

# Concept of Governance in Professional Managed Company & Promoters Driven Company

## Lesson 7

### KEY CONCEPTS

- Family Managed Business ■ Professionally Managed Business ■ Independent Directors and Women Directors
- Corporate Social Responsibility ■ Audit Committee

### Learning Objectives

#### To understand:

- Concept of family and professionally managed businesses.
- Governance structure of family and professionally managed businesses.

### Lesson Outline

- Introduction
- Learnings from studies and surveys
- Family Businesses in Germany and Japan which are known for its longevity
- Governance of Promoter Driven vs Professionally Managed Companies
- Case Studies- Metamorphosis of Promoters to Professionally Driven Companies
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings
- Other References

## INTRODUCTION

India enjoys a rich and glorious history of family-owned business. A family business may be company, partnership firm, HUF or any other form of business owned, controlled and operated by members of a family. In India the majority of businesses are controlled by families.

Family businesses are the major form of enterprise in India and across the world, viz. Corporation houses like Aditya Birla Group, Bajaj Auto, Eicher Motors, Emami, GMR Infrastructure, Godrej Group, GVK Power & Infrastructure, HCL Technologies, Hero Moto Corp., Marico, Reliance Industries, Tata Group, are some of the family owned companies in India. Arcelor Mittal, Berskire Hathway, BMW, Cargill, Comcast, Continental, Ford Motor, Hyundai, Koch Industries, LG, Maersk, News Corporations, Peugeot, Roche, Samsung, Volkswagen, Walmart, are companies owned / controlled by family. Several studies indicate that family business carry the weight of economic wealth creation in all economies.

Most family businesses do not survive beyond two or three generations. One of the main reasons for the short life span of family businesses is due to the lack of governance mechanisms in the family. With better family governance, business development reaches next level and ensures continuity of the business across generations. Strong governance measures in a family owned business can effectively act as a prevention mechanism against a lot of tensions that may arise between family members at a later stage. It is also imperative for family businesses to adopt effective corporate governance measures in order to give tough competition to other players in the global market.

The most glaring characteristic of a family owned business is that all the key managerial positions in such businesses are held by family members. Non-family members may of course be employees of the company, but the decision-making power usually vests with the members of the family. Professionalisation of a family business is of supreme importance for its long-term sustainability. In absence of professionalism, a family business may get frequently weighed down with conflicts due to lack of clarity and systematic work processes, role confusion and informal organisation structure. Poor accountability and improper operations control severely interrupts efficiency of business. The business also fails to attract and retain good external talent.

Family businesses are generally operated with the ethos of “Family First”. Business decisions are taken while keeping the family’s wellbeing in focus. With changing preferences of the next-generation successors, it is possible to balance the family’s philosophy, culture and personal needs with business performance, profit and transparency. However, a visible change can be observed in the family businesses in India. Old family business houses are changing to “professionally managed” companies. The younger successors have a broad vision and global aspirations. They prefer working with modern management techniques, build competent teams, and create transparent systems and processes. Instead of getting stalled in family conflicts, disputes, and non-productive practices, the younger generation prefers to create a professional work culture.

Further, family values also get ingrained in organisation values. In an organisation, the values are decided by a group of people running a firm over a period of time but in a family business, the family value also gets transferred to the organisation. Further the way a family business is managed is very relevant from a country perspective and is based on that respective country’s culture and values.

Certain provisions of Corporate Governance in a Family Owned Companies have been incorporated in the Companies Act, 2013 such as:

- i) **Independent Directors and Women Directors** : To build up the transparency and accountability of the Board of Directors, the Act now requires at least 1/3rd of the total directors of a listed company to be Independent Directors and have no material or pecuniary relationship with the company or related persons. Unlisted Public companies with paid up share capital of Rs. 10 Crores or more; turnover of Rs. 100 crore or more; aggregate outstanding loans, debentures, and deposits, of Rs. 50 crore or more are statutorily required to have at least 2 directors as Independent Directors.

To ensure diversity on the board, all listed companies and non-listed public companies having paid up share capital more than Rs.100 Crores or more and turn over exceeding Rs.300 Crores or more are required to have atleast one woman director on the board.

- ii) **Corporate Social Responsibility** : Every company having net worth of Rs. 500 Crores or more, turnover exceeding Rs. 1000 Crores or net profit of more than Rs. 5 Crore is required to constitute a Corporate Social Responsibility Committee under Section 135 of the Companies Act, 2013 constituting 3 or more directors with at least 1 Independent Director to formulate policies and recommend activities that the company may undertake for promotion of education, gender equality, health, poverty eradication, environment, employment etc. Again, this measure puts responsibility on the company for the social wellbeing not just of its workforce, but also makes it publicly accountable.
- iii) **Audit Committee** : The Act provides for the setting up of an Audit Committee comprising of at least 3 directors by all listed companies, majority of which have to be independent directors. The members of such a committee have to be persons who can read and understand financial statements and the task entrusted to such a committee is recommending remuneration and appointments of auditors and reviewing their independence.
- iv) **Nomination and Remuneration Committee** : The Nomination and Remuneration committee shall comprise of 3 or more non-executive directors out of which at least half shall be Independent Directors. Such committee shall identify persons qualified to become directors of the company and make recommendations to the board of directors regarding their appointment and approval.
- v) **Serious Fraud Investigation Office** : Section 211 of the Act provides for the establishment of a Serious Fraud Investigation Office to look into the affairs of the company and investigate incidences of fraud upon receipt of report of the Registrar or inspector or generally in the public interest or request from any Department of Central or State Government.

***Some Unique challenges/ Governance issues of family businesses:***

- i) Managing the diverse opinions of family members in the business, solving internal issues and disputes, etc., is a challenge.
- ii) Investors – both shareholders and creditors – may look with distrust on family-controlled companies, because of the risk that the controlling family may abuse the rights of other shareholders. So investors shall scrutinize such companies with care before taking the plunge and investing.
- iii) There are also challenges of multiple stakeholders for the leadership position. Very often, there is lack of communication between the incumbent and incoming generations. The incumbents do not know how to handle the succession challenge, while the incoming generation does not know how to raise it. The families should choose their most competent member(s) to manage the business, disregarding age, gender or bloodline. However, post-succession role of the incumbent is not often planned leading to complications.
- iv) Hiring external staff which may perceive that career advancement, freedom and decision-making are solely the purview of family.
- v) Although ownership and management succession are the key concerns of a large number of business families, they do not devote enough attention to the process involved. Succession dilemma is also closely related to the family policy on entry of new generation, retirement of incumbents and mechanisms for resolving conflicts. Entry of new members from the family depends also on the ‘space’ available in the organization, which in turn depends on the success of the business. The younger generation may face difficulties in proving themselves to the former generation.

- Change in mind-set: Differing views between the older generation and the newer generation.
- Lack of Competitiveness: Another source of challenge is in the nature of competitiveness. For instance, when the Indian economy was opened up in 1991, most Indian companies, of which a huge majority were family owned, were put under competitive pressures for the first time. Many firms, particularly those that grew under government protection did not have a strategy to respond and took it as a threat rather than opportunity for a variety of reasons. This created huge tensions in business families, sometimes leading to division of assets.

## LEARNINGS FROM STUDIES AND SURVEYS

To comprehend the corporate governance scenario prevailing in family businesses across the globe, research surveys conducted by various renowned organisations have been studied. The coverage and outcome of the surveys are as under:

### i) 2022 Family Business Benchmark by KPMG

KPMG conducted a survey titled- “**2022 Family Business Benchmark**” comprising of 253,552 Family business entities from eleven metropolitan regions in Germany to comprehend their governance scenario. The study revealed that the family businesses with regard to their financial position, cash flow and financial performance as well as their management and governance structures. On other parameters, the following facts were revealed:

- a) Family-owned business strategy aims for longevity, independence and security: They hold higher proportions of cash than non-family businesses, have comparatively high equity ratios, and own a large portion of their fixed assets themselves. They are also keener to invest than non-family businesses.
- b) Family-owned businesses generate higher turnover and are more profitable than non-family-owned businesses on average, as measured by their capital.
- c) In 74 percent of the family businesses studied, the shares are concentrated in one shareholder or a family of shareholders. 78 percent of family businesses are run by at least one family shareholder.
- d) Family businesses are more often run by women (8.7 percent) than non-family businesses (7.7 percent). Non-family businesses, on the other hand, have a higher share of mixed management (approx. 28 percent versus 20 percent in family businesses).
- e) All metropolitan areas have a very high proportion of family-owned businesses (approximately 90 percent) that provide up to 80 percent of jobs.

### ii) The 2021 EY and University of St. Gallen Family Business Index

The 2021 EY and University of St. Gallen Family Business Index which is based on a global ranking of 500 family-owned businesses according to their revenues reveals the largest family-owned firms are vital to the health of the global economy.

The largest 500 family businesses generate US\$7.28 trillion in revenue and employ 24.1 million people. Together they constitute the third largest economic contribution in the world by revenue. In some cases, generations and generations of family members have played a part in guiding the business over the course of decades and even centuries.

The oldest family business on the Index, Japan’s Takenaka Corporation, has been in business for more than 400 years. Meanwhile, more than half of the German businesses on the Index are over 100 years old.

The 500 largest family businesses have 4,418 board seats in total with 1,041 held by family members. Of those, 17% are female and 83% male. The share of companies with female family members on boards is 31% and is on par with global industry benchmarks. The average family business board member is 61 years old, but the next generation is on its way. One in five businesses on the Index have a next generation member (aged 40 or younger) on the board or in the management team. This represents a major opportunity for boards to diversify and extend their talent pool.

The next generation can bring professional expertise, valuable technology and digital capability, and insights into the current generation of consumers and employees. Generational attitudes differ on sustainability, for example. Gen Z and Millennials are more likely than older generations to favour sustainable lifestyles and share information about sustainable products with peers. A good proportion of the family businesses on the Index are reporting formal ESG metrics. 53% (264) reported at least once on the GRI Sustainability Disclosure Database.

Fifty-one percent of those companies come from EMEIA (Europe, Middle East, India and Africa), followed by 30% from the Americas and 19% from Asia-Pacific. The US is the country with the highest number (42) of family companies that contributed to the GRI database.

Privately owned family enterprises using ESG metrics to manage but not report on their businesses are missing an opportunity to attract talent, win customers and grow future revenues.

### iii) PwC's Family Business Survey 2023

PwC's Family Business Survey 2023. Trust has been—and remains—a vital competitive advantage that sets family businesses apart from other companies. This year's survey of 2,043 family business owners in 82 territories uses a model developed by Sandra J. Sucher, a Harvard Business School professor of management and the author, with Shalene Gupta, of *The Power of Trust*, to assess whether family businesses are doing the right things in today's world to build trust.

The model identifies four pillars of trust: **competence** (is the company good at what it does?),  **motive** (whose interests is the company serving?),  **means** (is the company using fair means to achieve its goals?) and  **impact** (what is the tangible impact the company has, as opposed to the impact it claims to have?). The way the respondents answered questions based on these pillars reveal a disconnect between traditional views about trust and their impact on how family businesses operate today. They also highlight where and how family businesses will need to transform to ensure their legacy.

The survey revealed that the notion of how to build trust in business is changing—fundamentally and rapidly. For everyone—including customers and employees—issues like environmental, social and governance (ESG) and diversity, equity and inclusion (DEI) have become litmus tests for trustworthiness. Due to powerful demographic shifts, most of today's customers and employees hail from generations—millennials and gen Z—whose values differ from those of baby boomers. Family businesses, which for years have relied on a trust premium, built up over generations, have been slow to get the message.

The survey revealed many businesses are not taking actions that is required to build trust.

59% do not communicate their purpose externally

84% do not take public stance on important issues

85% do not have clear and communicated ESG strategy

79% do not have purpose statement/commitment that advances DEI

Further PwC's 'Global NextGen Survey 2022' of family business leaders-in-waiting showed that they are following their parents' lead and prioritising growth over ESG as a means to safeguard their legacy.

**iv) India-State of family Business Report: Centre for Family Business and entrepreneurship, S.P.Jain Institute of Management and Research.**

In the mentioned study, 350 family businesses were surveyed across 50 cities pan-India, out of which 35 were large enterprises; 70 medium enterprises; 140 small enterprises and 105 micro enterprises.

The study reveals that the top family challenges faced include: Lack of a clear successor/succession plan; lack of clearly defined and/or written roles and responsibilities for all family managers, including women; lack of a conflict resolution mechanism within the family business; lack of a retirement age for the senior generation and a roadmap for the next generation's induction into a leadership role; and lack of a family constitution.

The study further reveals that reasons for not "letting go" to the next-gen include lack of interest of the next gen; lack of capability of next-gen; family conflicts and no unanimously accepted leader. The most important reason cited for not letting go and handing over the business to next-gen is Lack of interest of the next-gen.

While these family businesses are governed by clear values and a code of conduct, there seems to be lesser attention paid to critical aspects such as family governance and succession planning. This is manifested in succession timing being not clearly defined despite there being an intent to hand over the business to the next-gen member, and a reluctance to let go due to the perceived inability of the next generation or their lack of interest in the business.

**v) India Business Survey Report 2022 by Deloitte-Survey specific to family-owned businesses-Highlights**

**a) To strive for effective governance structure**

Family-owned businesses are required to strive for effective governance structures within the family and ensure greater harmony amongst family members about the values, vision, and purpose of the business. As different generations get involved in it, a well designed governance structure helps settle conflicts and create a healthy equilibrium between tradition and innovation.

**b) To establish effective conflict Resolution Mechanism**

More than half of the survey respondents enumerated that a formal family constitution including will, entry and exit provisions, and conflict resolution mechanisms were of utmost importance. Such a constitution helped promote open and transparent communication and settle conflicts. The second priority was to hold regular family meetings to align with the culture, values, vision, and direction of the family business. The regular cadence helped build communication skills, increased transparency, and ensured greater harmony amongst family members.

**c) Succession plan in terms of ownership and management**

It is an essential part of family governance, as its absence can lead to power struggles and conflicts, which are detrimental to the performance of the business. Succession planning involves engaging the next generation of leaders in business decision making and setting performance expectations. This must be combined with leadership development programmes that can improve the chosen leader's success chances and ensure business continuity.

**d) Many Businesses are being managed by Non-Family Leaders**

More than half of the respondents revealed that their business is being managed by a non-family leader, even though the ownership was with the family (including the next generation in the family).

This displayed the confidence of appointing an outsider as a leader and the realisation that it is the need of the hour, as the business expanded. For a few of these, a non-family leader acted as a 'bridge leader' who helped develop the business and prepare young family members for leadership roles. On the other hand, one-fifth respondents preferred handing over both ownership and management to the next generation. A very small proportion of the respondents from family-run businesses agreed to transferring ownership to a non-family member.

**e) Over two-third respondents have a formal leadership development programme for the next generation**

Over two-third respondents revealed that their organisation has a formal leadership development programme for the next generation (Chart 13). These programmes helped families pass on their rich knowledge and heritage to the next generation and motivated them to learn about business. The older generation shared their experiences with the next generation to develop the skills for managing a family business. Some respondents revealed that no formal programme existed, but the next generation was continuously exposed to different business leadership aspects, or they were considering developing one at the earliest

**f) Independent Directors on the Board**

Along with family governance, we wanted to understand if the governance of the Board was unbiased. Most family businesses tend to rely on internal experiences and judgments, but the presence of an external professional helps explore the benefits of having an outside influence with clearly defined roles on the Board. Most respondents revealed that they have external professionals as part of the Board.

One-fifth respondents indicated that they did not have external professionals but hired advisors who supported the Board members consisting of family members. These advisors helped promote effective business governance, succession planning, mentor the next generation, resolve conflicts and unexpected family issues, and make strategic decisions. For more details, please refer the following link:

<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/about-deloitte/in-India-Business-Survey-noexp.pdf>

## **FAMILY BUSINESSES IN GERMANY AND JAPAN WHICH ARE KNOWN FOR ITS LONGEVITY**

**A) Family businesses in Germany**

The oldest family businesses – that is, those owned for the longest period of time by one or more affiliated families and continually in operation – are The Coatinc Company Holding GmbH in Siegen that was founded in 1502, William Prym Holding GmbH in Stolberg (1530) and Freiherr von Poschinger Glasmanufaktur e. K. in Frauenau (1568). Nine of the oldest German family businesses have been in family hands for more than 400 years, according to extensive research conducted by the Foundation for Family Businesses.

**B) Japanese Secret of Family business longevity**

The world's oldest family business, the Nishiyama Onsen Keiunkan, is a hot springs hotel founded in 705 AD and has been passed down through the family for 52 generations (including adopted heirs) for 1,300 years. Another of the oldest companies in the world is Sudo Honke, the oldest sake brewery in Japan. It was founded in 1141 and run by the 55th generation of the Sudo family.

## THE CONCEPT OF 'IE' IN JAPANESE FAMILY BUSINESSES

Translating to family or home, 'ie' represents a group of people who share a home and an economic and social life. A continuing unit of people, a group, a clan. In the case of the Japanese culture the 'ie' is more corporation than family, in that the business comes first, and the primary objective above all, is to survive and prosper. The 'ie' needs to last forever, because if it doesn't, the family doesn't either.

The head of the 'ie' chooses their successor, at times overlooking their own children if they deem them less capable – it's about the survival of the tribe at all costs, no questions asked. The adoptee takes on the family name and once succession occurs will become the head of the 'ie' with full control. All other family members have been conditioned to support the head for the greater good whether they are bloodline, or not.

This strategy is being used by huge companies such as Suzuki. The current CEO Osamu Suzuki, is the fourth adopted son to take this role. Suzuki overlooked his own biological child and named his successor as Hiroataka Ono. Other famous companies using this approach include Canon, Kikkoman and Toyota.

## GOVERNANCE OF PROMOTER DRIVEN VS PROFESSIONALLY MANAGED COMPANIES

It is well understood from surveys and examples that the sustenance of family businesses is not possible unless it follows good governance practices. In this context to comprehend the scenario of governance structure in professionally and promoters driven companies, a sample of six companies affiliated to Telecommunication, Automobile, FMCG, Hotels, Paperboards, Packaging, Agri-Business, Information Technology and Construction sectors have been considered to comprehend their governance structure on the following parameters:

1. Chairman's Independence
2. Separation of Ownership and management
3. Promoters Holding
4. Succession planning
5. Business Continuity Plans
6. Sustainability Focused Approach
7. Conflict Management

The companies randomly selected for the study are- Bharti Airtel, Bajaj Auto, Tata Motors, ITC , HDFC and L&T. From the companies selected, Bharti Airtel, Bajaj Auto and Tata Motors are Family Business organisations and ITC, HDFC and L&T are Professionally Management organisations.

## GOVERNANCE STRUCTURE

Parameters for comparison	Family Business			Professionally Managed Business		
	Bharti Airtel	Bajaj Auto	Tata Motors	ITC	HDFC	L&T
Chairman's Independence	Chairman is Executive Director (Non-promoter)	Chairman is non-executive (Promoter)	Chairman is non-executive (Non-promoter)	Chairman is Executive Director	Part Time Chairman and Independent Director	Chairman is non-executive
Separation of role of Chairman and Managing Director/ CEO	Yes, the role is separate.	Yes, the role is separate	-	No, the role is not separate.	Yes, the role is separate	Yes, the role is separate

Promoter holdings (%)	55.02%	54.98%	45.81%	NIL	25.63%	NIL
Public Holdings (%)	44.93%	45.02%	54.19%	100%	74.37%	100%
Age of the Enterprise (Date of Incorporation)	07/07/1995	30/04/2007	01/09/1945	24/08/1910	30/08/1994	07/02/1946
Succession planning	<ul style="list-style-type: none"> <li>● The Company has a robust succession planning framework in place for the Board and top critical positions including its Senior Management.</li> <li>● The Board of Directors, HR &amp; Nomination Committee and Apex Talent Council are entrusted with overseeing and monitoring talent management and succession planning initiatives at the Company.</li> </ul> <p>91% Succession rate for middle and top level management.</p>	<ul style="list-style-type: none"> <li>● Pursuant to regulation 17(4) of the SEBI Listing Regulations, the framework of succession planning for the Board and senior management is placed before the Board for its review. During the year under review, the Board of the Company satisfied itself that plans are in place for orderly succession of such appointments.</li> </ul>	<ul style="list-style-type: none"> <li>● The Nomination and Remuneration Committee works with the Board on the leadership succession plan to ensure orderly succession in appointments to the Board and in the senior management.</li> <li>● The Company strives to maintain an appropriate balance of skills and experience, within the organization and the Board, in an endeavor to introduce new perspectives, whilst maintaining experience and continuity.</li> </ul>	<ul style="list-style-type: none"> <li>● Company's Succession Planning processes have contributed to helping employees realise their potential, craft their careers while recognising their strengths and areas of development and ensuring a sound workforce planning system.</li> </ul>	<ul style="list-style-type: none"> <li>● The Nomination and Remuneration Committee ('NRC') and the Board of Directors ("the Board"), review succession planning and transitions at the Board and Senior Management levels.</li> <li>● The Board composition and the desired skill sets/ areas of expertise at the Board level are continuously reviewed and vacancies, if any, are reviewed in advance through a systematic due diligence process.</li> </ul>	<ul style="list-style-type: none"> <li>● The organisation has a robust process of building its talent pipeline which helps to feed in succession planning.</li> <li>● The process starts with the Development Centre (DC) where high performing employees get assessed on defined competencies at four different levels in the organisation.</li> <li>● The process identifies competency gaps which are developed with specific</li> </ul>

					<ul style="list-style-type: none"> <li>● Succession planning at Senior Management levels, including business and assurance functions, is continuously reviewed to ensure continuity and depth of leadership at two levels below the Managing Director.</li> <li>● Successors are identified prior to the Senior Management positions falling vacant, to ensure a smooth and seamless transition.</li> </ul>	<p>Individual Development Plans (IDP's) and competency programs organised for these levels. This helps the organisation to have a pool of leaders at every level who are "Competency Ready"</p>
<p>Business Continuity Plans</p>	<ul style="list-style-type: none"> <li>● Yes, Airtel does have business continuity and disaster management plan in place.</li> <li>● Airtel has proactively implemented business continuity plan and effectively enabled work from home facility for all the employees by providing necessary IT infrastructure and network security.</li> </ul>	<ul style="list-style-type: none"> <li>● During the year under review, a revised risk management policy/ framework was adopted by the Board. This framework, inter alia, includes Business Continuity Plan.</li> </ul>	-	<ul style="list-style-type: none"> <li>● Yes, ITC has a Business Continuity and Disaster Management Plan designed to address the threat of disruptions to business activities or processes.</li> </ul>	<ul style="list-style-type: none"> <li>● The Internal Audit Department independently reviews as well as evaluates the quality and comprehensiveness of Bank's disaster recovery and business continuity plans and also carries out management self-assessment of adequacy of the Bank's internal financial</li> </ul>	<ul style="list-style-type: none"> <li>● The Company has established emergency preparedness plans at each project site to deal with the emergency situations.</li> <li>● It also provides response procedures for preventing and mitigating the hazard &amp; risk and environmental impacts</li> </ul>

	<ul style="list-style-type: none"> <li>● Regulatory team along with legal and networks keeps a close watch on compliances with regulations and laws and ensures the operations of the Company are within the prescribed framework, and have also implemented business continuity plan wherever required.</li> </ul>				<p>controls and operating effectiveness of such controls in terms of Sarbanes Oxley (SOX) Act and Companies Act, 2013.</p>	<p>arising from emergency situations including the provision for first aid.</p> <ul style="list-style-type: none"> <li>● In the event of any occurrence of an emergency, the same shall be investigated and appropriate preventive measures would be initiated to avoid recurrence in future.</li> <li>● Relevant information and training related to emergency preparedness and response shall be provided to the interested parties.</li> <li>● The duties and responsibilities of all the workers are being communicated periodically.</li> </ul>
Board Level ESG/ Sustainability Committee	<ul style="list-style-type: none"> <li>● In order to drive its long-term sustainability vision, Airtel has Board ESG Committee which provides strategic guidance and decision making on ESG and</li> </ul>	-	<ul style="list-style-type: none"> <li>● The Safety, Health and Sustainability (SHS) Committee reviews the Company's performance on SHS aspects,</li> </ul>	<ul style="list-style-type: none"> <li>● The company has CSR and Sustainability Committee.</li> <li>● The CSR and Sustainability Committee of the Board, reviews</li> </ul>	<ul style="list-style-type: none"> <li>● The CSR and ESG Committee of the Board oversees the Bank's sustainability and climate change initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>● CSR and Sustainability Committee is responsible for sustainability related issues</li> </ul>

	<p>is responsible for review and approval of ESG strategy, goals and targets.</p>		<p>including ESG and oversees the implementation of relevant policies and strategies</p>	<p>and oversees implementation of the Sustainability Policies of the Company on an annual basis.</p> <ul style="list-style-type: none"> <li>● The role of the CSR Committee of the Board, under the nomenclature 'CSR and Sustainability Committee', is inter alia, to review, monitor and provide strategic direction to the Company's CSR and sustainability practices towards fulfilling its triple bottom line objectives.</li> </ul>	<ul style="list-style-type: none"> <li>● The Board level committee is guided by the ESG apex committee. The ESG apex committee that comprises of key representatives from the senior management, oversees sustainability reporting initiatives, climate change disclosures, internal projects to ensure reduction of our overall emissions and tracks its progress on ESG, to achieve industry leadership.</li> <li>● This Committee is further supported by ESG action sub-committees which includes Product Responsibility Sub-committee, which looks at ESG risks (including climate risks) in the existing portfolio and ESG linked opportunities; the Environment Sub-committee which oversees the environmental impact from our operations</li> </ul>	
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					<p>and Social and Governance Sub-committee which works on workplace policies and governance initiatives.</p> <p>The Group Head for Corporate Social Responsibility (CSR) &amp; ESG updates the CSR &amp; ESG committee of the Board, every quarter on the Bank's sustainability (ESG) initiatives and progress on ESG actionables and chairs the ESG apex committee. The ESG apex committee governs and reviews the progress of the three action committees that drive the ESG agenda (including climate change) at the Bank.</p> <p>The Product Responsibility sub-committee, examines Environmental &amp; Social (E&amp;S) risks in our operations, including climate risks,</p>	
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					<p>while finding new business opportunities in the E&amp;S arena. The Environment subcommittee comprises of representatives from the Administration, Infrastructure and IT teams at the Bank, sets targets and identifies opportunities for improvement in areas of emissions, energy, water, and waste. This committee will continue to drive the Bank's path towards achieving carbon neutrality. The Bank has a dedicated ESG vertical that works in conjunction with several internal and external stakeholders, to drive the ESG agenda.</p>	
<p>% of Independent Directors to total number of Directors</p>	<ul style="list-style-type: none"> <li>● % of Independent Directors to total number of Directors.</li> <li>● As on March 31, 2022, the Board comprised</li> </ul>	<ul style="list-style-type: none"> <li>● 50% of Independent Directors to total number of Directors.</li> <li>● As on 31 March 2022, the Board</li> </ul>	<ul style="list-style-type: none"> <li>● 50% of Independent Directors to total number of Directors.</li> <li>● During FY 2021-22 the Board</li> </ul>	<ul style="list-style-type: none"> <li>● 50% of Independent Directors to total number of Directors.</li> <li>● The present strength of the Board is</li> </ul>	<ul style="list-style-type: none"> <li>● 72% of Independent Directors to total number of Directors.</li> </ul>	<ul style="list-style-type: none"> <li>● 44% of Independent Directors to total number of Directors.</li> <li>● As on 12th May, 2022, the Board</li> </ul>

	<p>11 members, including a Chairman, a Managing Director &amp; CEO, 3 Non-Executive Non-Independent Directors and 6 Independent Directors out of which two are woman Independent Directors.</p>	<p>consisted of 14 directors, of whom three were executive (including the managing director), seven were non-executive as well as independent (including two women independent directors) and four were non-executive and non-independent.</p>	<p>comprised of 8 Directors, out of which 7 Directors (87.50%) are Non-Executive Directors. The Company has a Non-Executive Chairman and 4 Independent Directors ('IDs'), including 2 Women IDs, which comprises half of the total strength of the Board.</p>	<p>16, comprising the Chairman &amp; 3 other Executive Directors, 8 Non-Executive Independent Directors, of which 2 are Women Directors, and 4 other Non-Executive Directors.</p>		<p>comprised the Group Chairman, the Chief Executive Officer &amp; Managing Director, 7 Executive Directors, 1 Non-Executive Director (representing a financial institution) and 8 Independent Directors, including one Independent Woman Director</p>
<p>Vision/mission, strategies linked to ESG</p>	<ul style="list-style-type: none"> <li>● The company's Vision is to be a globally renowned Environmentally conscious, Socially responsible and Governance led Company by implementing leading ESG practices and transparent reporting.</li> </ul>	<p>-</p>	<ul style="list-style-type: none"> <li>● Given the global challenge of 'Climate change', as responsible corporates, Tata Motors has outlined its Sustainability strategy and a definitive action plan towards Net Zero.</li> <li>● E-mobility and usage of 100% renewable energy will be the initial key steps towards carbon footprint reduction.</li> </ul>	<ul style="list-style-type: none"> <li>● To achieve its Sustainability 2.0 vision, the Company continues to strengthen its management approach which is guided by a comprehensive set of Sustainability Policies that are being implemented across the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>● The Bank has been reporting to the Carbon Disclosure Project (CDP) on its climate change strategy, risks, opportunities, and emissions.</li> <li>● From the perspective of climate risk assessment, the Bank will assess the priority of physical and transition risks in the near to medium term.</li> <li>● Some of the critical parameters to consider would be GHG</li> </ul>	<ul style="list-style-type: none"> <li>● The Company is committed to Energy Transition &amp; Sustainability goals by setting targets to become Water neutral by 2035 and Carbon neutral by 2040.</li> <li>● Its ESG roadmap is aligned with the 5-year strategic plan - 'Lakshya 2026' with a commitment to climate leadership, water stewardship, circular</li> </ul>

					emissions, air pollutants and climate transition risk pathways both at the sector and borrower level.	economy, green supply chain, biodiversity, and green offerings. The Company views the transition to Green Energy as an opportunity. ● Opportunities like Green Hydrogen, Clean Energy Technology, and Offshore Wind have been identified as new growth avenues.
Stakeholders engagement level	● Company's stakeholder Engagement framework outlines an approach to engage and work with its stakeholders and is applicable to all its operating entities and functions across the corporate and regional levels.	-	● The Company continuously engage with its stakeholders to understand and resolve their concerns through effective stakeholder management framework.	● The Company is strengthening the mechanisms of engagement with key stakeholders, identification of material sustainability issues and progressively monitoring and mitigating the impacts along the value chain of each Business.	● The Bank engage with its stakeholders to understand and respond to their expectations and concerns. This provides valuable insights that help the Bank shape its priorities and strategy. ● The Bank has a well-defined process to identify and prioritise our major stakeholders, based on their involvement with and value to the organisation.	● The Company is working on several initiatives with its partners across the value chain for inclusive development  ● The company is able to manage risks and opportunities proactively and set clear goals to deliver long term shared value by engaging with key stakeholders through regular dialogues.

				<ul style="list-style-type: none"> <li>● In line with the Board approved policy on stakeholder engagement, ITC has evolved structured framework for engaging with its stakeholders and fostering enduring relationships with each one of them. ITC's engagement approach is anchored on the principles of materiality, completeness and responsiveness.</li> </ul>		
Conflict Resolution	<ul style="list-style-type: none"> <li>● Yes, Airtel has put in place stringent procedures and safeguards to avoid any conflicts of interest involving members of the Board and other employees.</li> <li>● Bharti Airtel Code of Conduct covers guidelines related to Conflict of Interest. It is applicable to all Board of Directors and employees. It provides guidelines for avoiding any conflict of interest, both actual or apparent, and the mechanism to report any such</li> </ul>	<ul style="list-style-type: none"> <li>● Pursuant to regulation 26(5) of the SEBI Listing Regulations, senior management has made periodical disclosures to the Board relating to all material financial and commercial transactions, where they had (or were deemed to have had) personal interest that might have been in potential conflict with the interest of</li> </ul>	<ul style="list-style-type: none"> <li>● Pursuant to Regulation 26(5) of the SEBI Listing Regulations, all members of senior management have confirmed that there are no material, financial and commercial transactions wherein they have a personal interest that may have a potential conflict with the interest of the Company at large.</li> </ul>	<ul style="list-style-type: none"> <li>● Yes, the ITC Code of Conduct requires the Directors, senior management and employees to avoid situations in which their personal interests could conflict with the interests of the Company.</li> <li>● Further, the Directors of the Company are required to disclose to the Board, on an annual basis, whether they, directly</li> </ul>	<ul style="list-style-type: none"> <li>● The Bank has separated the Risk, Control and Compliance functions from the Business functions in order to create a strong culture of checks and balances and to eliminate any possible conflict of interest between revenue generation and risk management and control.</li> </ul>	<ul style="list-style-type: none"> <li>● The Company has processes on management of conflict of interests involving members of the Board which may arise due to Directors joining the Boards of other companies and even conflicts which would take place during the course of normal business activities.</li> </ul>

	<p>situations that may give rise to a potential conflict.</p> <ul style="list-style-type: none"> <li>● Airtel's Policy on Related Party Transactions intends to ensure that proper reporting, approval and disclosure processes are in place for all transactions between the Company and related parties.</li> <li>● The Policy disallows the concerned or interested Director to participate in any discussion or approve contracts or arrangements with related parties, to avoid potential conflicts of interest.</li> </ul>	<p>the Company. There was only one case involving a member of the senior management. In this instance, the disclosure was discussed, reviewed and found in order by the Board.</p>		<p>or indirectly or on behalf of third parties, have material interest in any transaction or matter directly affecting the Company.</p>	<ul style="list-style-type: none"> <li>● The process allows the Directors to recuse themselves from the discussions pertaining to the conflict of interest. The Directors have to exercise their responsibilities in a bonafide manner in the interest of the Company, should not allow any extraneous considerations that may vitiate their exercise of objective independent judgment in the paramount interest of the Company and not abuse their position to the detriment of the Company for the purpose of gaining direct or indirect personal advantage.</li> <li>● Any conflict of interest arising with the Board Members needs to be reported to the Chairman of the Audit Committee/ Chairman of the Board.</li> </ul>
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### Analysis and Findings\*

On conducting an exploratory study of the governance structure of the companies considered for the study, the following observations are made:

- 1) **Chairman's Independence:** As it is a widely accepted fact that shareholders attach higher value to the quality of corporate governance structures, and this is true especially in case of public listed companies which is marked by broad base of shareholders and some of them hold relatively diversified investment portfolios. In view of this, it is imperative to have independence of Chairman.

On observing the facts of the given companies, it may be inferred that in majority of the companies the Chairman have fairly high magnitude of independence, except ITC where Chairman is Executive Director. Thus, it may be opined that family based companies are relatively better placed when it comes to in this regard, since in case of Bharti Airtel the Chairman though Executive Director is a Non-Promoter and in case of Tata Motors, the Chairman is Non-Executive as well as a Non-Promoter. However, in case of Bajaj Auto, the Chairman though Non-Executive is Promoter of the company.

With reference to the professionally managed company and on analysing the overall scenario of Chairman's independence, it may be stated that HDFC's scenario of Chairman's independence is optimum.

- 2) **Separation of Ownership and management:** On perusing the scenario of separation of ownership and management of the six companies, it is observed that leaving Tata Motors, as no information in this regard could be retrieved, four companies out of the balance five companies are having separation in the role of chairman and management. In case of ITC, there is absence of separation of the role of chairman and management, which may be a matter of concern in view of the size and scale of operations of the company and being a mammoth conglomerate.
- 3) **Promoters Holding:** On observing the data of promoters holding of the companies considered for the study, it can be stated that ITC and L&T are completely democratic organisations, as their 100% holding likes with the public. So ITC despite being laggard in two parameters i.e., Chairman's independence and separation of ownership and management, it has prodigious performance in promoters holding.

In case of HDFC, the promoters holding is quite less, i.e., 25.63%, whereas in case of Bharti Airtel it is highest, i.e., 55.02%. Bajaj Auto registers the second highest promoters holding at 54.98% and Tata Motors at 45.81%. Thus, family managed businesses have higher percentage of promoters holding. Now at this juncture it is of paramount academic and research interests to explore the impact of promoters holding on the three key financial variables of the companies, i.e., PBDIT Margin, PBIT Margin and Net Profit Margin. In this regard, Net Profit Margin of the companies have been taken into consideration.

To conduct the analysis the data of the above mentioned variables have been considered for the period of 2018 – 22. Regression analysis have been applied to decipher the impact of promoters holding on PBDIT Margin, PBIT Margin and Net Profit Margin

The data pertaining to promoters holding, PBDIT Margin, PBIT Margin and Net Profit Margin of the companies is provided in table 1 below:

\*For information only.

**Table 1**  
**Promoters Holding and Key Financial Variables\***

<i>Bharti Airtel</i>				
<i>Years</i>	<i>Promoters Holding (%)</i>	<i>PBDIT Margin (%)</i>	<i>PBIT Margin (%)</i>	<i>Net Profit Margin (%)</i>
2018	67.14	33.61	9.3	0.14
2019	67.14	30.07	-0.4	-3.76
2020	58.98	41.19	3.65	-66.43
2021	56.23	47.21	13.01	-39.17
2022	55.93	51.68	16.87	-5.13
<i>Bajaj Auto</i>				
<i>Years</i>	<i>Promoters Holding (%)</i>	<i>PBDIT Margin (%)</i>	<i>PBIT Margin (%)</i>	<i>Net Profit Margin (%)</i>
2018	49.3	24.36	23.11	16.16
2019	49.3	21.92	21.04	15.45
2020	53.52	22.82	22	17.04
2021	53.7	22.36	21.43	16.41
2022	53.73	19.51	18.7	15.14
<i>Tata Motors</i>				
<i>Years</i>	<i>Promoters Holding (%)</i>	<i>PBDIT Margin (%)</i>	<i>PBIT Margin (%)</i>	<i>Net Profit Margin (%)</i>
2018	36.37	8.27	2.99	-1.75
2019	37.27	10.82	6.35	2.91
2020	42.39	1.66	-6.01	-16.59
2021	46.41	6.21	0.47	-7.93
2022	46.4	4.56	0.84	-2.94
<i>HDFC</i>				
<i>Years</i>	<i>Promoters Holding (%)</i>	<i>Net Interest Margin (%)</i>	<i>Operating Profit Margin (%)</i>	<i>Net Profit Margin (%)</i>
2018	25.66	3.76	2.82	21.79
2019	26.54	3.87	3.48	21.29
2020	26.18	3.67	2.6	22.86

\*For information only.

2021	26	3.71	4.89	25.74
2022	25.8	3.48	5.83	28.93

The outcome and inferences of the regression analysis of the aforesaid data is provided in table 2:

**Table 2**  
**Outcome and Inferences\***

<i>Bharti Airtel</i>				
<i>S. No.</i>	<i>Basis of Analysis</i>	<i>Multiple R (Correlation Coefficient)</i>	<i>R Square (Coefficient of Determination)</i>	<i>Inferences</i>
1	Promoters Shareholding and PBDIT Margin	<b>0.97</b>	<b>0.94</b>	<p>From the correlation coefficient value and coefficient of determination values, it may be inferred that promoters shareholding has exerted a positive impact on Profits before Depreciation, Interest and Tax (PBDIT) of the company.</p> <p>Since the R-Square value or Coefficient of Determination is very high, i.e., 0.94, thereby indicating that 94% of the dependent variable PBDIT has been explained by the independent variable promoters holding.</p> <p>In light of the aforesaid statement, it may be stated that promoters of Bharti Airtel have been proficient in discharging of their obligations in the capacity of board members.</p>
2	Promoters Shareholding and PBIT Margin	<b>0.97</b>	<b>0.94</b>	<p>Same scenario is prevailing for PBIT margin too, i.e., promoters shareholding and PBIT margin exhibit a strong correlation (0.97) and high coefficient of determination (0.94), thereby indicating that 94% of the dependent variable that is PBIT margin is explained by the independent variable that is promoters holding.</p> <p>It may be opined that Bharti Airtel's Board though family based, as promoters have high stakes, it has displayed a prodigious growth in PBIT.</p>
3	Promoters Shareholding and Net Profit Margin	<b>0.34</b>	<b>0.12</b>	<p>On observing the impact of promoters holding on the net profit margin it may be stated that promoters holding has not proved to be as effective as PBDIT and PBIT Margins, since both correlation coefficient and coefficient of determination values, i.e., 0.34 and 0.12 respectively are extremely low.</p>

\*For information only.

				<p>In other words, it may be concluded that promoters have failed to carry on the momentum created at PBDIT and PBIT levels to the Net Profit of the company.</p> <p>Since net profit is the remainder left after taking into consideration all the operating and non-operating expenses, operating and non-operating incomes, interest and taxes, in view of this, it may be stated that the business knowledge/ acumen, expertise and experience of the promoters might have fall short when it comes to steering the business to its crucial and last leg of the yearly business journey, that is net profits.</p> <p>May be the level of business knowledge and expertise required to make the business sustainable in terms of net profits is lacking in the promoters.</p>
<b>Bajaj Auto</b>				
<b>S. No.</b>	<b>Basis of Analysis</b>	<b>Multiple R (Correlation Coefficient)</b>	<b>R Square (Coefficient of Determination)</b>	<b>Inferences</b>
1	Promoters Shareholding and PBDIT Margin	<b>0.15</b>	<b>0.023</b>	<p>From the values of correlation coefficient (0.15) and coefficient of determination (0.023) it may be presumed that promoters holding or family business structure have not delivered the desired business results.</p> <p>Moreover, the meagre value of coefficient of determination at 0.023 is a metaphor of poor strategic business decisions by the board.</p>
2	Promoters Shareholding and PBIT Margin	<b>0.14</b>	<b>0.021</b>	<p>On perusing the impact of promoters holding on PBIT margin, it may be construed that family business concept have not succeeded to a great extent for Bajaj Auto. Both correlation coefficient (0.14) and coefficient of determination (0.021) are abysmal, implying that the promoters might have lacked on the vital attributes of pragmatism, planning, intelligence, strategy etc.</p>
3	Promoters Shareholding and Net Profit Margin	<b>0.39</b>	<b>0.16</b>	<p>Similar scenario is being observed in case of net profit margin, i.e., significant promoters holding have not exerted a positive impact on the net profit of the company. In view of this, it may be opined that promoters may be lacking requisite business acumen and expertise.</p>

<i>Tata Motors</i>				
<i>S. No.</i>	<i>Basis of Analysis</i>	<i>Multiple R (Correlation Coefficient)</i>	<i>R Square (Coefficient of Determination)</i>	<i>Inferences</i>
1	Promoters Shareholding and PBDIT Margin	<b>0.58</b>	<b>0.34</b>	High promoters holding to some extent have created an impact on PBDIT to some extent only, as evident from the correlation coefficient which is 0.58 and coefficient of determination is 0.34.  Hence, it may be stated that by reducing the promoters holding, if the company would have inducted board members from outside who are having in-depth knowledge of the automobile sector and its dynamics, probably the results might have been different.
2	Promoters Shareholding and PBIT Margin	<b>0.43</b>	<b>0.19</b>	The story remains same in case of PBIT too, as both correlation coefficient and coefficient of determination are quite low.
3	Promoters Shareholding and Net Profit Margin	<b>0.38</b>	<b>0.14</b>	From the coefficient of correlation and coefficient of determination values it may be mentioned that lack of requisite practical insights about the automobile sector at macro level and key business processes at micro level.
<i>HDFC</i>				
<i>S. No.</i>	<i>Basis of Analysis</i>	<i>Multiple R (Correlation Coefficient)</i>	<i>R Square (Coefficient of Determination)</i>	<i>Inferences</i>
1	Promoters holding and Net Interest Margin	<b>0.92</b>	<b>0.85</b>	The magical effect of professionally managed company can be observed from regression analysis results of promoters holding and net interest margin.  HDFC Bank has relatively less promoters holding in comparison to the other companies and probably this holding structure has enabled the bank to achieve high net interest margin.
2	Promoters holding and Operating Profit Margin	<b>0.74</b>	<b>0.55</b>	Looking at operating profit margin it may be stated that HDFC's professionally managed structure has delivered fruits of financial prosperity.
3	Promoters holding and Net Profit Margin	<b>0.95</b>	<b>0.91</b>	From the coefficient of correlation value 0.95 and coefficient of determination value at 0.91, it can be said without an iota of doubt that the bank is deriving the benefits of the blend of business knowledge, expertise and experience of the non-promoter board members.

- 4) **Succession Planning:** On observing the succession planning scenario of all the six companies considered for the study, it is heartening to note that all the companies have robust succession planning in place. For instance, in case of Bharti Airtel though a family managed business has instituted strong succession planning that its board of directors, HR & Nomination committee are entrusted with overseeing and monitoring talent management and succession planning initiatives of the company.

On the other hand, HDFC a professional managed company too has espoused robust succession planning as manifested from the fact that its Nomination and Remuneration Committee and the Board of Directors review succession planning and transitions at the board and senior management levels.

- 5) **Business Continuity Plan:** From the study it is evident that the companies are aware of the significance of having business continuity plan. Companies have taken several measures indicating that they are geared up for business continuity plan. Measures like disaster management, work from home facility for employees, adoption of risk management framework, efficient internal audit department, preparedness level at each project site etc. all creates an optimism among the stakeholders that the corporate world has the requisite preparation to surmount varied degree of challenges and ensure survival of the business.
- 6) **Sustainability Focused Approach:** On observing the performance of the company in terms of sustainability oriented approach, it is interesting to note that the companies have embraced various measures like constitution of ESG committee; Safety, Health and Sustainability Committee and CSR and Sustainability for strengthening sustainability of the organisation. The mentioned committees provide strategic guidance and decision making, reviewing and overseeing of implementation of sustainability policies on annual basis etc. thereby, ensuring sustainability of the companies.
- 7) **Conflict Management:** Conflict management is manifested in the approaches of the companies considered for the study. Code of conduct, periodical disclosure by senior management to the board relating to all material financial and commercial transactions pursuant to Regulation 17(4) of the SEBI Listing Regulations, continuous review of the succession planning and transitions at the board and senior management levels, focusing on board composition with reference to skill sets required / areas of expertise etc. indicates robust conflict management in the companies considered for the study.

### Marico Limited - A case study in professionalizing of the board

Marico Limited is one of India's leading companies in the fast-moving consumer goods (FMCG) and skin care businesses, founded by Harsh Mariwala. Harsh Mariwala joined his family-owned commodities trading business before eventually founding Marico in 1990 – completing a transformation of a traditional trading business into a leading consumer products and services company.

Mariwala turned the family-owned company into one that is now perceived by the market to be a well-managed, professionally run company. In 2014, Mariwala, who was till then, the Chairperson and Managing Director of the company, inducted a professional MD on the board – Saugata Gupta. He proceeded to then make his role non-executive – he would no longer look after the day-to-day operations, instead allowing a team of professionals to run the company. He would remain the chairperson of the company.

Mariwala's son Rishabh spent three years at Kaya, the beauty-salon business of the company, and then left to start a venture of his own in 2011. His daughter, Rajvi, left the company after two years and is now a canine behaviorist. His children are no longer part of the management or the board.

Mariwala has stated that he intends to make himself redundant in the company over time. By making an investment in professional leadership and staying away from day-to-day management, he has sought to demonstrate to the market that the interests of the promoter group are aligned with those of other stakeholders.

Marico's case is an excellent example of the promoter handing over the leadership to a professional and distancing themselves from day-to-day operations.

### **Godrej Group - Clear responsibilities for next generation promoters**

The Godrej group is a large Indian conglomerate operating in the consumer products, real estate, consumer durables and animal feed businesses among others. Adi Godrej is a third-generation promoter and the current chairperson of Godrej Industries Limited, while his brother Nadir is the Managing Director for the same company. His cousin, Jamshyd Godrej is the chairperson of Godrej and Boyce, the consumer durables arm of the group.

Adi Godrej has ensured that the companies are run by a combination of family members and industry professionals. The group had appointed a facilitator in the past to oversee succession planning in the group. Family members seeking to enter the businesses in management roles are required to be well qualified.

Adi Godrej has three children, of which his eldest daughter, Tanya Dubash, his daughter, is an Executive Director of Godrej Industries Limited and the Chief Brand Officer for the group. She oversees the group's branding efforts and is also Chairperson of Godrej Nature's Basket, the gourmet retail arm of the company.

Nisaba Godrej, his second daughter is the Executive Chairperson of Godrej Consumer Products Limited, the home and personal care products division. Previously, she led the innovation strategy at the group company – Godrej Industries Limited. She was also involved with Godrej Agrovvet Limited, the agribusiness arm of the company. Vivek Gambhir, a professional, serves as MD at Godrej Consumer Products Limited.

Pirojsha Godrej, Adi Godrej's son, looks after the real estate business. He has served as Managing Director and Chairperson at Godrej Properties since 2012. Effective April 2017, he serves as Executive Chairperson at the same company, while handing over the MD role to Mohit Malhotra, a professional who joined the company in 2010.

The succession plan has ensured that there are specific and clearly defined roles for the next generation based on individual strengths.

### **WAY FORWARD**

No doubt there may be many limitations of a family driven businesses but it is to be noted that family businesses make up for an astonishing 79 percent of India's GDP. Even under times of volatility and uncertainty, family businesses have displayed conviction and resilience. However, it is essential for them to adopt new-age techniques and competencies to grow in today's fast-paced world. Family businesses play a pivotal role in the Indian economy through their contributions to the country's business growth and stability.

With 111 publicly-traded family-run companies valued at USD 839 billion, India is home to the third-largest number of family businesses globally. One might struggle to fully comprehend why family businesses need to be treated in a way different from any other corporate company, but it is essential to understand that family businesses are more often than not built on unwavering values and principles. It can be argued that these values and principles are what enable family-run businesses to sail through troubled waters through meaningful internal and external collaborations.

Family businesses are rooted in trust, integrity, kinship, and brotherhood, which extends to their employees as well. Data shows that 78 percent of family businesses have gone out of their way to retain their existing staff in the face of adversity. Family-run companies tend to be resilient under volatile conditions considering that they do not rely solely on external entities for their capital.

Thus, it may be opined that despite professionally driven companies are making rapid growth, family run companies are also doing quite well. However, in the era of globalisation marked by cut throat competition both at global and national levels, companies may espouse the trajectory of professionalism for enhancing business growth.

### LESSON ROUND UP

- India enjoys a rich and glorious history of family-owned business. A family business may be company, partnership firm, HUF or any other form of business owned, controlled and operated by members of a family. In India the majority of businesses are controlled by families.
- Most family businesses do not survive beyond two or three generations. One of the main reasons for the short life span of family businesses is due to the lack of governance mechanisms in the family. With better family governance, business development reaches next level and ensures continuity of the business across generations.
- To build up the transparency and accountability of the Board of Directors, the Act now requires at least 1/3rd of the total directors of a listed company to be Independent Directors and have no material or pecuniary relationship with the company or related persons.

### GLOSSARY

**Family assembly:** A formal gathering of family members to discuss business and family issues. This meeting, usually held once or twice a year, is generally open to all members of the extended family.

**Family constitution:** A set of documents that record the family's values, hopes and goals as well as a framework for how to achieve them. The constitution provides guidance on the activities of the family, the business, the enterprise, the family office and more.

**Family council:** A formal governing body that represents the family. It makes decisions on issues that overlap the family and the business and makes recommendations on behalf of the family to the board.

**Family enterprise:** The various businesses and shared investments, including real estate, owned jointly by family members. A family usually begins with a single legacy business and then, over generations, diversifies into other investments, often selling their family business.

**Family governance:** Agreements and shared activities that organize the family to remain aligned in support of their ventures and investments through multiple generations.

**Family office:** A private wealth management advisory firm that serves ultra-high-net-worth families. A single-family office serves one family. Multifamily offices serve multiple families. Family offices can also manage non-financial issues, such as travel and household arrangements.

**Family values:** In a family business context, these are statements of what the family and their company stand for and believe. Families typically uncover and enshrine family values over time. Documenting and distributing the values to all stakeholders creates behavioral guides for decisions, brand development and family development. Some families create separate statements of family values and business values.

**Independent directors/board members:** Members of the board of directors or board of advisers who are not family members, company employees, advisers or consultants paid by the company, or close associates of the CEO or other key stakeholders.

**Stewardship:** The careful and responsible management of something entrusted to one's care; an attitude that one's inheritance should be preserved and passed on to others, rather than used up.

**TEST YOURSELF**

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

1. How corporate governance differs in family and professionally driven businesses?
2. Does India is witnessing a metamorphosis from family run to professionally run businesses? Elucidate with suitable examples.
3. How the phenomena of globalisation has impacted the growth of family run businesses in India?

**LIST OF FURTHER READINGS**

- Harvard Business Review Family Business Handbook: How to Build and Sustain a Successful, Enduring Enterprise (HBR Handbooks) by Josh Baron
- The Family Business: A Parable about Stepping Into the Life You Were Made For by Geoff Peters
- The Ultimate Family Business Survival Guide by Priyanka Gupta Zielinski
- Family Business for Next Generation Leaders : To Build Business Beyond Generations by Abirami Duraisamy

**OTHER REFERENCES**

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