

IMPLEMENTATION OF CORPORATE GOVERNANCE



TYBIM

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ROLE OF BOARD OF DIRECTORS AND BOARD STRUCTURE

The Board of Directors **supervises and controls the management and operations of the company**. The duty of the Board is to promote the interests of shareholders and the Group by overseeing the administration and proper organization of operations.

It takes some combination of people, rules, processes and procedures to manage the business of a company. Corporate boards have many duties and responsibilities. In every decision the board makes, they must consider how it will affect their employees, customers, suppliers, communities and shareholders.

Good corporate governance relies on distinct differences in the roles between board directors and managers. It was never intended for board directors to be directly involved in the daily operations of a corporation, and they certainly shouldn't engage in micromanaging the management. The main role of board directors is oversight and planning — oftentimes made easier with the help of [board management tools](#). Despite the differences, board directors may delegate certain powers to the CEO or CFO under certain circumstances.

Boards also regularly delegate some of their duties to board committees. Corporate board committees act as a subset of the full board. Committees devote the necessary time and resources to issues for which the full board doesn't have time. Committees delve deep into issues, often calling in experts to assist them. Committees provide regular reports to the board on the matters they're charged with handling.

What Is the Appropriate Board Composition?

Boards tend to look differently in the early stages of development. Early-stage boards usually include one or more founders. Boards are typically smaller in the early stages, with five to seven board directors having various areas of expertise. Odd numbers prevent tie votes. Each board director gets one vote.

The size of boards typically increases with growth and is often related to the needs of the corporation and the normal practices for the industry. As boards acquire investors, they usually offer the CEO a board seat. Some investors will also insist that they get a board seat, so they can visibly oversee their investments. Investors also often have influence on recruiting independent board directors, who have increasing influence on the board and the corporation as the company grows.

Best practices for corporate governance encourage boards to offer the majority of board seats to independent directors. A [diverse approach to board composition](#) is essential, bringing with it a range of expertise, perspectives and knowledge that adequately reflect the broader concerns of various stakeholders, shareholders and local communities. Regulators, investors and others are also making a big push for boards to consider diversity in a multitude of realms, including age, gender, experience, ethnicity, race, religion, skills and experiences.

Articulating Long-Term Plans to Shareholders and Stakeholders

The role of the board is to plan and strategize goals and objectives for the short- and long-term good of the company and to put mechanisms in place to monitor progress against the objectives. To this regard, board directors must review, understand and

discuss the company's goals. In particular, the board relies on independent directors to challenge the board's perspectives to ensure sound decision-making.

The board must be confident in how they plan to address uncertainties and how they can capitalize on opportunities for the future, while identifying and managing real and potential risks. To inspire trust from investors, it's necessary for board directors to be able to [articulate their plans](#) for the future so that investors have a clear picture of the long-term outlook.

The Corporate Board's Role in Stewardship

In essence, board directors act as stewards of the company that govern for the present times and provide guidance and direction for the future. In their role as overseers, boards must continually assess a variety of risks in the following categories:

- Financial reporting
- Reputation
- Litigation
- Ethics
- Technology
- Health
- Safety
- Environment

Effective corporate governance entails that boards must develop written, clear descriptions of the roles for the board directors, the board chair, the CEO and the

primary board committees. Boards should also develop and write policies for codes of business conduct, codes of ethics, [environmental, social and governance \(ESG\)](#), conflicts of interest and whistleblowing.

Good corporate governance promotes equity and deters fraud and other deceptive practices.

The Board's Relationship with Management

It's in the board's best interest to develop good working relationships with managers. Corporations run best when the board and senior management hold the same perspectives on strategy, priorities and risk management.

Communication is a vital component of good corporate governance. Boards must communicate clearly and in a timely manner to develop a sense of mutual confidence and trust with their managers. It's important for board directors to be having regular conversations with managers about risk mitigation and prevention. Managers need to understand risks so that they can put processes in place to protect the company. Risk conversations between boards and managers should cover a span of risk areas, including:

- Economic risks
- Market risks
- Operational risks
- Acquisitional risks
- Dispositional risks

- Infrastructure risks
- Technology risks
- Reputational risks
- Disclosure risks
- Compliance risks

Diligent's Modern Governance Solution Responds to Evolving Board Demands

Boards must be able to adapt and respond quickly to a variety of opportunities and risks.

Tools like Diligent's Board & Leadership Collaboration solution, transform how boards and leaders work together, saving time, enhancing security and driving better decision-making – allowing you to govern confidently for the present while also providing the best possible direction for the future.

BASIC STRUCTURE OF BOARD OF DIRECTORS

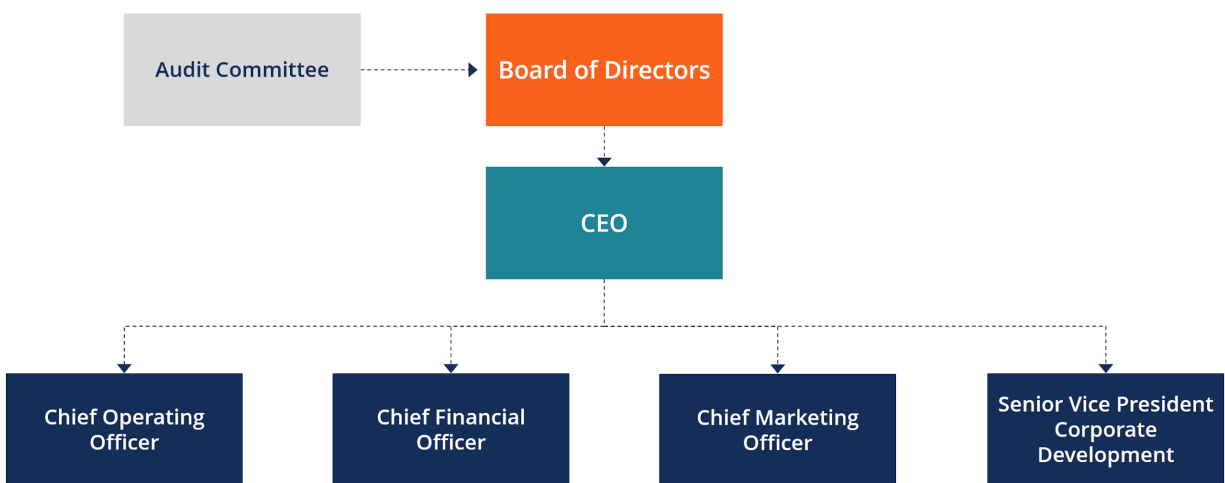


The structure, responsibilities, and powers given to a board of directors are determined by the bylaws of a company or organization. The bylaws generally determine how many board members there are, how the members are elected, and how frequently the board members meet. There's not a set number or structuring for a board of directors; it depends largely on the company or organization, the industry in which the company or organization operates, and the shareholders.

It's widely agreed upon that the board needs to represent shareholder and owner/management interests and that it's usually a good idea for the board to include both internal and external members. Accordingly, there is usually an internal director – a member of the board that is invested in the daily workings of

the company and manages the interests of shareholders, officers, and employees – and an external director, who represents the opinions and interests of those who function outside of the company.

The **Chief Executive Officer (CEO)** often also serves as chairman of the company's board of directors.



International Structure of a Board of Directors

The structuring of a board of directors tends to be more varied outside of the United States. In certain countries in Asia and the European Union, the structure is often split into two primary boards – **executive** and **supervisory**.

The executive board is made up of company insiders that are elected by employees and shareholders. In most cases, the executive board is headed up by the company CEO or a managing officer. The board is typically tasked with overseeing the daily business operations.

The supervisory board concerns itself with a broader spectrum of issues when dealing with the company, and acts much like a typical U.S. board. The chair for the board varies but is always headed up by someone other than the preeminent executive officer.

ROLE OF NON - EXECUTIVE DIRECTOR

Non-executive directors are responsible for **objectively looking at the plans framed by the executive team**. They help with formulating and overseeing the corporate strategy by providing constructive criticism and a broader view of the external factors affecting the business.

Essentially the non-executive director's (NED) role is to provide a creative contribution to the board by providing independent oversight and constructive challenge to the executive directors.

The 1992 Cadbury Report initiated a debate about the main functions and responsibilities of non-executive directors. Today, it is widely accepted that non-executive directors have an important contribution to make to the proper running of companies and, therefore, more widely to the economy at large. As the Cadbury Report said, they “should bring an independent judgement to bear on issues of strategy, performance and resources including key appointments and standards of conduct”.

There is no legal distinction between executive and non-executive directors. As a consequence, in the UK unitary board structure, NEDs have the same legal duties, responsibilities and potential liabilities as their executive counterparts. Clearly, it is appreciated that NEDs cannot give the same continuous attention to the business of the company. However, it is important that they show the same commitment to its success as their executive colleagues. It follows that NEDs are subject to the codified duties of directors contained in the Companies Act 2006 in the same way as executive directors.

Prior to accepting a non-executive appointment, the prospective appointee must ensure they have a comprehensive understanding of the company they are about to join and have undertaken their own due diligence. Once appointed an NED should ensure that an appropriate induction programme is put in place; they participate in on-going training and keep up to date with developments in the company and the relevant business sector.

The UK Corporate Governance codes states, “Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.”

All directors should be capable of seeing company and business issues in a broad perspective. Nonetheless, NEDs are usually chosen because they have a breadth of experience, are of an appropriate calibre and have particular personal qualities. Additionally, they may have some specialist knowledge that will provide the board with valuable insights or, perhaps, key contacts in related industries or the City. Of the utmost importance is their independence of the company management and any

of its 'interested parties'. This means they can bring a degree of objectivity to the board's deliberations, and play a valuable role in monitoring executive management.

The Cadbury, Hampel and Higgs reports, some of whose recommendations are included in the UK Corporate Governance Code, stress that the board should include independent NEDs of sufficient calibre and number for their views to carry significant weight in the board's deliberations. Independent directors, are defined in the Cadbury Report as persons who "apart from directors' fees and shareholdings [are] independent of the management and free from any business or other relationships which could materially interfere with the exercise of the independent judgement".

The UK Corporate Governance Code advises that the, "board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business".

While much of the comment and discussion on NEDs tends to focus on listed companies, it is important to note that they can also make a valuable, albeit somewhat different, contribution to private companies. Indeed, there are a growing number of private companies, including relatively small ones, which are now actively searching for the 'right' non-executive director.

The key responsibilities of NEDs

Chairmen and chief executives should use their NEDs to provide general counsel – and a different perspective – on matters of concern. They should also seek their guidance on particular issues before they are raised at board meetings. Indeed, some of the main specialist roles of a non-executive director will be carried out in a board sub-committee (particularly the remuneration and audit committees), especially in listed companies. The key responsibilities of NEDs can be said to include the following:

Strategic direction

As ‘an outsider’, the non-executive director may have a clearer or wider view of external factors affecting the company and its business environment than the executive directors. The normal role of the NED in strategy formation is therefore to provide a creative and informed contribution and to act as a constructive critic in looking at the objectives and plans devised by the chief executive and the executive team.

Monitoring performance

Non-executive directors should take responsibility for monitoring the performance of executive management, especially with regard to the progress made towards achieving the determined company strategy and objectives. They have a prime role in appointing, and where necessary removing, executive directors and in succession planning.

Remuneration

Non-executive directors are also responsible for determining appropriate levels of remuneration of executive directors. In large companies this is carried out by a remuneration committee, the objective of which is to ensure there is an independent process for setting the remuneration of executive directors.

Communication

The company and its board can benefit from outside contacts and opinions. An important function for NEDs, therefore, can be to help connect the business and board with networks of potentially useful people and organisations. In some cases, an NED will be called upon to represent the company externally.

Risk

NEDs should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

Audit

It is the duty of the whole board to ensure that the company accounts properly to its shareholders by presenting a true and fair reflection of its actions and financial performance and that the necessary internal control systems are put into place and monitored regularly and rigorously. An NED has an important part to play in fulfilling this responsibility, whether or not a formal audit committee (composed of NEDs) of the board has been constituted.

ROLES OF AN AUDITOR

Auditors are one of the many stakeholders in a company; they are authorized to review and verify the accuracy of financial records in order to ensure that the company complies with the tax laws. As per the Companies Act, 2013, a person shall be eligible for appointment as an auditor of a company if he fulfils the following twin conditions, i.e., he is a Chartered Accountant as well as a member of the Institute of Chartered Accountants of India.[1] A company has two types of auditors namely internal and external. Internal auditors are those who form a part of the company as employees whereas external auditors are independent.

1) Protecting Interests of Stakeholders

Auditors often have access to the key information regarding several activities being carried out in the organisation and this makes them aware of the mismanagement happening therein. Here, the auditor has the opportunity to inform the management about the shortcomings in the policies while also bridging the gap between the stakeholders and the management. This sharing of information can definitely lead to better corporate governance.

2) Promoting Accountability

At times the auditors in an organisation become privy to the various misstatements and figures that have been manipulated. This is the time when the auditor can recommend penalties for every manipulation done by the company. This will help in bringing a sense of accountability in every stakeholder and will also help the

Board of Directors to identify people who are not depicting professionalism in their work. Such penalties can be in many forms like removal of the person from specific position, delaying the promotion, reducing the annual bonus, etc.

3) Crisis Management

Bigger Organisations, at some point of time, go through financial crisis. This can be attributed to any scam or corruption within the company or any allegation that a company is subjected to from outside. In times like these, the

auditor is expected to have an action plan ready which shall include assigning different responsibilities to different stakeholders of the administration. The objective of this action plan is to sustain the faith of the investors in the company. It also includes measures with respect to media and law enforcement officials.

4) Mitigating Risk Factors

Auditors often carry out periodic risk assessment to ensure smooth functioning of the company. During these risk assessments, they analyse all the risks that can potentially result in the downfall of a company. They also look at all the measures that a company has taken to ensure there is no corruption within the organisation.

After analysing all the risk factors, an action plan is formed by the auditors to eliminate or reduce all those risks. In every risk assessment carried out by auditor, he/ she looks whether or not the company has made efforts to reduce previously established risks.

5) Maintaining Relationship with Regulators

It is the case with most of the regulators and the shareholders that they need transparency with the operations they are a part of. The external auditors usually put a lot of efforts to make sure that the operations carried out by the company are transparent and which helps the regulators in bestowing trust upon the organization. Regulators become supportive as soon as the auditors attest the company's disclosures.

SEBI GROWTH OF CORPORATE GOVERNANCE

Founded in 1988, the Securities and Exchange Board of India (SEBI) has the role to **protect investors and regulate the financial market**. SEBI initiatives in corporate governance are based on the Securities and Exchange Board of India Act and aim to prevent fraudulent practices. The organization is responsible for enforcing rules and regulations to promote orderly development in the stock market. As an investor, you must comply with these rules and follow the code of conduct.

what is sebi?

The Indian securities market is one of the most trusted in the world. However, things haven't always been this way. Back in the '80s, everyone was trying to find loopholes in the system and get rich through fraudulent schemes. Today, this market is tightly regulated by the Securities and Exchange Board of India, whose role is to prohibit unfair trade practices and protect investors' interests, among other functions.

The organization became autonomous and **got the statutory status in 1992**. Soon, it has emerged as the regulator of stock markets in India, overseeing the activities of investors, securities issuers and market intermediaries. SEBI is also responsible for carrying out investor awareness and training programs and regulating major transactions. Furthermore, it monitors credit rating agencies, custodians, bankers, brokers and other financial market players.

Several departments exist within SEBI, including but not limited to the Corporation Finance Department (CFD), the Legal Affairs Department, the Market Regulation Department and the Office of International Affairs. The CFD, for example, oversees all matters related to corporate governance and accounting standards. The Office of Investor Assistance and Education (OIAE), on the other hand, handles investors' complaints, such as those related to the transfer of shares.

KEY FUNCTIONS OF SEBI

In addition to its role in corporate governance, SEBI has **protective, regulatory and developmental functions**. The organization protects investors by prohibiting malpractices related to securities and promoting fair trade practices. Additionally, it aims to educate them on money management, trading and finances in general.

Its regulatory functions have the role to ensure that corporations and financial intermediaries alike follow its guidelines and code of conduct. The end goal is to **keep the financial market running smoothly**.

The developmental functions of SEBI aim to **promote computerized trading and modernize the market infrastructure**. These initiatives have led to a reduction in

fraud and unfair practices. For example, the organization requires companies that buy or sell stocks to register for a dematerialization (Demat) account online, which helps reduce bureaucracy and simplifies the process of holding investments. The *Demat system* allows traders to work from anywhere and mitigates the risks associated with paper shares, such as trading delays or thefts.

CORPORATE GOVERNANCE AND CSR

INTRODUCTION

Time and again, it has been observed that Corporate Governance and Corporate Social Responsibility are two terms and concepts that have been focused on in the corporate world. A lot of significance has been placed on successfully understanding and implementing these two concepts. Throughout the years, many developments have taken place that paved the way for the adoption of these concepts into the business practices of corporations globally. Here, an attempt is made to understand the difference and similarities between Corporate Governance and Corporate Social Responsibility.

MEANING OF CORPORATE GOVERNANCE

What exactly does Corporate Governance mean?

Corporate governance is a system of rules and practices, which help direct and control an organization. A good governance system with sound governance practices takes into account the interests of all stakeholders, such as customers, suppliers, employees, etc. The board of directors of the organization shoulders the central responsibility of having a good corporate governance system. It involves the various practices that are put in place and managed by the board to ensure efficient management of risk, the existence of transparency, and ethical practices. It **also includes** the rules, regulations, and practices through which the overall company is controlled and subsequently, governed. Sir Adrian Cadbury (**Cadbury Report**) **defines** corporate governance as “the system by which organizations are directed and controlled.”

The **corporate governance structure specifies** the distribution of rights and duties among various stakeholders in the corporation, such as the board of directors, managers, shareholders, and other stakeholders, and spells out the rules and protocols for making all the important decisions on business activities. By doing so, it also provides the structural framework through which the objectives of the organization are set and the methods of achieving those objectives and monitoring performance. Essentially, it is concerned with how exactly a company and its management functions. It deals with the various ways in which the company is to be governed. It consists of an extensive variety of methodologies and ethical patterns of conduct that are embedded into the fabric of the corporation. This can be seen through how they deal with various stakeholders.

CORPORATE SOCIAL RESPONSIBILITY

What exactly does Corporate Social Responsibility mean?

A business organization does not exist in a vacuum. It exists in a societal environment. By using resources like labor, natural resources, and capital from the surrounding environment and society, the business organization depends on it. Due to these reasons, it is only fair that the organization contributes to the societal environment in which it exists. Such an aim can be achieved through Corporate Social Responsibility (CSR) activities.^[1] It may be noted that, at present, there are a lot of ways in which CSR can be defined and there is no one definition that is accepted all over the globe. It can be explained as a management mechanism for business organizations that are generating profits by utilizing the precious resources of the society to pay back to the society through sustainable and conscious efforts. Through CSR activities and efforts, these business organizations can keep a tab on their practices, hold themselves responsible as well as ascertain the impact that their activities have on society and the environment at large.

While doing so, these businesses are enhancing their interests and considerations but at the same time, not putting the environment in harm's way. Corporate Social Responsibility is a management concept wherein companies incorporate social and environmental concerns into their business activities and processes as well as into their interactions with all stakeholders. CSR is usually made out to be how a company maintains an equilibrium between economic, environmental, and social imperatives ("Triple-Bottom-Line- Approach"), while simultaneously addressing the concerns of all the stakeholders. Here, it is important to point out that CSR is a strategic concept of business management and it is not the same as charity or philanthropy. The concept of Corporate Social Responsibility (CSR) is much broader than just that. Important CSR issues are related to the management of the environment, interaction with stakeholders, good working conditions, and labor standards, diversity and inclusion, good relations between employees and the community, and showing no tolerance for business malpractices. Business organizations that carry out a proper CSR plan have a competitive edge over the ones that do not. It boosts market expansion and access to capital, reduces the cost of processes and operations, reduces risks and threats, increases efficiency, helps in making better decisions, and finally, it helps to maintain a loyal customer base due to having a better brand image. Corporate social responsibility programs are a great way to boost employee morale in the workplace.

ISO 26000 clearly explains the meaning of social responsibility and helps corporations to convert CSR principles and theories into practical efforts. The standard is aimed at all types of organizations, regardless of their activity, size, or location. The standard shows a global consensus since a lot of stakeholders from across the globe have chipped in to develop this standard.^[2] As an example, let's take a look at the 'Starbucks'. Starbucks' goals for 2021 onwards consist of hiring 5,000 veterans and 10,000 refugees, decreasing the environmental impact of its cups, and engaging its employees in environmental leadership. Thus, it would be appropriate to say that CSR acts as a link between business corporations and the surrounding society.

THE DIFFERENCE BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

From all of this information, we can deduce that the most evident difference between the two mechanisms is that on one hand, Corporate Governance functions in a way that is distinct and material, and structured. Whereas, on the other hand, Corporate Social Responsibility does have rules and regulations but when we compare it to Corporate Governance, we can see that it functions more freely. Additionally, it is pertinent to recognize that Corporate Governance is the most far-reaching mechanism for control under which a business organization takes its governance decisions. Whereas Corporate Social Responsibility is more concerned with internal aspects such as self-governance or self-regulation that are related to external **regulatory and legal processes**. While such a difference exists, it may be noted that a certain type of symbiosis can also be detected between these two mechanisms.

SIMILARITIES BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Essentially, it would be appropriate to say that the biggest similarity between the two mechanisms is that both Corporate Governance and Corporate Social Responsibility are concerned with concentrating on ethical business practices. These mechanisms have a common interest at their core as they are both concerned with transparency, efficient disclosures, sustainability, and the kind of impact that an organization has on all the stakeholders and consequently, the environment.

It can be observed that both of these mechanisms:

- 1) Increase the value for shareholders as they disclose reports that increase the overall transparency of reporting which leads to gaining the confidence and trust of the public at large.
- 2) Aid in the development of the surrounding area of the business activity.
- 3) Sustain and enhance the existing relationship with stakeholders.
- 4) Preserve a prominent market position by engaging with the stakeholders and addressing their concerns and grievances.
- 5) Substantiate a solid brand name of the organization.

Activate Windows

CONCLUSION

It would not amiss to say that the concept of corporate social responsibility falls under the ambit of corporate governance. The overall value (both tangible and intangible) for all the stakeholders involved, is enhanced by deploying the mechanisms of corporate governance and corporate social responsibility. While there are differences between the two, similarities also exist. Thus, we can say that ultimately, they are interconnected.

FAMILY OWNED BUSINESS BACKGROUND

A family-owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family. Family-owned businesses may be the oldest form of business organization. Farms were an early form of family business in which what we think of today as the private life and work life were intertwined. In urban settings it was once normal for a shopkeeper or doctor to live in the same building in which he or she worked and family members often helped with the business as needed.

Since the early 1980s the academic study of family business as a distinct and important category of commerce has developed. Today family owned businesses are recognized as important and dynamic participants in the world economy. According to the U.S. Bureau of the Census, about 90 percent of American businesses are family-owned or controlled. Ranging in size from two-person partnerships to *Fortune 500* firms, these businesses account for half of the nation's employment and half of her Gross National Product. Family businesses may have some advantages over other business entities in their focus on the long term, their commitment to quality (which is often associated with the family name), and their care and concern for employees. But family businesses also face a unique set of management challenges stemming from the overlap of family and business issues.

ISSUES IN FAMILY BUSINESSES

A family business can be described as an interaction between two separate but connected systems—the business and the family—with uncertain boundaries and

different rules. Graphically, this concept can be presented as two intersecting circles. Family businesses may include numerous combinations of family members in various business roles, including husbands and wives, parents and children, extended families, and multiple generations playing the roles of stockholders, board members, working partners, advisors, and employees. Conflicts often arise due to the overlap of these roles. The ways in which individuals typically communicate within a family, for example, may be inappropriate in business situations. Likewise, personal concerns or rivalries may carry over into the work place to the detriment of the firm. In order to succeed, a family business must keep lines of communication open, make use of strategic planning tools, and engage the assistance of outside advisors as needed.

FAMILY BUSINESSES IN INDIA

INDIAN FAMILY OWNED BUSINESSES – HOW THEY MANAGE TO THRIVE?

EMERGENCE OF INDIAN FAMILY BUSINESSES:

India enjoys a rich and glorious history of family owned businesses. Family business in India has been in practice since long, but slowly and gradually changing its nature and structure over the period. During the early days, trading and money lending was done in bazaars through shops (Dukaans), owned and

confined to a few communities from Northern India, perceived to be money minded. They were also called Seths or Sahukaars (the rich).

In India, the families still dominantly control majority of the businesses. 90% of the businesses in India – whether SMEs or large conglomerates, are still owned, controlled and managed by families.

India ranks third in terms of the numbers of the family owned businesses. More than 50% of the top performing businesses in Asia, excluding Japan is from India.

Large corporate business houses like TATAs, Ambanis, Godrej, Bajaj, Hinduja, Ruitas, Mittals, Thapars, Adanis, Birlas, Jindals, Mahindras, and many more are still controlled by the respective families, where the role of family patriarch is very important and respected, which is quite similar to the Emperor Model in a family business.

Family owned organizations continue to grow and are a large part of the Indian society. They form the backbone of the Indian economy and societal growth.

Though the family owned businesses face challenges, they have time and again shown better performances than public and multinational companies by finding ways to overcome the limitations and surviving.

The financial performance of family owned businesses such as revenue growth, gross margins, earnings before interest, tax depreciation, reserves is far better than the non-family owned businesses.

CHALLENGES IN INDIAN FAMILY BUSINESSES:

In the fast paced era of disruptive technologies and digitization, family businesses can no longer continue to operate with old traditions and methodologies.

Traditional mindsets need to change for better.

The operational methodology in the businesses has changed for its own survival.

The changes caused changes in the family dynamics and the businesses as well.

With the increase in the business size, the business families found it difficult to manage the operations and mobilize resources for continuity. As a result the financial control of the businesses gradually started shifting from the promoters to the financial institutions.

Family firms need to find a good balance between profits and maintaining family relationships. Over a period of time, ownership management and creating professionalization with great transparency become quite challenging. Lack of communication between family members, too much control by the family patriarch, no written or agreed family policies, etc. can become detrimental to the business in the long run. Career growth of the family members and the employees are hampered.

Many family businesses were incorporated in late 1980s and early 1990s, when economic reforms were introduced. As on date, most business founders find themselves at the brink of retirement with no planned succession either from within the family or outside. More than 50% of the global family CEOs do not have a formal retirement plan and around 75% of the global family businesses do not have

a formal succession plan. This has led to acrimonious relationships, bad or delayed decision-making within the family

Many business families have separated and partitioned for internal peace and better management control. Some succeeded and branched out bigger and better, while some failed and collapsed totally

Since 1970s the family businesses have been splitting quite rapidly. Birla's, Tata's, Modi's, Walchand's, Singhanias, Mafatlal's, Shriram's, Thapar's, Sarabhai's, Goenka's, Ambani's, have gone through the splits.

WHAT MAKES FAMILY RUN ORGANIZATIONS THRIVE IN INDIA?

Most family firms were born out of the business activities started post independence or during the economic reforms during the 1980s-1990s. So, family owned businesses are still young. However, they are changing the way they are controlled, managed and governed.

Families are really concerned about wealth creation and protection, social status, family reputation and good will. To ensure this, self-discipline and self-governance is high, leading to sound foundations and good monitoring of the business. Family constitution and family council play an important role in keeping the family aligned.

In medium to large size business houses, professional teams are engaged to run the business on day-to-day basis under the guidance and strategies of the Board of

Directors. Good governance creates a good business image and produces better results.

The next generation is now well educated, being exposed to global practices. They along with the available in house talent are trained for professionally managing the business, which lays the foundation for continuity and creating a legacy.

Family firms are now readily accepting professionals on board. The professional help on Family Constitutions, Family Councils, Structures, Roles and responsibilities, performance driven rewards and recognitions for the employees and family is being addressed. Increased participation and involvement in encouraged across all levels without any gender bias.

Strategic Planning, Decision making, Risk Analysis, Capability and Capacity building, Talent Management, Wealth Sharing through equity etc. Under the guidance of the Business Coach are being seriously considered and practiced.

Indian families have a huge emotional connect along with business aspirations. The commitment and passion for the business is outstanding. The next generation involves and participates in the business with a more progressive outlook with all the energy. Along with business expansion, wealth creation with the support of the next gen, the older family members feel greatly satisfied and happy.

NEED FOR PROFESSIONALISM AND TRANSPARENCY IN FAMILY BUSINESS

At some point in the life of a family business, the family owners or business leaders might decide that they should professionalize their firm. The term “professionalization” is most often thought to mean “changing from family management of a business to non-family (read professional) management.” Sometimes professionalization does occur when a non-family manager has been chosen to lead the business. During these transitions, family members might stay in other management positions or sometimes all family employees depart. But changing to non-family management is only one possible element of professionalizing a family business. It certainly is not a necessary element. If your family business is considering professionalizing, it is vital for family and business leaders to agree about what this process entails.

A company is regarded as professional when it has these same high levels of performance and ethics. Organizations achieve these standards by building cultures that emphasize performance while adhering to core values of the company, treat people like adults, are constantly learning, and strive for fairness and consistency in rewards. Professional business cultures are nurtured through the efforts of leaders and through “formal” processes like setting clear goals and rules, appraising employee performance and ethics, and hiring and promoting based on the ability to contribute.

There are six pillars to professionalism:

- Attract, develop and retain great family and non-family talent
- Ensure that the organization can always make timely big decisions
- Strengthen family discipline and commitment toward the business

- Respect the management hierarchy and empower employees to make decisions
- Create systems to ensure consistently high performance and fairness
- Guard your core values like a hawk.

ATTRACT, DEVELOP AND RETAIN GREAT FAMILY AND NON-FAMILY TALENT

Businesses largely compete on the basis of their talent and a family in business must be honest about its ability to supply key managers and employees to the company.

If a family produces a business leader with enough of the skills (no leader has them all), good values and an ability to keep shareholders, employees, key customers, suppliers, and others loyal, family leadership of the business can be the best option. But the bigger and more complicated a business becomes, the more likely it will be that the business will have non-family leaders. Why? Because to keep supplying talented top management, a family's talent pool has to keep up with the needs of the business and the family has to remain passionate about the work the business does. A family may not continue to produce children or find in-laws with the particular talents or interests to qualify for top management. The fact that children have considerable freedom to choose their careers today also limits the family talent pool for the business. A family must be realistic about its talents and passions and make rational decisions about who will manage and lead the business.

Moreover, a family cannot take all of the top leadership roles in a company and hope to retain great non-family talent. Ambitious and talented non-family managers will leave (perhaps to join competitors) to be able to find top management roles. A family business that wants to attract and retain the best non-family talent must always have a few senior management roles for non-family managers. And the non-family managers must be seen as having real authority in the business.

The safest strategy for a family in business to perpetuate their ownership and leadership of a business is to try to develop one or a few family members who can be very competent managers and exemplary carriers of the company culture. Most successful third, fourth and later generation family businesses either explicitly follow this strategy or are lucky.

ENSURE THAT THE ORGANIZATION CAN ALWAYS MAKE TIMELY BIG DECISIONS

STRENGTHEN FAMILY DISCIPLINE AND COMMITMENT TOWARD THE BUSINESS

A family business's chances of survival and success are increased when there is enough family discipline to act responsibly toward the business, and when there is adequate dialogue in the family and business about important family business concerns to respect family and business goals and to build family commitment to the business.

RESPECT THE MANAGEMENT HIERARCHY AND EMPOWER EMPLOYEES TO MAKE DECISIONS

In most family business, family members working in the business have special access to company information and discussions about the business, regardless of their rank in the company. This is because family members have more access to one another, at home and at work. This special access is not a problem as long as family members respect the hierarchy of the business and appropriately involve non-family managers in decisions and do not inappropriately involve family members in business decisions.

CREATE SYSTEMS TO ENSURE CONSISTENTLY HIGH PERFORMANCE AND FAIRNESS

Systems are often the fundamental driver of professionalism, raising standards of performance throughout an organization and creating consistent methods of appraising and rewarding employees.

GUARD YOUR CORE VALUES LIKE A HAWK

Many family business issues arise because the family shareholders are not well educated about basic business topics and informed about their business and they do not accept their responsibility to guard the core values of the company.

RESISTANCES TO PROFESSIONALIZATION

Professionalization involves the acceptance of new and sometimes alien management, ownership and even family practices. This process often occurs around the passing of ownership and management authority from one generation to the next, which is already a sensitive time. The senior generation can feel insulted by attempts to professionalize, because it involves a different style or methods of management and feels like a rejection of their approaches.

ROLE OF GOVERNMENT

Over the past decade, stories on corporate governance have increased in frequency and public salience of corporate scandals. As a measure of public attention, media coverage of corporate governance issues has increased sharply since year 2000. The public outcry over the recent scandals has made it clear that the status quo is no longer acceptable. The public is simply demanding accountability and responsibility in corporate behaviour.

The scandals themselves demonstrate that lax regulatory institutions, poor corporate governance standards, and selective application of the law can have huge implications for the economy and for the public.

Therefore the Government through its various departments has to ensure that it restores public confidence in the economy by taking effective action in the form of reformed regulatory systems, improved auditing, encouraging application of the ZimCode and stepping up law enforcement.

This is in tandem with its key role of creating an enabling environment for businesses to thrive.

The ZimCode highlights that, to ensure economic vitality the Government has to play a central role in providing and promoting an enabling environment for businesses to thrive.

An important aspect in this area is for the Government to provide relevant infrastructure and basic services that companies can utilise in carrying out their business.

Poor road networks, erratic water and electricity supplies always negatively affect the establishment and growth of businesses.

Without adequate basic services and infrastructure corporates are then forced to develop their own which is usually beyond their budgets. It then compromises on the quality of products or services that they send to the markets and their profit margins are eroded. Consequently their investment into proper corporate governance systems is reduced which can eventually affect the overall business performance.

If the Government provides basic services that corporates can utilise it is indirectly contributing towards good corporate governance of which the benefits are well known.

Increasing the uptake of ZimCode by corporates contribute towards creating good business environments whereby all corporates are guided by its principles that emphasise integrity in all business transactions.

Though the ZimCode is not mandatory, if the government which controls over 60 percent of the economy is seen abiding by its principles, it sends a good message to everyone.

If the government demonstrates the good values and ethics through the companies it has controlling stakes in, it is easier for other private players to emulate. It also gives the Government credibility when it assesses the compliancy level of other corporates and can easily press companies to provide adequate explanations for non-compliancy because it would be walking the talk.

The role of government in corporate governance goes beyond the crafting of rules and regulations to the active involvement of government in evaluating whether these regulations are encouraging economic growth, promoting the protection of investors, shareholders and the public at large.

The government should be in a position to assess if the voluntary corporate governance codes are bringing sanity to corporates. If the results predict a positive impact then the government through its various departments has to make it a priority to encourage corporates to adopt some principles of the ZimCode over and above other rules and regulations.

The Government should ensure the ease of doing business by assessing the validity of its regulations in order to reduce red tapes in the formal sector. Excessive regulations have created room for corruption and underhand deals which makes the cost of operating businesses in the country very high.

It will take effective Government action in the form of prosecutions and jail sentences to end corruptions at all levels.

Government should also consider reducing the time and cost required to start a business and acquiring the necessary permits so as to reduce corruption.

A very important role for the government even outside the guidelines of the ZimCode is that of being a law enforcer.

When companies get into disputes or when scandals occur the expectation is for the government to ensure justice prevails, the guilty are punished and the innocent are vindicated.

This is such an important aspect which can then give substance to corporate governance. Government responses to scandals should be well considered and effective. Corporate leaders involved in scandals should be given fair trials and upon gathering enough incriminating evidence they should be given sufficient jail time as well as paying fines.

Prosecutions can have life-altering effects on individuals, corporates and society at large. The fear of prosecution and the associated consequences can force corporates to adopt the right principles. But when the Government constantly turns a blind eye on corporate scandals it gives the impression that anyone can get away with anything and these impressions last long in the public's mindsets.

Prosecution send a message to the broader public, no wonder Voltaire argued, "In this country, It is well to kill from time to time an admiral to encourage the others."

The task of Government is to restore corporate integrity and market confidence, even if it means 'killing', without stifling the dynamism that underlies a strong economy.

ACCOUNTING STANDARDS AND ACCOUNTING DISCLOSURES

Accounting standards What can be done to restore confidence in financial reporting? On a global level, the International Accounting Standards Board (IASB) is working hard to deliver a set of high quality standards as soon as possible. But it is not easy. Why? The first complication is the increasing difficulty of proper measurement. Take, for instance, the growing importance of intangible and non-marketable assets, such as intellectual property rights or goodwill. Another example is the valuation of long-term flows of income or expenditure, such as pension liabilities, which are inherently difficult to predict. In addition, complex instruments for risk transfer and new corporate structures test the limits of existing measurement and valuation techniques. In essence, accounting standards have to be frequently adapted in response to developments in corporate practices and financial markets. These are moving targets! The second issue is the fundamental dilemma in the formulation of accounting standards, namely having to choose between rules-based and principles-based standards, in other words between detailed standards or standards in more general terms. Rules-based standards, like the US Generally Accepted Accounting Principles, in principle may be easier to enforce. However, they increasingly bear the risk of being circumvented, either through financial innovation and engineering, or through what has been euphemistically called "aggressive accounting". Principles-based standards, like the International Accounting Standards, or in the new jargon the International Financial Reporting Standards, may allow for financial innovation more easily. At the same time, they

may leave more room for interpretation and thus may be more difficult to enforce. But this issue is not as black-and-white as it seems. On the one hand, there are US attempts to move closer to principles-based accounting. A study on this subject has been mandated by the recent Sarbanes-Oxley Act. Principles-based standards, on the other hand, will most likely retain rule-like components as well, particularly in order to create accounting discipline for complex issues such as financial instruments. This explains, for example, the complaints about the new IAS 39 Exposure Draft being too prescriptive. Moreover, principles-based accounting will not obviate the pressure to make the principles more precise, easier to enforce, and hence, more rule-like. If so, this may give rise to differences between countries and hence raise questions of international coherence. In other words, principles-based accounting creates level playing field issues. A third subject is fair value accounting for the recognition and measurement of financial instruments. Fair value accounting has potential advantages. Essentially, the increased use of market-based information may enhance the transparency and comparability of financial statements. However, fair value accounting may not yet be feasible and reliable across the board, and may lead to an artificial volatility of financial results. This greater volatility in turn, if not properly explained and understood, may negatively affect public confidence. For these reasons, it seems sensible for the time being to focus on expanded fair value information in the Notes to the Financial Statements. This brings me to a fourth point of interest, the need for risk accounting. Traditionally, accounting has concentrated on the information contained in the balance sheet, income and cash flow statements. Arguably, this is

no longer sufficient to determine what risks are being run by firms, particularly firms active in financial markets. Modern financial instruments and techniques, such as derivatives or securitisation, enable them to change their risk profile, sometimes even at very short notice. So more information should be provided about a firm's risks. That is why banking and insurance regulators encourage disclosures by financial institutions on risk exposures as a means of enhancing market discipline. The IASB is working hard on this as well. Another issue is the context of accounting. International accounting standards mainly deal with financial measurement and disclosure. They do not extensively consider the setting in which financial reporting takes place, such as the firm's corporate governance or risk management, the role of the audit committees or the internal and external auditors. Auditing standards, however, take a different approach. They first define the conditions to be met by the company environment, before describing what should be audited, and how this should be done. Interestingly, prudential authorities follow the same route. The Basel Committee's guidelines, the Nederlandsche Bank's Regulation on Organisation and Control or the Pensions and Insurance Supervisory Authority's Principles on Internal Control start from the primary responsibility of the management and the directors for sound governance. They then elaborate the requirements to be met by these functions. So the question is whether international accounting standards should deal more comprehensively with the setting for accounting and reporting within the firm and address accounting governance more explicitly. Internal reporting procedures and compliance, an active role of the audit committee, a separation of responsibility for

and financial interest in financial reports, for example, are most relevant for sound reporting. Perhaps accounting standard setters should no longer take them for granted. Without an appropriate environment of sound corporate governance and risk management, accounting standards resemble a safe car without a qualified driver! In short, accounting standards need to be adapted to changes in corporate practices and financial markets. Modern standards should be principles-based, take account of sound corporate governance, and be risk-oriented. To get this across, there is a constructive dialogue between accounting standard setters, like IASB, and regulators, such as the Basel Committee on Banking Supervision. Although they have a different scope and different objectives, their interests clearly run parallel in many areas, for example in accounting for loans and proper provisioning practices, or in transparency about risk management. In these fields, the Basel Committee appreciates the dialogue with accounting standard setters and the industry in order to achieve sound and effective reporting. Topical issues are IAS 39/32 and IAS 30. A recent Roundtable in Basel, chaired by BIS General Manager Andrew Crockett, confirmed the need for a coordinated dialogue regarding corporate governance, accounting and auditing, and transparency and oversight.

Transparency and disclosure Let us now turn to transparency. Transparency is a prerequisite for effective market discipline. In theory, the rationale for greater transparency is that companies, particularly financial institutions, present information asymmetries to the markets. Simply speaking any company is better informed about its own operations than outsiders are. If the company publishes more information to facilitate the assessment of its assets and liabilities, its

strategies and risk profile, markets can function more effectively, at least in theory. Markets contain disciplinary mechanisms, which stimulate sound management and adequate financial performance. For companies which are well-run, well-financed, and transparent, costs of raising capital will tend to decline. The reverse goes for ill-managed firms. More generally, well-run firms, by being transparent, can obtain better terms and conditions in BIS Review 64/2002 3 transactions with informed and rationally-behaving market counterparties. In essence, this is market discipline. Market discipline, however, works only if market participants have sufficient information, which enables them to assess companies' activities and their inherent risks. But more disclosure as such does not necessarily result in greater transparency. On the contrary, rather than just expanding their disclosures, firms should pay attention to the quality of information as well. In short, information disclosure needs to be timely, reliable, relevant and sufficient. Importantly, public disclosure of high quality information contributes to corporate governance. That is to say, the information can be used to hold directors and managers accountable for their decisions and the firm's performance. Transparency, in other words, serves the accountability of companies to their stakeholders. One aspect of public disclosure which should not be overlooked is the costs involved. Information is not a free good. On the contrary, developing, implementing and maintaining up to standard information systems is costly and takes time. For that reason, accounting standards, should, above all, require relevant information. However, there is a professional risk of an overdose of information, which must be heeded by both standards setters and regulators.

