The Corporate Governance Guide

Family-Owned Companies

Pakistan Institute of Corporate Governance

The Institute of Chartered Accountants of Pakistan

Center for International Private Enterprise

Pakistan Institute of Corporate Governance (PICG) is a non-profit organization established in 2004 under section 42 of the Companies Ordinance 1984 and is involved in training and education, creating awareness, publishing resource material and promoting discussion on corporate governance.

The Institute of Chartered Accountants Pakistan (ICAP) was established in 1961 to regulate the profession of accountancy in the country. It is a statutory autonomous body established under the Chartered Accountants Ordinance 1961.

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Pakistan has been experiencing phenomenal economic growth in the past few years, leading to a sizeable increase in the number of unlisted companies, particularly family-owned organizations. The Securities & Exchange Commission of Pakistan has recently reported that the total number of non-listed companies has now surpassed the 50,000 mark, in counterpoint to the 5,000 or so companies registered in 2007.

The sharp growth in such companies is fueling the growth of Pakistan's private sector, making good governance even more important for businesses. Currently, the Code of Corporate Governance only ensures compliance for companies listed on the stock exchanges. Introducing the concept of good corporate governance is vital for the continuity and sustainability of the unlisted companies that support economic growth in Pakistan.

Early on, the Center for International Private Enterprise (CIPE) heard from the business community that the unlisted sector was in great need of guidance and information on adopting good governance practices. CIPE, the Pakistan Institute of Corporate Governance (PICG), and the Institute of Chartered Accountants Pakistan (ICAP) held a Business Policy Roundtable in November 2006. The roundtable was chaired by Mr. Razi Ur Rehman, Chairman, Securities & Exchange Commission of Pakistan. Stakeholders discussed this specific topic at length, and agreed (i) to revisit the existing Code and to consider holding state owned enterprises equally accountable and that (ii) CIPE, PICG, and ICAP would develop a guide to corporate governance for family-owned companies.

After detailed deliberations by the stakeholders at five focus groups meetings and two roundtables, as well as offering the draft for comment on the three organizations' websites, the guide is finally ready. It provides a corporate governance framework, based on the OECD's internationally recognized principles, that is practical and adaptable for both listed and unlisted companies. Moreover, this guide addresses some of the peculiarities of family-owned businesses in Pakistan. It is hoped that in addition to family-owned companies, other unlisted companies will benefit from this guide as well.

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BACKGROUND

Family-owned companies are characterized as organizations in which the shareholders belong to the same family and participate substantially in the management, direction, and operation of the company.

It is widely recognized that each family has its own unique unwritten rules, values, histories, and communication methods. As the family structure shrinks or expands, the company changes, particularly with the advent of the second and third generations. Changes instigated by new generations can improve or harm the business. A recent survey suggests that only 15% of family-owned enterprises continue to survive to the third generation. Of those that do last, 85% either disintegrate or completely vanish before the fourth generation takes the reins.

Families have a number of unique attributes that serve to strengthen a family business, including love, care, unconditional acceptance, generational hierarchy, emotion, informality, closeness, loyalty, commitment, stability, relationships, growth and development, safety, support, and tradition. Families can also have a number of negative traits such as anger, tension, confusion, competitiveness, and strangled communication, which can affect a company to the detriment of all. These qualities are reflected into business ownership methods and styles, and can support or harm a company. Good governance mechanisms can alleviate some of the problems that arise when family characteristics become a driving force behind company action.

Despite having a close network of owner/directors and the ability to make decisions quickly, family-owned companies are generally unable to sustain growth and have a shorter lifecycle than a privately owned company. In Pakistan, amongst the so-called 22 families identified in the Ayub Era, only a few have managed to retain their prestigious position. Research shows that family-owned companies' shorter lifespan is mainly due to the following attributes:

1. Clear lines of succession do not exist or are complicated by the importance of familial relationships.
2. Loose organizational structures do not attract and retain quality human resources.
3. Personal interest in the success of the business leads to an unwillingness to take risks like expanding and diversifying into new business ventures.

Rationale

It is internationally recognized that good governance has a positive impact on the performance of companies and enables them to move into the next phase of the business lifecycle. As companies grow and become more conversant with good governance, their ability to attract capital from external sources also improves, allowing them to expand, diversify, and acquire other businesses in a sustainable manner.

Good governance directly addresses the above issues for family-owned companies by:

- Integrating the strengths of family and business.
- Improving shareholder relationships through effective communication and conflict management.
- Systemizing wealth distribution mechanisms.

- Supporting growth and business diversification.
- Managing ownership and leadership transitions.
- Developing the next generation of managers, shareholders, and family members.
- Improving credibility.
- Attracting lower-cost debt and equity capital.

The principles of good corporate governance are as useful for non-listed companies as for listed companies. In countries like Pakistan, where a corporate governance code has been established for listed companies, these principles can be practiced by family-owned and non-listed companies as well. Some countries – including Egypt, Turkey, Belgium, and Finland – have also developed indigenous, voluntary corporate governance guides for non-listed, family-owned companies.

In Pakistan, family-owned companies are often private limited companies. Shares are held by a small group of people and there are limits on transferability. When this small group of people, however, is a family in conflict, the company suffers from a lack of objective analysis on the part of independent directors. Creating mechanisms like family constitutions and family councils can manage corporate governance apart from the family so the business does not suffer. Additionally, good governance practices can assist in creating a more sustainable organization by delineating methods for generational transitions and succession planning.

Family-owned, listed companies are the backbone of Pakistan's economy. However, these companies are traditionally either unaware of the general principals of good corporate governance, or work in a relatively less open environment. Promoting basic principles of good governance for family-owned companies is crucial in supporting the development of a strong economic sector.

Scope

The Corporate Governance Guide: Family-Owned Companies is intended to act as a guide for progressive, medium to large sized, non-listed, family-owned companies in Pakistan. The Guide establishes principles and practices that, when implemented, will help directors in improving governance in their entities. The underlying objective of this Guide is to support sustainable growth and long-term value creation in family-owned companies.

In the process of developing the guide, the Pakistan Institute of Corporate Governance and the Institute of Chartered Accountants Pakistan jointly conducted five focus group meetings and two roundtables to discuss crucial elements of corporate governance as they apply to Pakistani companies. Feedback from the stakeholders was carefully examined in the light of international best practices, and was accordingly incorporated in the Guide. A list of organizations and companies whose representatives endorsed the material in this Guide is included in the final appendix.

The Guide takes an ambitious yet practical approach to improving corporate governance in Pakistan, while remaining relevant for companies operating under existing business norms. This approach appreciates the entrepreneurial dynamism of Pakistani family-owned

companies. It also calls on entrepreneurs to be more responsible and focused on their own interests as well as on the larger interests and continuity of the enterprise.

The Guide includes different recommendations for various types of family-owned companies; given the wide variety of company attributes such as size, age of the company, the nature of business, the composition of shareholders, and family dynamics. Therefore, not all provisions of this Guide are applicable to all companies across the board, and the Guide may be adapted in accordance with the needs of individual businesses.

Integration of these principles and practices into company policy remains optional. Implementation options include insertion into a company's articles of association or the application of mandatory guidelines for the board of directors. Or, a company may decide to use the Guide merely as a reference or benchmark to assess its corporate governance practices.

Family shareholders and board members may question the need to adopt a voluntary guide to improve governance in the company's operations. Corporate governance is crucial in defining the respective roles of shareholders as owners, on one hand, and managers, on the other. By establishing good corporate governance practices, companies are able to reduce conflicts, motivate employees to perform at higher levels, and strengthen accountability mechanisms – thus stimulating the company's growth and ability to profit. Above all, well-governed companies are best positioned in today's global marketplace to attract more equity and low-cost debt capital. Well-governed companies are more agile and flexible in their responses to the ever changing business and political environments.

Additionally, the Guide offers direction on facing the difficult problem of introducing family governance mechanisms separate from the company's corporate governance mechanisms, in order to ensure that family quarrels do not permeate the company's activities. It is important to understand the dynamics between family and firm and how concepts of ownership and stewardship affect the family, particularly as generations change. Family constitutions, family councils, and other 'soft' elements of corporate governance become crucial for the smooth application of governance principles. Implementing a family constitution to guide behavior or a family council to regulate board/family interaction can create space between emotions and business. It is challenging for families to agree on principles that all will follow for the good of the company, but by adopting behaviors and expectations en masse, families are able to create more stable and better-governed companies.

Use this Guide to provoke debate among board members and family stakeholders regarding corporate governance practices, and adopt practices as they are appropriate to the company's situation. This is only the first version of the Guide and should be viewed as a "live document" to be tested, amended, and improved in the coming years.

Good Governance Practices

Duty of Care

The guide recommends a responsibility on the directors to exercise "reasonable care" in carrying out their duty in a manner consistent with relevant laws and regulation, as well as the articles of association and resolution of the shareholder's meeting. The degree of care that directors are required to uphold in carrying out their duties is that which prudent persons in like positions would exercise under similar circumstances ("reasonable care"). Directors may therefore be held personally liable for damage suffered by the company which resulted from their actions, if it can be proven that such damage could have been avoided had the directors conducted the matter in question with reasonable care.

In carrying out its duties, the Board utilizes information provided by management, staff, or by other relevant professionals. In utilizing such information, if the directors satisfy themselves, upon having made independent review and assessment of such information, and that in good faith there is reasonable ground for believing that the resource person is reliable and competent, then the reliance of directors on such information will be considered consistent with reasonable care. The question whether a director has exercised reasonable care lies in the balance between the foreseeable risk of harm and the potential benefits expected to accrue to the company from the conduct in question.

Based on the "business judgment rule," we may say that directors have made business judgment in good faith and acted with reasonable care if they: (i) do not have personal interests in the subject of business judgment; (ii) reasonably believe under the circumstances that they are well informed about the subject of such business judgment; and, (iii) rationally believe that the business judgment made was in the best interests of the company.

Although directorial oversight does not require a detailed involvement of the day-today activities of the company, directors are obligated to be familiar and updated on its overall business activities. Without the knowledge or understanding of business required, it would be difficult for directors to participate in the general monitoring of corporate affairs of the institution with due care and prudence as required by law.

All directors are jointly responsible for overseeing the business of the company, and since Board meeting is the means by which such oversight is carried out, attendance of the Board meeting is thus an important duty of the directors. A director shall be exempted from liabilities if it can be proven that they did not participate in such act or it was done without a resolution of the meeting of the Board, or they protested at a meeting of the Board and such protest is recorded in the minutes of the meeting or the protest was made in writing and submitted to the chairman of the meeting with a reasonable period after the meeting.

Duty of Loyalty

Directors are supposed to act honestly. The duty of loyalty requires directors to act honestly and in the best interests of the institution and its shareholders as a whole. Directors may,

therefore, be found not to have acted honestly in the event that they have used their corporate position or confidential information obtained in the capacity of director to serve personal interests. The duty of directors to act in the best interests of the company also applies to the context of group of companies. Directors owe a duty of loyalty to the company within which they hold the position of director and not to any other company within the group. Having a duty of loyalty, directors should avoid conflict of interests and may not benefit at the expense of the company, or divert unto themselves any opportunity, which in fairness, is entitled to the financial institution (to the extent that they become aware of such opportunity through the use of corporate property, corporate information or their position as director, or in the case where such opportunity is closely related to the corporate business.

1. Board of Directors

The board shall have a reasonable number of members and shall include a balance of executive and non-executive directors (including an independent non-executive director) to facilitate effective and objective board management.

1.1 Number of Directors

1.1.1 The number of directors should be fixed according to the company's size, age, nature of business operations, and future plans, ensuring effective and efficient governance. The board should comprise a minimum of five directors.

1.1.2 A casual vacancy on the board of directors shall be filled by the remaining directors expeditiously.

1.2 Composition of the Board of Directors

1.2.1 For a company to achieve long-term success and survival, it is imperative to have independent perspectives and objective analysis both in the decision-making process and in monitoring the company. At times, the board members elected from the family may not act at the desired level of independence and objectivity. Accordingly, inclusion of non-executive board members is suggested (in addition to at least one independent member), who shall be able perform their role without being influenced by the management and the family. The company should set a certain percentage of board members to be designated as non-executive. Numbers will vary with the size of the board, but at least one director should be non-executive.

1.2.2 Non-executive directors should be identified by the family council and elected by the shareholders (see Section 2 for an in-depth discussion of the family council, its role, and its activities).

Definitions:

The term "non-executive director" refers to a member of the board of directors who is neither an employee of the company nor is in any manner engaged in the day-to-day affairs of the company.

The term "independent director" means a director who is non-executive and is not connected with the company or its promoters or directors through any business relationship, BUT may be distantly related to the family owners.

The board should ensure strategic guidance of the company, effective monitoring of management, and the board's own accountability to the company and its shareholders.

1.3 Chairperson

The chairperson of the company ideally will be other than the chief executive. This person is responsible for providing leadership to the board of directors and for ensuring its efficient and objective functioning. The chairperson is usually a senior family member, nominated by the non-executive directors.

1.4 Committees

1.4.1 The board shall consider forming an Audit Committee for the oversight of internal control systems, including financial reporting and external auditing, to improve transparency in company affairs.

1.4.2 The committee shall have advisory competence only, with well-defined composition and working procedures.

1.4.3 Other committees may be formed to promote good governance practices, such as a Nomination Committee, Ethics Committee, etc. These committees are founded at the pleasure of the board.

1.5 Evaluation

The board shall periodically evaluate its own performance and the performance of the audit committee (see Annexure B for guidance). The board will also evaluate the chief executive's performance on an annual basis, using the financial and non-financial targets set at the start of the year as criteria. The chairperson shall be responsible for leading such a process and act as a link between the board, the audit committee, and the chief executive.

Board members should act on an informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.

1.6 Functioning of the Board

1.6.1 The directors should exercise their powers and carry out their duties with a sense of objectivity and independence, in the best interest of the company.

1.6.2 The chairperson shall make sure that all directors are able to express their individual and independent opinions. The decisions of the board of directors shall be reached through a consultative process and with a constant effort to develop consensus. Where the board members find it difficult to reach consensus, decisions shall be made according to the majority opinion.

1.7 Meetings of the Board of Directors

1.7.1 Business of the board shall be formally conducted through board meetings held at least once each quarter. Written notice, including an agenda, shall be circulated prior to the meeting. The chairperson should preside.

1.7.2 The chairperson of the company shall ensure that minutes of the meetings of the board of directors are appropriately recorded and circulated to the attendees. The minutes shall comprise the decisions taken and resolutions passed in such meetings.

1.8 Orientation

The members of the board should receive training upon joining the board. There should be an effective orientation program for new and sitting directors to regularly update and refresh their knowledge of the company.

1.9 Remuneration of Directors

Where independent non-executive directors are appointed on the board, their remuneration in lieu of a meeting fee or annual retainer should be fixed at a level which attracts, retains, and motivates such directors.

2. Family Governance

Ownership and exercise of rights of all shareholders, including minority shareholders, should be respected and protected by forming a functional family council.

2.1 Observing shareholder rights is necessary for a company to function and grow. A family council can act to preserve these rights in companies where:

- shares are held by several family members;
- shares are held within several branches of the family; or,
- within a single branch of the family, multiple generations are involved in various roles in the company (whether or not they are active in the enterprise or are shareholders).

2.2 All segments and branches of the family should be represented on this council after developing consensus amongst the family on the size, membership, and leadership of the council. The family council shall serve as a platform for communication and consultation in connection with the family business, and to give guidance to directors representing the family about the family's interest in the policies adopted or to be adopted by the company. In particular, this council shall play a major role in resolving conflicts and issues concerning succession.

All shareholders should have the opportunity to obtain effective redress for violation of their rights, including a mechanism for the resolution of disputes.

2.3 Conflicts among family members or branches of the family disrupt company and board activities. Personal conflicts are the main cause of fractured family-owned companies. The family council shall ensure that a) potential conflicts are preempted and prevented from affecting business and b) all conflicts concerning the family's business are resolved through discussions and consultations in a timely manner. The council, if necessary, may seek the services of a professional mediator to resolve conflicts.

2.4 Minority shareholders in a family-owned company usually find it difficult to participate in the decision-making process due to their lack of access to timely information and disclosures. Inability of aggrieved shareholders to withdraw an investment from the company further complicates matters, whether due to restrictions on transfer of shares, unavailability of the right price, or emotional investment. Minority shareholders may seek assistance through family councils to resolve this issue.

2.5 The family council should ensure that minority shareholder grievances are appropriately addressed in a timely fashion.

Shareholders should collectively ensure the continuity and sustainability of the company.

2.6 The family council shall decide which family members are able to pursue election to the board of directors of the company. The council should nominate members of the family who are fully aware of the family's values and vision and who are professionally interested in making a long-term personal commitment to the company.

2.7 Succession planning is a common issue in family-owned businesses. Developing consensus on the name of a successor is usually difficult. The issue of succession must be addressed in a professional manner and with the best interests of the company and the family in mind. The council plays a major role in ensuring that succession is planned well ahead of any potential management changes, and that the prospective successors, once identified and agreed upon, are appropriately groomed to take up key positions of responsibility.

2.8 During the selection of a chief executive, the council should make its recommendations to the board of directors, which shall give due consideration to these recommendations.

3. Employees & Other Stakeholders

The board of directors should appreciate the role of the employees, especially key management, in the success of the company and should ensure that employees are treated with fairness and equity and without discrimination.

3.1 Proper human resource policies should be put in place to attract and retain qualified personnel. Best practices for attracting new hires include offering market-based compensation, an effective performance appraisal system, and opportunities for advancement.

3.2 The board and the chief executive officer must establish a culture of merit and, if necessary, should hire key management personnel from outside the family.

3.3 There should be no discrimination between family and non-family employees. There should be an objective policy for the employment of family members based on qualifications and experience.

3.4 The board shall ensure that company operating policies and procedures are well documented and available to all staff members to facilitate easy reference, application, and accountability. As part of the management, family members should ensure adherence to these policies and procedures.

3.5 The board should involve senior management employees in policymaking and should empower them to manage the organization within the set policy framework, avoiding micromanagement of the company.

3.6 The board and senior management should ensure transparent and regular communications with and among employees at all levels.

3.7 Employees should be able to freely communicate their concerns about unethical practices, if any, to the board or its designated senior executive, without fear of repercussions. A whistleblower policy should be put in place to protect employee and employer rights.

The company should recognize the role and rights of its stakeholders, both through established laws or mutual agreement, and should encourage active cooperation to achieve operational and financial sustainability.

3.8 The company should strive for healthy business relationships with other stakeholders, namely:

- Providers of finance, such as banks and other financial institutions
- Suppliers
- Customers
- Government
- Civil Society

4. Ethics, Disclosure, and Transparency

The organization should be governed in an ethical and transparent manner under effective accountability mechanisms.

4.1 Ethics and Business Practices

Companies should prepare a statement containing their ethical values and principles and should circulate it to all directors and employees. The board and the senior management should establish the "Tone at the Top." Practice and implementation of such principles should be demonstrated by the board and management for all employees to emulate. This statement should be reviewed annually by the board and signed by all personnel in the company.

4.2 External Audit

4.2.1 The company's annual external audit should be conducted by a firm of chartered accountants. The audit committee shall ensure that the auditors appointed by the company are independent and possess appropriate resources to conduct an effective audit.

4.2.2 The audit committee shall interact with the external auditors and should obtain a management letter, identifying matters warranting attention of the Board.

4.3 Related Party Transactions

4.3.1 Board members and key executives shall disclose to the board whenever they directly, indirectly, or on behalf of third parties have a material interest in any transaction or matter directly affecting the company.

4.3.2 All transactions with related parties should be reviewed by the board or the audit committee to ensure that they are in the best interests of the company.

Disclosure should be made of all material matters regarding the organization, including financial position, performance, and governance of the company.

4.4 Financial Reporting

4.4.1 The annual financial statements of the company should be prepared in accordance with a recognized framework of accounting and financial reporting. Guidelines can be obtained from the Institute of Chartered Accountants of Pakistan. Audit reports shall be distributed to relevant stakeholders after the audit committee has reviewed them and the board has approved them. The chief financial officer should be responsible for preparing annual and other periodic financial statements.

4.4.2 Depending on the size and needs of the company and its stakeholders, in addition to the annual financial statements, the board may decide to commission and produce interim financial statements.

4.5 Directors' Report

4.5.1 The directors should prepare an annual report for submission to the shareholders that includes the annual financial statements and a review of the financial and operating performance of the company during the year. This report should highlight the internal control environment and procedures in place at the organization, as well as the initiatives taken by the directors and management in ensuring policy efficacy and application.

4.5.2 The directors' review should also include comments on the company's strategy, including any significant projects and initiatives, as well as key risks related to its activities. This review shall highlight the company's governance policies, including its compliance with corporate governance best practices, such as this Guide.

ANNEXURES

Annexure A: Life Cycle of Family-Owned Companies

Broadly speaking, family-owned companies have three phases in their life cycles.

In the first generation, there is usually one or a few individuals as owners and shareholders. These shareholders comprise the board of directors as well as the management team of the company. This duality promotes simplicity, but the absence of a distinction between ownership and management, may make it difficult for third parties to have sufficient confidence in the company. Procuring capital thus frequently becomes a problem, and often compels the entrepreneur to reinvest profits back into the company.

Governance issues are relatively few in this stage. The issue requiring the most attention is succession planning.

In the second generation, there will often be several owners, not all of whom have the same interest in the company. The less active owners will sit on the board of directors, or maybe only attend the general meeting, while active shareholders handle management. Different views about business strategy often develop.

Governance issues tend to become complex in this stage as more family members get involved, often with no founder to mediate or dictate strategy. Governance challenges revolve around formalizing business policies and procedures, efficient and effective communication within the family, and leadership transition and succession planning for key management positions.

Finally, in the third generation the enterprise frequently attains a dimension that requires a high degree of professionalism. The consensus, competence, or ambition required for this is not always present within the family's circle of owners. At this time, there is a huge need for outside management.

Governance issues become more complex in this stage, engendering many conflicts. Some common governance issues include the employment of family members, dividend and reinvestment policies, conflict resolution, and family business strategy.

Annexure B: Directors and Managers – Roles and Responsibilities

	DIRECTORS	MANAGERS
LEADERSHIP	It is the responsibility of the board of directors to provide central leadership and direction in formulating company strategy.	It is the duty of the managers to implement strategies and policies on behalf of the board of directors.
DECISION-MAKING	Directors have control of the company's assets and must determine the future of the organization. They must protect the company's assets and reputation, and take into account how their decisions relate to stakeholders and the regulatory framework.	Managers are not responsible for making strategic decisions for the company and hence are only concerned with implementing the decisions made by the board of directors.
DUTIES AND RESPONSIBILITIES	Considering that directors have ultimate responsibility for the long-term prosperity of the company, they have multiple duties and obligations. Broadly speaking, there are legal, contractual, fiduciary, and ethical obligations. Directors are required to exercise their powers with skill and diligence when acting on behalf of the company. Any breach of duty can render a director liable under both civil and criminal law.	Managers have fewer legal responsibilities and obligations. Most of their duties arise from their contract with the company. As opposed to directors, the strict interpretation of equitable fiduciary obligations, for example, does not apply to managers.
RELATIONSHIP WITH SHAREHOLDERS	Directors are usually appointed by the shareholders. Shareholders may restrict the powers exercised by the directors by altering the articles of association. Shareholders may also remove directors from office. Directors are accountable to shareholders for the company's performance.	Managers are usually appointed by the directors or other managers. They are accountable to either the CEO or board of directors in terms of their contract of appointment.

COMPANY ADMINISTRATION	Directors are entrusted with the task of administration. They are responsible for the company's assets and are answerable to the company and shareholders at the general meeting.	Managers exercise delegated responsibilities. While they perform duties related to the company's administration, they cannot be held solely liable for poor administration.
ETHICS AND VALUES	Directors play a key role in prescribing the ethical code, which is to be followed by the company in the conduct of its affairs.	Managers, taking guidance from this code, implement ethical practices while performing their duties on behalf of the company.
STATUTORY PROVISIONS	In the event of the insolvency, directors may be held personally and criminally liable under the Companies Ordinance. In addition, there are many other statutory provisions under which directors are strictly liable and may face penalties if the company fails to comply.	The majority of statutory provisions do not apply to managers, hence reducing their civil and criminal liability.

** This annexure has been adapted from Securities & Exchange Commission of Pakistan's Code of Corporate Governance 2002.*

Annexure C: Key Functions of the Board

- Reviewing and guiding corporate strategy, major plans of action, risk assessment and mitigation policy, annual budgets, and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions, and divestitures.

- Monitoring the effectiveness of the company's governance practices and making changes as needed.

- Selecting, compensating, monitoring, and replacing key executives when necessary, and overseeing succession planning.

- Aligning key executive and board remuneration with the longer-term interests of the company and its shareholders.

- Ensuring a formal and transparent board nomination and election process.

- Monitoring and managing potential conflicts of interest between management, board members, and shareholders, including potential misuse of corporate assets and abuse in related-party transactions.

- Ensuring the integrity of the company's accounting and financial reporting systems, including the independent audit.

- Overseeing the processes of disclosure and communications.

Annexure D: Tips for Independent Directors

1. Your primary obligation is to shareholders. Other stakeholders have relevance to the board only as their interests affect shareholder value. Take advantage of a relatively small shareholder base by getting to know the long-term shareholders, including managers and other board members.

2. Recognize that each small company is unique. This is especially true for companies managed by founders. Listen carefully to the language of the company and be open to unique aspects of the corporate culture.

3. You must be willing and able to dedicate the time needed to serve. This often becomes the hurdle that an otherwise capable and respected board member is unable to clear.

4. You should work together with other directors. Boards with very talented people have served no useful purpose when the directors have failed to work together.

5. You must believe in the organization's mission and purpose. These include commitments to products, customers, employees, suppliers; social obligations; growth; management style; and profit objectives. If you take an exception to these, then it is better to disassociate yourself from the board.

6. Know your specific role and the value you add to the board beyond general management oversight. Pay special attention to the areas of business where the company needs your expertise. Be prepared to offer your resignation if you feel you can no longer be useful in your role.

7. Think about corporate strategy. Be aware of the challenge that strategic issues represent to all small company CEOs, who are involved in the day-to-day aspects of business. Be available to the CEO to discuss strategic issues when he or she is focused on them, rather than only raising them at board meetings.

8. Give the company's financial statements your careful personal attention. Look for red flags and ask questions. Your independence as a director can be assured only if you have the time, abilities, and resources to conduct your own critical analysis of the company's performance. This may require communication with company officers other than the CEO.

9. CEO evaluation is an ongoing process, and not always formalized. Get to know the CEO's strengths and weaknesses and assist him or her in adapting to a rapidly changing company.

10. Invest in the company with your contacts and expertise. Accept full cash compensation for board services.

Annexure E: Glossary of Terms

Description	Definition
Affiliated company	Two companies with the same owner or a third company's subsidiaries.
Affiliated person	A physical person or a legal entity that can influence the activity of legal entities, and/or physical persons who are engaged in entrepreneurial activity.
Annual report	An audited document issued annually to shareholders. Contains information on financial results and the overall performance of the previous fiscal year, as well as comments on the future outlook.
Audit	An examination and verification of a company's financial and accounting records and supporting documents by a professional and independent external auditor.
Audit report	Statement of the accounting firm's assessment of the validity and accuracy of a company's financial information and conformity with accepted accounting practices.
Auditor	A person or a firm certified to conduct an audit.
Auditor's report	An auditor's opinion on the accuracy of a company's financial statements, commonly included in the annual report.
Beneficial owner	The individual who benefits from ownership of a security regardless of who holds the title.
Board of directors	The collective group of individuals elected by the shareholders of a corporation to oversee the management of the corporation.
Chairman of the board	Highest-ranking director in a corporation's board of directors.
Chief Executive Officer (CEO)	The chief executive officer (CEO) is the highest-ranking officer of the company.
Chief Financial Officer (CFO)	The corporate executive responsible for the financial planning and record-keeping of a company.
Corporate law	Multiple normative legislative acts regulating the creation, activities, and liquidation of legal entities.
Company	An entity chartered by law to act as a single enterprise with certain legal rights whose owners remain separate and assume limited liability.
Director	A person elected by shareholders to serve on the corporation's board of directors.
Disclosure	The public dissemination of material decision-influencing information.
Dissident; dissenting shareholder	A shareholder who objects to a proposed corporate action or position.
Dividend	A portion of the net profits of the company distributed to the shareholders of a company.

External auditor	An auditor, unaffiliated with the organization, responsible for conducting the audit of the financial statements of the company.
Fiduciary trust / responsibility	The power entrusted to an individual, corporation, or association (fiduciary) to manage assets for another person (principal), beneficial to his/her interests.
Interim report	Document reporting the financial results for a period smaller than a year.
Internal audit	An appraisal of the financial health of a company's operations by its own employees. Employees who carry out this function are called internal auditors.
International Accounting Standards (IAS)	Financial reporting standards created by the International Accounting Standards Committee in an effort to harmonize various practices across the globe.
Listed company	Company whose shares are traded on a stock exchange.
Non-listed company	Company that is not listed on a stock exchange.
Management	The person or persons controlling and directing the affairs of a business in the interest of the corporation and its managers. Ensures the efficient use of all the company's resources.
Management accounting	Accumulation and analysis of financial data for internal use (management, data for shareholders, and controlling bodies).
Management decision	Decision made by manager within his or her competence and powers, aimed at achieving organization's goals.
Private equity	Equity capital investments in privately held, non-quoted companies.
Shareholder	A person or entity that owns shares in a company.
Shareholder resolution	A recommendation or requirement proposed by a shareholder at the company's general shareholders' meeting.
Subsidiary	A company that is owned outright or controlled by a parent company.
Venture capital	Funds granted to startup firms and small businesses with exceptional growth potential in exchange for ownership or control of the company.

Annexure F: List of Stakeholders Consulted during Guide Development

FOCUS GROUP PARTICIPANTS

Dotz Technologies
English Biscuits Manufacturers
Habibullah Energy
Inam Industries
Ismail Industries
Jaffar Brothers
Mackinon Pakistan

ROUNDTABLE PARTICIPANTS KARACHI	ROUNDTABLE PARTICIPANTS LAHORE
Adamjee Group of Companies	ABN AMRO Bank
Allied Bank	ACCA
Al-Mughni (Pvt) Ltd.	Abuzar Group of Companies
Alucan (Pvt) Ltd.	Al Yousaf Enterprises
Arif Habib Group	Aryan Steel Industries
Century Insurance Company	Care Marketing
Delta Group of Companies	Descon Engineering
Delta Shipping (Pvt) Ltd.	East End Exports Pvt. Ltd
English Biscuit Manufacturers (Pvt) Ltd	Fashion Wear
Envicrete	Haji Muhammad Aslam & Sons
Ernst & Young	Japan Machinery Store
Gani & Tayub (Pvt). Ltd	Khamis Paper Cutting Centre
Ghulam Farooq Group	Lahore Stock Exchange
Hinopak Motors Limited	Lahore Chamber of Commerce and Industries
International Finance Corporation	Lahore University of Management Sciences
Ismail Industries	National Scientific Corporation
Kings Group	Orient Group of Companies
National Foods	Pioneer Steel Mills Ltd
Orr, Dignam & Co	Prime Service Group
Pakistan Business Council	RBI
Pakistan Readymade Garments	Sampak Group of Industries
Shahani Associates	Service Industries
System Innovation (Pvt) Ltd	Shafqat Trading Company
TATA Textile Mills Ltd	Spell Group
TeleCard Ltd	Unique Mineral
Unitex Carpet Ltd	Wisal Kamal Fabrics (Pvt) Ltd