

BEYOND THE FIRM: TRANSMITTING THE GOVERNANCE DIVIDEND FROM THE BOARDROOM TO THE NATIONAL ECONOMY



“ Firm-level corporate governance reform can be both an outcome of economic governance and one of its inputs. ”



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Corporate governance and economic governance are closely connected. Until now, analysis of the links between them has tended to focus on the top-down perspective – the idea that better laws and enforcement make better companies – but this article develops a complementary bottom-up perspective. It shows how five transmission pathways – demonstration, finance, market integrity, collective standard-setting and human capital diffusion – can enable firm-level governance reforms to contribute to wider governance outcomes. These bottom-up effects are reliant on enabling conditions such as visible performance signals and supportive external catalysts, especially in transition markets where top-down reform is slow. The approach adopted here is conceptual and informed by practice, offering an analytical framework rather than causal proof. The aim is to provide investors, development finance institutions and reformers with a structured way of thinking about firm-level governance as a lever for broader institutional gains.



INTRODUCTION

Economic governance shapes the environment in which firms operate, compete and invest. It determines whether rules are predictable, institutions are accountable and data are reliable, and whether decisions are governed by transparency rather than discretion. Where this environment is weak, resources are misallocated, transaction costs rise and investors face elevated risks. Where it is stronger, firms can make longer-term decisions, capital can be allocated with greater confidence, and markets are better able to support productivity and resilience.¹

Much policy attention has focused on how this economic governance ecosystem is built. The prevailing approach emphasises a top-down pathway: stronger institutions, better laws and more effective enforcement drive better economic governance. With this approach, corporate governance – the system by which companies are directed and controlled – is treated primarily as a product of the surrounding legal and institutional environment. Good laws, in short, make good companies.

However, in many contexts, the top-down pathway is incomplete, slow or contested. Laws may be adopted before institutions are capable of enforcing them. Regulators may lack independence or capacity. Firms may comply formally while preserving old decision-making processes in practice. In such environments, the existence of rules does not necessarily mean that governance actually changes.

This gap creates space for a complementary and reinforcing bottom-up perspective. This article considers the idea that firm-level corporate governance reform can be both an outcome of economic governance and one of its inputs. It asks whether better-governed companies can help to shape the institutional environment around them, rather than merely reflecting it. The answer advanced here is cautious but affirmative and is developed through five distinct pathways that form part of a complex reform process, with complementing and competing drivers operating over long periods and in conjunction with top-down processes.

These dynamics matter most where top-down reform is weak – that is to say, where institutional capacity is limited, enforcement is uneven and regulatory authority is fragmented. In such settings, strategically important, visible

¹ See World Bank Group (n.d.).

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or externally financed firms can become channels through which governance expectations, incentives and practices begin to spread.

The framing changes how governance interventions are designed, sequenced and evaluated – not only within firms but also for their potential wider market and institutional effects. The implications outlined in the final section address the question of how development finance institutions (DFIs), investors and reform-minded public actors should shape company-level reform so that it can contribute to broader economic governance outcomes where conditions allow.

FIVE REFORM PATHWAYS: CORPORATE GOVERNANCE AND BEYOND

If we accept that firm-level corporate governance reform can contribute to broader economic governance outcomes, the next question is how exactly that happens. This article identifies five pathways through which governance improvements within companies may spill over into the wider economy (see Figures 1 and 2): **demonstration, finance, market integrity, collective standard-setting** and **human capital diffusion**.

The EBRD's Economic Governance Strategy 2026-30: corporate governance as a foundation for systemic reform

The EBRD's Economic Governance Strategy 2026-30² regards corporate, sectoral and economy-wide governance as mutually reinforcing elements. In this respect, it reflects the bottom-up logic developed in this article: corporate governance is not only a safeguard within individual investments, but can also serve as an entry point for sectoral and wider institutional reform.

Firm-level reform is not intended to replace legal or regulatory change, but it can help to generate the incentives, standards and practices through which such change becomes more effective.

These pathways are not a causal model. They are a practice-informed framework for identifying how firm-level reforms may influence markets, sectors or institutions. Their logics differ: demonstration turns visible results into benchmarks; finance makes governance relevant to capital; market integrity clarifies the boundary between commercial and political decision-making; collective standard-setting turns shared expectations into market practice; and human capital diffusion transfers governance know-how through people. In practice, these pathways often overlap. A single reform episode may improve internal decision-making, attract investor scrutiny, generate visible

² See EBRD (2026).

results, influence peers, support sectoral standards, and train professionals who later share and communicate those practices elsewhere. Conversely, a reform may remain confined to the company in question if it is invisible, commercially irrelevant, politically unsupported or disconnected from wider market incentives.

The framework is deliberately conditional. Bottom-up transmission depends on whether firm-level reforms are **visible**, **credible** and **consequential** to actors outside the firm. External actors – including DFIs, investors, exchanges, reform coalitions and public

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Figure 1. Top-down and bottom-up approaches to strengthening economic governance

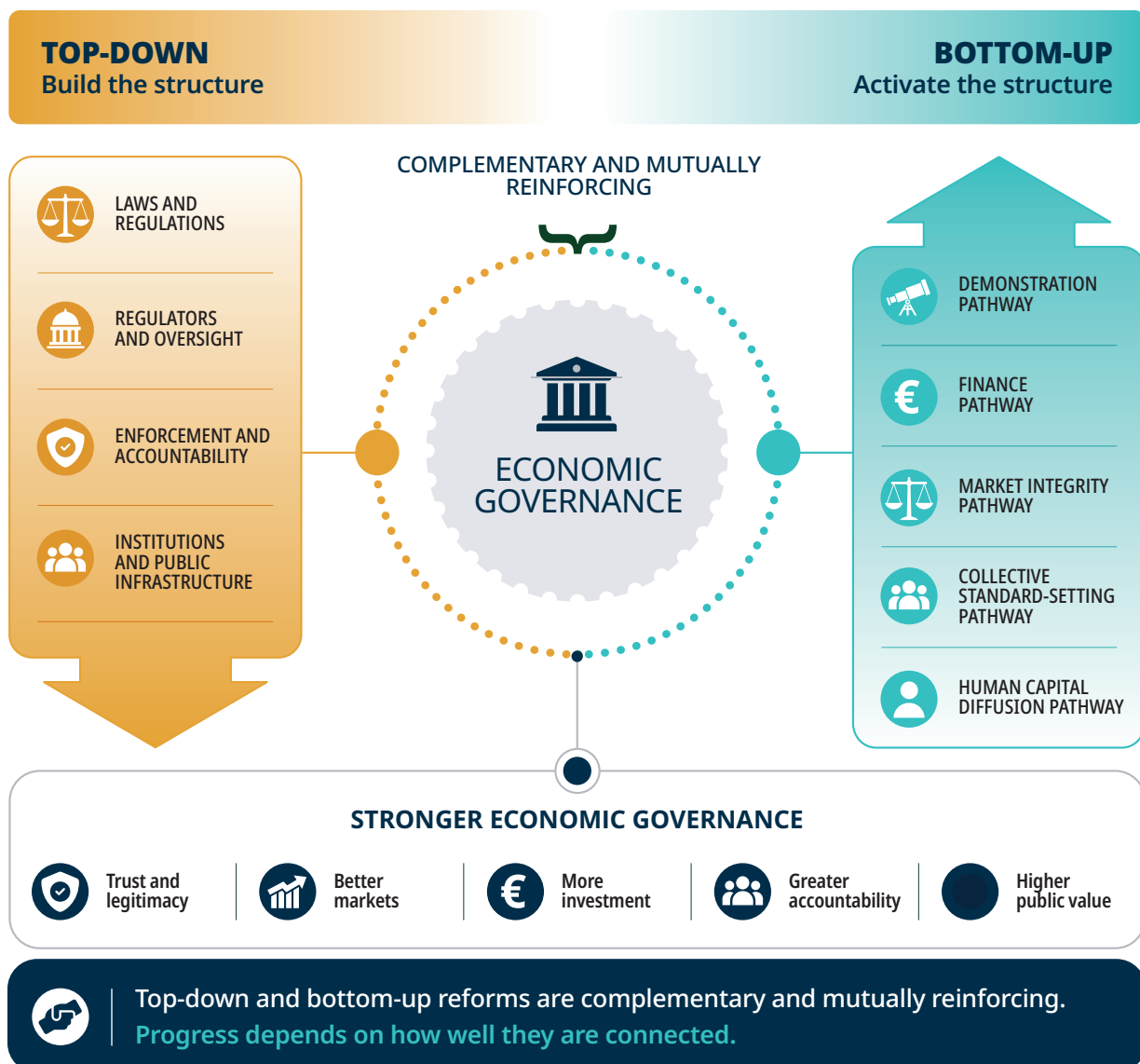


Figure 2. The five pathways of bottom-up transmission

Pathway	Transmission logic	Main actors	Requirement for activation	Typical risk
Demonstration 	Visible results lead to imitation by peers	Firms, peers, investors, regulators	Results are observable and credible	Reform is formal but results are unclear
Finance 	Governance affects access to capital or terms of financing	Firms, lenders, investors, DFIs	Capital providers treat governance as material	Governance becomes box-ticking exercise
Market integrity 	Governance of state-owned enterprises (SOEs) clarifies commercial/ state boundaries	SOEs, state owners, boards, international financial institutions, regulators	Internal reform is protected by external support	Political interference reverses reform
Collective standard-setting 	Market actors converge around shared standards before laws adopted	Exchanges, issuers, investors, regulators	Standards are visible, monitored and commercially relevant	Voluntary standards lack credibility or enforcement
Human capital diffusion 	People carry governance know-how across institutions	Directors, managers, lawyers, advisers, officials	Professionals internalise and communicate practices	Skills remain confined to a small elite

Source: EBRD.

authorities – can help to create these conditions by linking governance commitments with finance, supporting implementation, convening market actors or translating company-level experience into wider standards. Their role is not to replace company ownership of reform but to reinforce it.

The five pathways should therefore be seen as complementary channels of transmission, rather than separate reform recipes. Taken together, they provide a structured way of analysing when corporate governance reform remains confined to the firm and when it may generate a wider governance dividend.

1. The demonstration pathway

The first pathway is the **demonstration** channel³ – when governance reform in one firm creates a visible benchmark that others regard as credible and attainable.

In markets where strong governance practices are uncommon, a company that strengthens its board, improves disclosure, professionalises internal controls or separates commercial management from political interference may show that a different standard of corporate behaviour is possible. The result is not legal compulsion but selective imitation: peers, investors, regulators or public authorities begin to treat the reformed company as evidence of what can be expected elsewhere.

Demonstration depends less on the formal adoption of governance measures than on the **results that they produce**. A new board structure or disclosure policy rarely influences

³ See DiMaggio and Powell (1983) and Connelly et al. (2011).

others simply because it exists. It becomes demonstrative when it is associated with observable improvements – stronger performance, more credible reporting, greater resilience, reduced political interference or more disciplined decision-making. In that sense, the signal is activated by results.

The pathway is strongest where the company is highly visible: large, strategically important, listed, state-owned, systemically relevant, or active in a concentrated sector. In such settings, one firm's governance performance can become a reference point for others. Boards that previously had no genuine responsibilities may be expected to exercise real oversight; limited disclosure may become harder to defend; and governance practices that were once viewed as exceptional may gradually become part of the competitive or institutional baseline in the market.

Ukraine's Naftogaz illustrates this logic in the SOE sector.⁴ Its reforms became influential not simply because new formal arrangements were adopted but because they were associated with visible improvements in transparency, partial depoliticisation of decision-making, financial discipline and results. As these outcomes became harder to ignore, other major Ukrainian SOEs came under pressure to align aspects of their own governance with the Naftogaz model. The demonstration effect was reinforced by international partners, but it depended on the ability of the reform process to generate results that could be observed and used as a reference point.

The Ukrainian case also shows that demonstration is shaped by context. The "Maidan Revolution", recurrent gas crises and, later, Russia's war on Ukraine heightened public scrutiny, increased the cost of poor governance, reinvigorated the pressure for change and made the performance of Naftogaz more consequential for the wider reform agenda. In that environment, governance results acquired significance beyond the confines of the company.

Brazil's Novo Mercado illustrates a different form of demonstration. BOVESPA – the São Paulo stock exchange – introduced the listing segment Novo Mercado and its tiered governance levels in 2000, linking stronger governance practices to clearer market signals. Early adopters showed that stronger disclosure, shareholder protections and improved board practices could be associated with investor confidence and deeper market interest. As those results became visible, Novo Mercado evolved from a voluntary segment to a broader reference point for the Brazilian equity market.⁵

The contrast is instructive. In Ukraine, crisis, strategic importance and external reform coalitions amplified the signal. In Brazil, a stock-exchange platform made governance standards visible and commercially relevant. In both cases, governance reform became persuasive because it was linked to outcomes that others could observe and regard as worth emulating.

The demonstration channel should not be overstated. Peers may choose not to imitate if stronger governance threatens entrenched interests, imposes short-term costs or produces benefits that are difficult to observe. A reformed company may remain an exception rather than a benchmark. The pathway works only where the signal is **visible, credible** and **consequential** to others.

For reformers, the lesson is practical: if demonstration effects are intended, the results of reform need to be observable and interpretable through disclosure, performance tracking, peer learning, investor engagement or links to wider sectoral reform.

⁴ See Cigna et al. (2025).

⁵ See Alexandru et al. (2008).

2. The finance pathway

The second pathway is the **finance** channel – when governance becomes material to a company's ability to access capital, attract investors or obtain financing on better terms. Unlike demonstration, which depends on visible results that others regard as worth imitating, the finance pathway depends on governance becoming **commercially consequential**. It affects capital allocation and shows other firms what investors, lenders or DFIs are prepared to reward.

The mechanism usually comprises three stages. First, a company improves governance in ways that investors or creditors consider relevant to risk, confidence or long-term value – for example, through stronger board oversight, better disclosure, reliable audit arrangements or clearer shareholder protections. Second, those improvements contribute to a financing outcome: the company obtains capital, attracts a new class of investor, improves financing terms or gains access to a market that would otherwise have been difficult to reach. And third, these standards become a de facto benchmark over time: firms seeking comparable access to capital recognise that they will be assessed against similar governance expectations. Other firms then begin to infer that the quality of governance is not merely a matter of compliance or reputation but a factor in capital allocation.⁶

This pathway is especially relevant where legal rules exist but investor confidence remains weak. Here, firm-level governance reform can partially compensate for weaknesses in the surrounding institutional environment by giving investors a more credible basis for trust in a particular company.⁷ Wider effects arise only if the financing result is observable and interpretable. Once other firms see that stronger governance has helped to unlock capital, reduce perceived risk or attract a more demanding investor base, they may expect to be assessed against similar standards.⁸

TBC Bank in Georgia illustrates this logic. Successive financing rounds with international financial institutions made board independence, audit oversight and disclosure of compliance with International Financing Reporting Standards part of the credibility package for external capital, culminating in TBC being listed on the London Stock Exchange in 2014. The visibility of this trajectory helped to spread the word: Bank of Georgia, TBC's main domestic competitor, then followed a similar path. By the mid-2010s, the two leading banks had created a de facto governance benchmark that went above and beyond domestic legal requirements.⁹

Infosys in India is an example of the same mechanism in a different setting. The company's NASDAQ listing in 1999 – the first by an Indian-registered company – established a reference point for what an emerging-market technology firm could offer international investors. Its voluntary adoption of disclosure and board practices ahead of domestic requirements, combined with access to international capital markets, made governance quality visible to investors and competitors. Other leading Indian technology firms progressively complied with similar expectations in order to appeal to comparable sources of capital and credibility. The market signal later contributed to regulatory uptake, as elements of these practices were incorporated into the national governance framework for listed companies.¹⁰

⁶ See Temiz et al. (2026).

⁷ See Klapper and Love (2004).

⁸ See Aggarwal et al. (2011).

⁹ See <https://www.ebrd.com/news/2015/georgias-tbc-bank-and-the-ebrd-work-together.html>.

¹⁰ See Infosys Limited (1999-2005) and SEBI (2003).

The limits of this pathway are important. Finance transmits governance standards only where capital providers care about governance and where firms have incentives to seek that capital. If financing is available regardless of the quality of governance, or if investors treat governance as a box-ticking exercise, the pathway weakens. The pathway may also be limited in closed markets, concentrated ownership structures and sectors where firms are not dependent on external finance.

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For reformers and investors, the practical implication is that governance-linked financing should be designed with transmission in mind. Commitments are more likely to generate wider effects when they are specific, monitored over time, linked to meaningful financing consequences and visible to other market participants.¹¹ When that signal is **visible**, **credible** and **consequential**, finance can turn company-level reform into a market benchmark.

3. The market integrity pathway

The third pathway is **market integrity**. This is most relevant where state-owned, state-controlled or systemically important firms operate at the boundary between commercial activity and public authority. In such settings, weak corporate governance does not just create internal inefficiency. It can also distort markets by allowing political direction, preferential treatment, opaque subsidies, conflicted procurement or repeated state support to shape how the company competes and allocates resources.

With this pathway, governance reform starts inside the firm and helps to clarify the boundary between the firm's commercial role and the state's ownership, policy or regulatory functions. A stronger board, a clearer mandate, more transparent reporting, disciplined procurement and greater insulation from day-to-day political intervention can create a limited “zone of integrity” inside the enterprise. Within that zone, decisions are more likely to be taken on commercial, transparent and accountable terms.

This internal progress can have wider effects when it changes how the firm interacts with the market. When a reformed state-owned enterprise procures more transparently, prices more commercially, discloses more reliably or resists ad hoc political instructions, this can reduce opportunities for market distortion. It may also make the costs of political interference more visible. Thus, the pathway is not about improving one company – it is about using company-level reform to expose, constrain or gradually reshape the state-enterprise relationship.

The pathway is fragile, because internal reformers rarely control the wider political environment. A board or management team may seek to operate commercially, but still face pressure from ministries, political patrons, vested interests or competing policy mandates. Consequently, market integrity effects usually require an external bridge. Investors, creditors, international partners, reform-minded officials and regulators can reinforce internal governance reforms by linking them to finance, policy dialogue, ownership policy,

¹¹ See Kim et al. (2021).



legislation or sector reform. Their role is not to replace domestic ownership of reform but to make interference more costly and reversal more visible.

Ukraine's Naftogaz illustrates this pathway. Its governance reform did more than just create a demonstration effect for other SOEs – it exposed the contested boundary between a strategic state-owned company and the state as owner, policymaker and political actor. Efforts to professionalise the board, strengthen oversight and depoliticise decision-making were repeatedly met with attempts to influence appointments, strategy and management control. The country's 2024 law strengthening the authority of supervisory boards reflected a decade of pressure from the firm and surrounding reform coalitions. When the company-level governance reform acquired wider institutional significance, it contributed to changes in the legal framework that extended beyond the energy sector.¹² In this case, company-level reform could not be secured without a clearer legal and institutional settlement of the state-SOE relationship. Its significance lies less in the success of this particular story than in the way the struggle around Naftogaz made the need for broader SOE ownership reform visible.

Uzbekistan's power sector illustrates a related but different form of the pathway. There, reform began with the restructuring and "corporatisation" of the old vertically integrated utility Uzbekenergo, separating generation, transmission and distribution functions. This clarified commercial roles and created a platform for wider sector reform. That firm-level starting point helped to clarify commercial roles within the sector and created a platform for wider market-facing reforms: the sector moved towards a more independent regulatory framework, competitive renewable-energy auctions were introduced and, ultimately, Law No. LRU-939 "On Electric Energy" was adopted in 2024.¹³ What began as firm-level corporate restructuring eventually supported a clearer separation of commercial, regulatory and policy roles in the sector, alongside more transparent arrangements and competitive renewable-energy investment.

¹² See Cigna et al. (2025) and OECD (2026).

¹³ Law of the Republic of Uzbekistan No. LRU-939 of 7 August 2024 "On Electric Energy" entered into force on 9 November 2024. For an EBRD account of the related sequence of reforms, see EBRD (n.d.).

The two examples show different variants of the same logic. In Ukraine, market integrity centred on protecting a strategic SOE from political interference and translating that contest into wider ownership reform. In Uzbekistan, it centred on restructuring a sector so that commercial activity, regulation and policy could be more clearly distinguished. In both cases, the corporate governance reform mattered beyond the firm in question, because it helped to clarify how state-linked enterprises should operate in a market economy.

The limits are clear. Market integrity effects are difficult to sustain when political incentives remain unchanged, ownership functions are fragmented, boards lack real authority, or governments continue to use SOEs as instruments of short-term policy or patronage. A reformed SOE may remain an island of better governance if the state does not accept corresponding limits on its own intervention.

For reformers, the lesson is that SOE governance should not be treated as a purely internal corporate matter. Where state-linked enterprises shape markets, governance reform should also clarify mandates, protect board authority, separate ownership from regulation, improve disclosure, discipline procurement and make the cost of interference visible.



4. The collective standard-setting pathway

The fourth pathway is **collective standard-setting** – when firms, investors, exchanges, regulators or professional bodies coordinate around shared governance expectations before those expectations are fully embedded in law. Unlike the demonstration pathway, this does not rely on a single leading company generating emulation through visible results. Unlike the finance pathway, it does not turn primarily on one financing decision. Its distinctive logic is coordination: market actors use codes, investor principles, industry standards or monitoring frameworks to define, benchmark and socialise governance expectations across a market, making them increasingly difficult to treat as optional.

This mechanism typically comprises three steps. First, a platform or coalition articulates a standard (a code, segment rulebook, set of investor principles, rating methodology or disclosure template) that translates “good governance” into specific and comparable expectations. Second, a critical mass of issuers and investors treats that standard as a credible reference point for market participation – often, because it reduces uncertainty, levels expectations and helps to overcome the collective-action problem whereby no firm wants to be the first mover. Third, once adherence (or non-adherence) becomes observable through reporting, benchmarking, ratings or public statements, the standard begins to operate as a *de facto* baseline: it shapes what firms regard as normal, what investors routinely ask for and what intermediaries (advisers, analysts, governance professionals, and so on) treat as the market’s reference point.¹⁴

This pathway is most relevant where legal reform is slow or contested or sets only minimum requirements, yet market actors have enough incentive and organisational capacity to coordinate around higher standards. It can also play a role where enforcement is uneven: collective standard-setting can partially substitute for weak enforcement by creating market-facing

¹⁴ See Cuervo-Cazurra and Aguilera (2004).

accountability. However, standards will not change behaviour simply because they exist. The pathway depends on four enabling conditions: (i) a credible coordinating platform (an exchange, a respected professional body or an investor coalition); (ii) clarity and comparability (standards that can be interpreted and assessed, rather than aspirational slogans); (iii) monitoring and publicity (regular reporting, benchmarking, ratings or “comply or explain” statements that make adherence visible); and (iv) market salience (investors, index providers, analysts or counterparties that treat the standard as relevant to credibility, access or valuation). Where these conditions are absent, collective standards tend to remain decorative.

Romania illustrates the national version of this pathway. For many years, the Bucharest Stock Exchange’s Corporate Governance Code was largely disregarded as a market discipline tool, and its revision in 2014-16 did not by itself change market behaviour. Its value emerged when major state-company listings, including Romgaz and Electrica, publicly committed to aligning with the code in their prospectuses. Their successful public offerings showed that pledging to align with an agreed governance benchmark could strengthen the credibility package offered to investors, turning code alignment from a formal exercise into a market signal. As other issuers observed this link between governance standards, investor confidence and access to capital, the code began to function as a collective market benchmark. The 2024 revision process, framed by Romania’s efforts to accede to the Organisation for Economic Co-operation and Development (OECD), followed the same logic: standards matter when they are visible, monitored and commercially relevant.¹⁵

A clearer “platform” variant can be seen in exchange-led premium segments that set higher governance entry thresholds and embed ongoing assessment. The **Nigerian Exchange’s Premium Board**, for example, is explicitly designed as a listing segment for issuers meeting the exchange’s most stringent corporate governance and listing standards, framed as adherence to international best practices. Admission requirements include

evaluation under the exchange’s Corporate Governance Rating System (CGRS) and achievement of a minimum score (70 per cent), alongside market capitalisation and free-float thresholds. The governance effect here is not a single firm’s demonstration or a single financing outcome; it is the institutionalisation of a benchmark that issuers can choose to meet, investors can recognise and the exchange can periodically reassess – thereby making governance quality comparable, verifiable and tied to an identifiable market status.¹⁶

Together, these examples show how collective standards gain force. In Romania, a national code became influential when visible issuers treated it as a market-facing benchmark and others could read investors’ responses through the market. In the premium-segment variant, an exchange-created platform translated governance expectations into threshold criteria and structured assessment, making adherence legible and repeatable across issuers. In both cases, standards mattered because they were institutionally organised, publicly legible and connected – directly or indirectly – to credibility and market participation.

The limits of this pathway are worth noting. Collective standards may remain superficial if they are vague, if assessment is weak, if reporting becomes formulaic, or if investor behaviour does not meaningfully differentiate between adopters and non-adopters. They can also fail through fragmentation: multiple competing standards may dilute comparability and make expectations negotiable. Finally, collective standards can be co-opted: if governance labels become reputational marketing rather than a discipline enforced through monitoring and consequences, the pathway degenerates into box-ticking. Thus, the pathway only works when standards are sufficiently clear, public, monitored and consequential – and when there are mechanisms that make adherence, and failure to adhere, visible.

¹⁵ See Cigna (2017) and EBRD (2013).

¹⁶ For more information, see <https://ngxgroup.com/exchange/raise-capital/premium-board>.

For reformers, the practical lesson is to design collective standard-setting as a bridge between market practice and formal law. Codes, investor principles and industry standards can prepare the ground for legal reform by creating shared expectations, testing what the market can absorb and building a vocabulary of governance that regulators can later codify. But credibility is the hinge: platforms need regular monitoring, transparent publication of adherence and enough investor attention to make the standard matter in practice. When these conditions are present, collective standards can help to transform voluntary governance practices into a recognised market baseline.

“Credibility is the hinge: platforms need regular monitoring, transparent publication of adherence and enough investor attention to make the standard matter in practice.”



5. The human capital diffusion pathway

The fifth pathway is **human capital diffusion**. This captures the way in which governance reform travels through people: directors, executives, lawyers, auditors, advisers, regulators and public officials who experience governance in practice and later carry those expectations into other organisations. This pathway is less visible than the demonstration, finance or standard-setting channels, but it can be highly durable. Formal rules and codes matter, but they require people who know how to interpret, apply and defend them.

This pathway operates when individuals participate in genuine governance reform rather than formal compliance alone. A director who has served on an empowered board, a manager who has worked with transparent reporting lines, a lawyer who has structured board decision-making or a regulator who has seen effective risk governance in practice will develop expectations about how governance should work. When those individuals move across firms, sectors, advisory markets or public institutions, they carry with them professional habits and standards that can influence new settings.

This is especially important in transition and emerging-market contexts, where governance capacity may be weak and formal legal reform may outpace institutional practice. A country can adopt sophisticated company laws, listing rules or governance codes, but these instruments remain fragile if boards do not exercise judgement, managers do not escalate issues, auditors lack authority, regulators lack practical understanding or advisers treat governance as paperwork. Human capital diffusion helps to close the gap between rules on paper and governance in operation.

The banking reforms and privatisations in central and eastern Europe in the 1990s and 2000s illustrate this dynamic. Reformed banks produced a generation of risk officers, internal auditors, compliance professionals, board members and managers who learned governance as an operational discipline: how decisions are documented, how risks are

escalated, how independence is protected and how controls are embedded in daily practice. When these professionals moved into other financial institutions, supervisory bodies, companies in the real economy and advisory firms, they took their governance expectations with them.¹⁷

South Africa offers a related example through the governance tradition associated with the *King Reports*. Over time, directors, company secretaries, audit committee chairs, lawyers and board advisers who were trained in that tradition carried governance expectations into other companies and, in some cases, into neighbouring markets. The influence did not depend solely on legislation. It travelled through professional authority, board practice, advisory work and the credibility of individuals who had internalised a governance culture.¹⁸

“Human capital diffusion helps to close the gap between rules on paper and governance in operation.”

These two examples point to a bottom-up pathway for economic governance reform. Governance reform generates durable effects when it creates professionals who have internalised governance as a practice rather than a compliance matter – and when labour markets, advisory networks and institutional mobility allow those professionals to carry their expectations into new settings. The broader implication is clear: a country may adopt sophisticated governance laws, codes or listing rules, but without people capable of interpreting, applying and defending them, reforms are at risk of remaining formal rather than being effective.

The limits of this pathway are also clear. Diffusion may remain narrow if skilled professionals are concentrated in a small elite, if mobility is limited, if boards and regulators do not value independent judgement, or if governance expertise is used only to satisfy formal compliance requirements. There is also a risk that governance knowledge may become consultant-driven, rather than being institutionally embedded. In such cases, expertise circulates, but practice does not necessarily change.

For reformers, the practical lesson is that governance interventions should be designed to create people as well as procedures. Board reforms, advisory projects, policy dialogue and financing conditions should produce individuals who understand how governance works in practice and can carry that experience elsewhere. This requires attention to board evaluation, director training, professional networks, advisory capacity, succession planning and the practical authority of governance functions inside organisations. When governance experience is internalised and mobile, firm-level reform can contribute to the gradual creation of a wider governance culture.

IMPLICATIONS: FIRMS AS AGENTS OF INSTITUTIONAL REFORM

The five pathways suggest a practical shift in how corporate governance reform is designed and evaluated. Firm-level reform should not be treated purely as a safeguard for a particular investment or as an internal compliance exercise. Under the right conditions, it can also serve as an entry point for broader market and institutional change. This does not mean that companies will replace regulators, courts or public institutions. It means that governance reforms inside companies can sometimes create the signals, incentives, standards and professional capacity through which wider

¹⁷ For more information on the banking transition in central and eastern Europe, see EBRD (2006) and World Bank Group (2005). For details of the role of foreign bank entry and governance norm transfer in central and eastern Europe, see Haselmann et al. (2010).

¹⁸ See Institute of Directors in Southern Africa (2016). On the regional diffusion of King-influenced norms, see Rossouw (2005) and Anderhofstadt et al. (2025).

economic governance improves: firm-level corporate governance reform can be both an outcome of economic governance and one of its inputs.

For investors, development finance institutions and reformers, the question is not only (i) whether a company has adopted better governance arrangements, but also (ii) how these arrangements can be designed and embedded in wider reforms to increase the likelihood of wide governance effects.

This has a number of practical implications (see Figure 3).

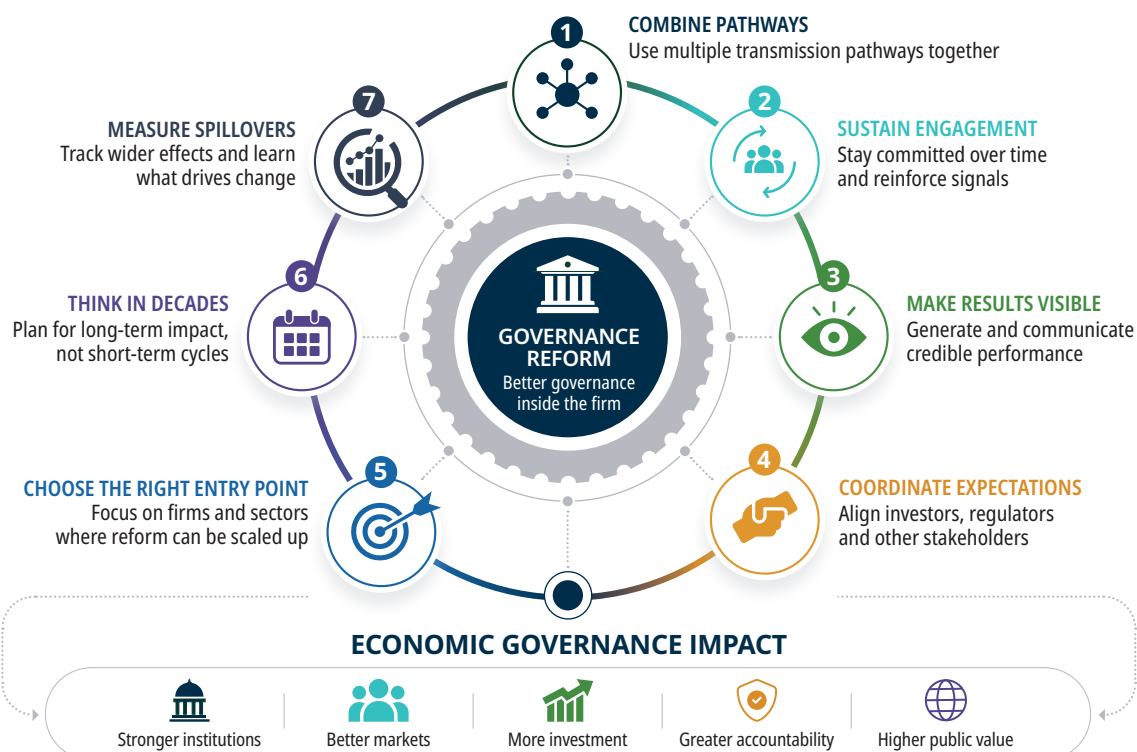
First, pathways should be activated in combination, not in isolation. The five pathways are complementary. A reform that improves board oversight may also support better disclosure, attract more demanding capital, influence peer expectations, feed into a sectoral code and train professionals who later take the practice elsewhere. Reformers should ask, at the outset, which pathways are realistically available in a particular context and how they can be connected (see below).

Second, conditionality should be treated as a relationship, not as a one-off transaction.

Governance commitments attached to financing are most effective when they are specific, monitored and revisited over time. A one-off covenant may secure formal adoption, but repeated engagement supports implementation, adaptation and learning, as well as spillover into new economic governance benchmarks.

Third, results should be made observable and interpretable. Demonstration effects do not arise simply because a company adopts a new governance structure. Other actors must be able to see what has changed and why it matters. This may require clearer disclosure, public reporting, peer learning, board evaluation, case-based communication or links to sector-level reform processes. If the wider market cannot understand the relationship between governance reform and improved performance, resilience, transparency or investor confidence, the reform is unlikely to become a benchmark.

Figure 3. Seven actions to turn firm-level governance reform into wider economic governance impact



When firms lead with integrity and collaborate across the ecosystem, reform becomes a catalyst for stronger institutions and shared prosperity.

Source: EBRD.

Fourth, governance expectations should be coordinated across actors. A firm-level reform is more likely to have wider impact when investors, lenders, international partners, exchanges, regulators and reform-minded public authorities reinforce similar expectations. Fragmented demands make governance negotiable and easier to dilute. Coordinated expectations can help to turn company-level commitments into market norms, particularly where domestic enforcement remains weak.

Fifth, the entry pathway should be chosen according to the context. In a company seeking external capital, finance may be the most effective initial lever. In a visible SOE, market integrity may matter more. In listed markets, collective standard-setting through exchanges or governance codes may provide the best platform. Where formal rules exist but implementation capacity is weak, human capital diffusion may be key. The framework should therefore be used diagnostically, not mechanically.

Sixth, it is important to plan for long horizons, but act when reform windows open. Bottom-up governance effects often unfold over periods that are longer than the duration of individual transactions, advisory projects or political cycles. However, reform opportunities may arise suddenly during crises, political transitions, episodes of fiscal pressure or moments of market opening. Reformers need both patience and readiness: the patience to build relationships, credibility and capacity before a window opens; and the readiness to act when conditions make previously blocked reforms possible.

Seventh, effects should be measured beyond the firm level. Standard governance metrics remain important, but they do not capture the wider governance dividend. Reformers should also ask whether peers' behaviour has changed, investors' expectations have shifted, standards have been incorporated into codes or regulation, state-enterprise boundaries have become clearer, or governance professionals are moving into new positions and taking practices with them.



These effects are harder to identify, but they are central to understanding whether firm-level reform has contributed to wider economic governance.

Not every firm can generate wider effects, and not every governance reform should be expected to do so. Some reforms are necessary for risk management, even if they produce no systemic spillover. The purpose of the framework is not to overburden every company-level intervention with institutional ambitions. It is to help reformers to identify situations where wider effects are plausible and design interventions accordingly.

Firms can only act as agents of institutional reform when reforms are substantial enough to change behaviour, visible enough to be observed, credible enough to be trusted and consequential enough to affect incentives. Where those conditions are absent, corporate governance reform may still improve the company in question, but it is unlikely to travel any further afield. Where they are present, the firm can become a channel through which market expectations, regulatory ideas and professional practices begin to shift.

CONCLUSION

Corporate governance and economic governance are often treated as moving in one direction: better laws, stronger regulators and credible enforcement produce better-governed companies. That remains true. But the relationship can also run the other way. Under the right conditions, governance reforms inside companies can influence the wider environment in which markets operate.

This article has identified five pathways through which that bottom-up transmission may occur. They work through visible results, capital allocation, clearer state-enterprise boundaries, shared standards and the movement of skilled professionals across institutions. None of them are automatic. A reform may remain confined to the company if it is invisible, commercially irrelevant, politically unsupported or treated as a formal compliance matter. But if it is visible, credible and consequential, it can shape expectations and behaviour beyond the confines of the firm.

The idea is not that companies should replace public institutions, or that every firm can become an agent of institutional reform. The reality is more modest and practical than that: in contexts where formal rules exist but institutions remain uneven or slow to change, firm-level reform can sometimes help to make institutional change more concrete. When the connection between company-level change and the surrounding market, institutional and professional systems is weak, reform may stop at the boardroom door. When that connection is strong, however, the boardroom can become one of the places where broader economic governance begins to change.



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