

# QUESTION BOOK

# ESG

## CHAPTER 7:

# CONCEPT OF GOVERNANCE IN PROFESSIONALLY MANAGED COMPANY AND PROMOTER DRIVEN COMPANY

### QUESTION 1:

Family businesses are the major form of enterprise in India and across the world wherein all key managerial positions are held by family members and family values are ingrained in organization values. There are certain provisions of Corporate Governance in a family-owned Companies that has been legalised and have been incorporated in the Companies Act, 2013. Explain such provisions enshrined in the Act. **(JUNE 2024) (5 MARKS)**

Ans:

- (a) In India, the majority of businesses are family-controlled. Family businesses are the main type of enterprise in India and around the world. marico, Godrej group, Tata group are some of the examples of family owned businesses in india.
- (b) incorporated in the companies act, 2013 are as follows:
- (i) Independent and women directors
    1. At least  $1/3^{\text{rd}}$  of the directors in listed companies must be independent directors.
    2. Unlisted public companies with share capital of rs. 10cr or more, turnover of Rs. 100 cr or more and loans and borrowings of Rs. 50 cr or more must have at least 2 independent directors.
    3. Companies with paid up share capital of Rs. 100 cr or more and turnover exceeding Rs 300 cr must have at least 2 directors as independent directors.
  - (ii) Corporate social responsibility (CSR)

Every company having net worth of Rs. 500 cr or more or turnover of Rs. 1000 cr or more or net profit of Rs. 5 cr or more is required to constitute a corporate social responsibility committee under section 135 of the companies act; with 3 or more directors with at least 1 independent director.

(iii) Audit committee

All listed companies must form an audit committee with at least 3 directors, majority being independent directors.

(iv) Nomination & remuneration committee

The NRC shall include three or more non-executive directors and at least half of them must be independent directors.

(v) Serious fraud investigation office (SFIO)

SFIO is dealt under section 211 of the act, it investigates company frauds based on reports from regulators or government departments.

**QUESTION 2:**

**Mahan, a Company Secretary was working with Tirmurthy Ltd, a textile manufacturing company, for last 10 years. The Company was owned by promoters and their family members. Due to personal reasons, he wanted to relocate to Bangalore and was looking for a suitable profile. Mahan got an offer from Teino Technologies Ltd, as Company Secretary and Compliance Officer. Mahan reaches out to you, a Senior Company Secretary for an advise. He was apprehensive as he was now moving to a professionally managed company, whereas he was associated with a promoter driven company for quite some time. Advise Mahan. (JUNE 2025) (5 MARKS)**

**Ans:**

(a) In India, the majority of businesses are family-controlled. Family businesses are the main type of enterprise in India and around the world. marico, Godrej group, Tata group are some of the examples of family owned businesses in india.

(b) Promoter driven companies

(i) Promoter driven companies are the companies where the founding family or original promoters hold significant ownership and control the management.

(ii) Promoters inhere hold key executive roles such as CEO & MD

(iii) Major decisions are influenced by the promoters and family members

(iv) In promoter-driven companies, the leadership and management roles are often passed down from one generation to the next within the same family.

- (v) Can lead to fast decision-making, but may lack transparency if not well-governed.
  - (vi) Promoter-driven companies can make decisions quickly due to centralized control, but without strong governance, this may lead to a lack of transparency and accountability. This can affect trust among shareholders and stakeholders.
- (c) Professionally managed companies
- (i) Professionally managed companies are the companies run by experienced professionals who are not part of the founding family. Ownership and management are separated.
  - (ii) Governance is usually stronger here, with a clear focus on performance and accountability.
  - (iii) Decision-making is often based on data and market logic rather than family interests.
  - (iv) Professionally managed companies focus on maximizing shareholder value through transparent and accountable governance.
  - (v) Succession is determined by skills and performance rather than family relationships
- (d) To conclude moving from a promoter driven company to professionally managed company will only provide Mahan with a transparent environment to enhance your skills and advance your career. Which will result in long term professional growth.

### QUESTION 3:

**Tricolam group, is a very famous conglomerate based in Chennai, famous for its silk sarees and other clothing. There have been internal conflicts within the family members, who were part of the ancestral business. A dispute arose between the children of two brothers, with TVK, elder brother on one side and rest of the family members on the other side. Ms. Vani, a New York-based scientist, and TVK's elder sister's daughter, had sought a board seat in Tricolam Investments Ltd (TIL), the holding company of the Tricolam Group. She accused the family of denying her a seat due to her gender and was planning to approach Court for her rights. Highlight some unique challenges and governance issues in family businesses. (DEC 2024) (5 MARKS)**

**Ans:**

- (a) Family businesses can face challenges when family matters interfere with business decisions. In the instant case we can observe problems such as gender bias and weak governance practices.
- (b) Some of the challenges and governance issues in family businesses are as follows:

- (i) It can be hard to manage different opinions and solve disputes among family members involved in the business.
- (ii) Investors and lenders may not fully trust family-run companies, as they worry the family in control might not treat other shareholders fairly.
- (iii) Choosing a leader can be challenging, especially when many family members are interested. Families should pick the most capable person, no matter their gender or relation.
- (iv) Non-family employees may feel they have fewer chances to grow or make decisions, thinking only family members get those opportunities.
- (v) Passing down ownership and leadership is a big concern, but many families don't plan for it properly.
- (vi) Older and younger generations often have different ideas, which can lead to disagreements.

