms of industrial organization that capitalist enterprise creates. The same is true for corporate governance system within the hosted firm. As growth is the process of change, the adaptation of standard corporate governance best principles bound firms to embrace the changes. Ironically, the argument is supported by Schumpeter (1942). Consequently, firms must be dynamic and continuously considering changes their organizational structure in order to enhance performance while accountable. Conversely, if firms are created like citadels by adopting corporate governance policies issued by the related authorities, it will be impossible for citadels to adapt upcoming changes. Moreover, single standard corporate governance cannot be applicable to all countries due to differences in their socio-economic, cultural, legal framework, and shareholders' perspective. The critics also advocate that reform measures, based largely on Anglo-American model, are likely to be cosmetic in economies with concentrated ownership structure and diverse institutional and sociocultural norms (Nam & Nam, 2004). Thus, there is dire need to introduce something dynamic and flexible for the cure of these socio-economic factors in upcoming reforms. The dynamic and flexible corporate governance system claims more demand as compared to rigorous corporate governance principles. The ideal corporate governance system can be drawn by considering both tangible and intangible firm's values (Škare & Hasić, 2016). Similarly, the role of media and reputation can draw a good example the about effect of intangible and soft forces in corporate decision making. It is also found that most of the studies utilized archival data and almost similar indicators in doing empirical analysis. Despite having an important implications, data in public domain is not well suited for analyzing governance attributes such as culture, dynamic, and board processes. Methodological advancement is needed in corporate governance research. Furthermore, the ownership concentration, pyramid structures, and cross shareholdings can slow economic growth of the country. Therefore, the social context, culture, religion, political and legal system of the country should be blended while introducing and adapting corporate governance system.

The study tries to explain the effect of corporate governance on firm performance and ultimately economic growth with the support of theoretical and empirical findings from the extended literature. The regulators and policy makers can use theoretical grounds of study for introduction and adaptation of corporate governance principles. The study provides a platform for regulators and policy makers to make necessary changes in upcoming corporate governance reforms. The future research can be done in exploring this link by identifying nonbiased indicators for measurement of corporate governance. There is also scope for employing mixed method approach (quantitative and qualitative) in order to explore individual behaviour and awareness towards adaptation of corporate governance practices on the country level.

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