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CORPORATE GOVERNANCE PRACTICES IN FAMILY RUN BUSINESSES BANKS

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ABSTRACT

In today's world companies are increasingly becoming attentive to the very fact that they cannot operate in isolation and wish not specialise in their shareholders alone but even have regard of the broader stakeholder constituency. Therefore, the stakeholder theory is coming more into play. Stakeholder advocates argue, that companies should recognise responsibility of all those littered with its decisions including customers, suppliers, employees, bankers, shareholders, and broader societal interests for the environment and also the state. With the event of monetary markets and intermediaries, investor involvement has intensified. Thereupon trend has come an intense demand from investors for top standards of Corporate Governance to make sure that capital is employed efficiently and effectively, and produces good returns. Poor Corporate Governance increases market volatility through lack of transparency and by giving insiders the sting on information critical to plug integrity and fair trading. Investors and analysts have neither the flexibility nor the inducement to research firms but they require company boards to create decisions that are barren of conflicts of interest. Investors and analysts, today, insist that enforcement has the required authority, resources, and credibility to act expeditiously and effectively. It's felt that only with better Corporate Governance rules and practices can higher levels of investor trust and confidence be achieved and this successively will cause more robust economic development. Corporate Governance may be a relatively new area and its development has been littered with the above theories and is additionally influenced by variety disciplines, including finance, economics, accounting, law, management and organisational behaviour. In the global context Corporate Governance may be a complex area that has cultural, ownership and structural differences. The importance of excellent Corporate Governance is now recognised by investors and regulators. Corporate Governance now affects global finance markets. But, in spite of this, the theoretical underpinnings of the topic are weak. The most drawback lies within the indisputable fact that the topic lacks a conceptual framework that adequately reflects the truth of Corporate Governance. Corporate Governance codes that are good in several countries round the world reflect only the traditional wisdom of best practice in listed firms.

Keywords: *Family Business, Policies, Related Party, Vigil Mechanism, Capital Structure, Independent*.

Introduction

The term "governance" has been derived from the word "gubernare", which suggests "to rule or steer". Originally the term meant to be a normative framework for exercise of power and acceptance of accountability employed in the running of kingdoms, regions and towns. However, over the years it's found significant relevance within the corporate world. This can be basically because of growing number and size of the companies, the widening base of the shareholders, increasing linkages with the physical environment, and overall impact on the society's wellbeing as there's need for correct administrative system to manage numerous complex things. Corporate governance in simple term are often cited set of laws, rules or processes within which organization must be operated, controlled and controlled. It helps to bring proper functioning within the management. It's implemented and evaluated through various processes in a company. The most objective of the company governance is to boost the shareholder value keeping seeable of the interest of the stakeholders. With the rise in unethical practices in the firms

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and financial crisis in several countries the term corporate governance has acquire sharp focus. Lack of proper checks and balances by firms, misuse of power, trading and various other fraudulent activities has led to the importance on the study of corporate governance. Corporate governance contributes to the efficiency of firms enabling them to compete internationally in an exceedingly sustained way. Corporate governance plays a crucial role in maintaining integrity in the organization and to manage the chance of the firm. It's an important system which guides, monitors and controls the organizational functions. The effectiveness of Corporate Governance regulation in increasing management accountability is well established. Conflict of interest between managers and owners may be alleviated by effective Corporate Governance practices. Regulatory compliance is one in all the important factors differentiating internal or external mechanisms of Corporate Governance won't to monitor managerial accountability. Consequently, the primary context identified the determinants of Corporate Governance supported compliance with regulations and best practices. Regulation is one amongst the main Corporate Governance mechanisms, derived due to separation of ownership and management, but flexibility in compliance may render the mechanism ineffective.

Corporate Governance in Indian Scenario

In India Companies are formed, Registered and controlled by companies act, 2013. Before companies act, 2013, the companies Act, 1956 was the premier Act which was controlling the companies in India. The new act has various provisions regarding improvement of Corporate Governance of Companies. The companies Act, 2013 clearly directs that focus of Regulator that's Ministry of Companies Affairs, is on enhancing the Roles, Responsibilities and Accountability of Board of Directors of the companies. The Act incorporates various requirements for Corporate Governance, including Disclosures, and enhances role & Responsibilities of Board of Directors. Provision regarding various Board Committees with the inclusions of Independent Directors has also been incorporated. Aside from companies Act, 2013, Securities Exchange Board of India has also issued Chapter IV (Regulation 17 to Regulation 27) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. These provisions contain more detailed and strict provisions regarding corporate governance. Due to these provisions the company Frauds has almost at its lowest level. Few of the provisions of the businesses act regarding Corporate Governance are:

- Appointment of Independent Directors with maximum possible tenure up to three years.
- Provision for appointment of women Director,
- Detailed Disclosures for all quite Related Party Transactions and Arm's Length Price
- Transactions, Evaluation of Performance of the administrators and Committee & Board as a whole,
- Stricter and forward-looking procedural requirements for Secretarial compliances and Secretarial Standards made mandatory;
- Various disclosures by Board of Directors,
- Provisions relating to rotation of Auditor's with putting restrictions on reappointment through cooling period of 5 years, under section 139,
- Making Distinction between role of Chairperson and CEO through section 203

As per Regulation 17, Board of directors or Board of company should comprise both Executive and Non Executive Directors in an exceedingly proper combination, in such the simplest way that a minimum of out of total number of directors, half shall be Non-Executive Directors and a minimum of one Women Director shall be in Board. If any vacancy arises at the place of an Independent Director due to resign or removal, than the vacancy shall be filled within next three months or next committee meeting, whichever is later. New appointee must even be an Independent Director. This vacancy doesn't must be filled if company already has quite minimum number of Independent Directors. As per regulation 18 the audit committee should constitute minimum 3 members and 2/3 of the members should be independent director. All the members should be literate financially i.e. they ought to understand basics principles of financials and one member if the committee shall have expertise in accounting or financial management. The chairman of the committee must be an independent director and he should be present all the days within the meeting of committee and AGM also. The Audit Committee has right to appear into any matter in keeping with the terms of agreement, Seek information's from the staff and Take outside legal or professional advice, to call an outsider for expert advice. As per Regulation 19 the corporate shall constitute a committee with a minimum of three Directors. To be called Nomination and remuneration committee. All of the members of this committee shall be non Executive Directors. At the identical time it's also to be ensured that out of total number of members, a minimum of one-half shall be independent Directors. Out of total number of members of the committee, one chairperson shall be appointed who must be an independent Director. The chairperson of the corporate could also be member of the committee but he shall not be chairperson of the Committee. The Quorum for any meeting of the committee shall be two members or 1/3rd of total members of the committee, whichever is higher. However to confirm the compliance of Quorum another requirement shall even be fulfilled which is that a minimum of one independent director shall even be there in meeting. A minimum of one meeting shall be conducted once during a year.

As per Regulation 20 A Board Committee to be called as "Stakeholders Relationship committee" shall be formed to specifically cross-check the redressal of grievances of shareholder, debenture holders and other security holders, like transfer of shares, non-receipt of record, non receipt of declared dividends, etc. A minimum of three Directors which encompass a minimum of one Independent Director shall form this committee. Chairman of committee shall be a Non-Executive Director. He shall be present at the annual general meetings to answer queries of the protection holders. A minimum of one meeting of the stakeholder's relationship committee shall be held once in an exceedingly year. The BOD shall decide other members of committee. As per Regulation 21 Each Company covered by above rules shall have a procedure to tell the administrators of the Board, about the chance Assessment and Minimization Procedure. At the identical time it shall even be noted down that there shall even be a procedure to periodically review the above procedure in order that it is ensured that Management of the corporate is controlling the danger using above Risk Minimization procedure. The corporate will constitute a committee called Risk Management Committee from the Board of Directors. One meeting once during a year is compulsory. The Functions, Roles and Responsibilities of the danger Management Committee shall be in line with the instructions of the Board of Director. It'll also perform such other functions as directed thereto by the Board. As per Regulation 22A Vigil Mechanism shall be established within the company for all Directors and employees of the corporate to report their genuine concerns. The Mechanism is established in such a way that it provides for Safeguard against victimization of Directors and/or Employees if they uses the Mechanism. There should be a very important element within the Vigil Mechanism that complainant shall have direct access to the chairperson of the Audit committee. The small print of the Establishment of Audit Committee shall be uploaded on the web site of the corporate. As per Regulation 23 for deciding the materiality of related Party Transactions and for coping with related Party Transactions, the corporate shall have a predefined policy. All quite Related Party Transactions shall be first approved by Audit committee of the corporate and therefore the approval shall be prior approval. In certain cases the corporate may give omnibus approval with certain predefined conditions.

Corporate Governance in Family Run Business

Indian family firms have certain unique features which arise due to our culture and tradition. Family bonding, trust, and relationships all have a control on leadership styles, board composition, choice of independent directors, and succession planning. Family bonding is very important, and therefore the concept of the clan remains much prevalent. On many occasion the whole business is taken into account to be a component of the nuclear family. The excellence between what belongs to the family legally and what belongs to the corporate ceases to exist. Family tradition impacts boardroom behaviour. If custom demands deference to the elders and as a result an unquestioning attitude toward the board chairperson if he's the eldest within the family, or on decisions like food choice, then these are strictly adhered to. Traditionally, Indian family companies have run on personal relation and trust. The owner-manager often bestows his trust on a collection of people, no matter their place within the organizational hierarchy of the corporate. Independent directors are often chosen on the idea of whether the person would fit into the organization's culture and be agreeable to the family terms and conditions. Family firms are unique because the family is at the apex of the firm's Corporate Governance structure. The most important voice in Corporate Governance is, in consequence, not necessarily exercised by a personal but rather by a bunch of persons who are linked by blood or marriage. As a result, the allocation of power within the family, the family governance institutions, the interaction between relations and other stakeholders, additionally as firm characteristics (like size, age and talent) are likely to possess a determining impact on the firm's outcome. Ownership structure of the firm is at the foundation of the Corporate Governance problem. The importance of the ownership structure of the firm also becomes relevant because it affects the implementation of the Corporate Governance codes moreover. For instance, concentrated ownership has certain positive and certain negative influences on Corporate Governance. Tunneling is one such negative influence. Research has established that tunneling of resources from a gaggle company within which the promoter group has low income right to an organization within which its high income right may be a huge Corporate Governance problem. It happens more in business groups that have a pyramid structure, which allows the parent company, at the apex of the structure, to regulate the firm at the underside with a awfully low percentage of voting rights. In practice, independent directors are appointed by the incumbent management and thus, it's likely that they'll be loyal to the promoter family. Therefore, they'll not stop tunneling through inter corporate loan, related party transactions and other means. Tunneling may be reduced by prohibiting the pyramid structure. Institutions like Serious Fraud Investigation Office (SFIO) should be strengthened. In India implementation of rules and regulations are weak and efforts should be made to enhance on this front.

Conclusion

Corporate Governance is about the governance of companies. As embodied in Corporate Governance regulations and codes it's concerned with matters which the shareholders and therefore the board can properly decide and implement. We've described this because the legal view during this research. However, the finance view (i.e., the view taken in the finance literature) is to some extent different. It emphasizes on the role of Corporate Governance, together with financial policies (like the dividend policy), in reducing the agency costs. The importance of the regulatory mechanism is irrefutable since the existence of Corporate Governance regulation creates pressure on the firms to comply. The dominant paradigm of Corporate Governance research assumes voluntary regulation might not always achieve the required objective for better compliance and hence governance. Increasing pressure is applied from peer companies who befits regulation and offer better Corporate Governance disclosure. Moreover, companies are subjected to greater risk of losing investor confidence if they fall back on disclosure in letter and not in spirit. In the context of the impact on firm specific characteristics like ownership structure and capital structure on Corporate Governance, we observed that firm specific characteristics just like the extent of promoter ownership and also the use of debt within the capital structure of the firm were found to own no influence on Corporate Governance. However, the extent of dispersed shareholding was found to own an influence on Corporate Governance. PSU were seen as a big force in the emerging Corporate Governance regime. Business operation and listing tenures were found to possess an insignificant relationship to Corporate Governance compliance. Compliance with Corporate Governance may impose a big cost on those companies and that they have concerned the challenge. Companies also have to signal to stakeholders that they are doing have a "good" level of Corporate Governance, particularly if they need to stay competitive. This can be supported by the actual fact that capitalisation has a control on Corporate Governance compliance.

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