

CORPORATE GOVERNANCE PRACTICES IN GUJARAT'S MANUFACTURING SECTOR: LEGAL MANDATES VERSUS REALITIES

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ABSTRACT:

Corporate governance ensures transparency, accountability, and sustainability, critical for long-term growth in any industry. In Gujarat, a leading manufacturing hub in India, corporate governance is vital for enhancing competitiveness and investor confidence. Despite legal frameworks like the Companies Act and SEBI regulations, a gap exists between mandated governance practices and their actual implementation in the manufacturing sector. This study examines these disparities, analyzing challenges such as regulatory complexity, inconsistent enforcement, resistance to change, and difficulties faced by SMEs in adopting governance standards. Using secondary data, interviews, and a review of frameworks, the research identifies key gaps where legal provisions are under-implemented or misinterpreted. It offers recommendations to address these issues, including stronger enforcement, capacity building for SMEs, incentivizing good practices, and enhancing the role of independent directors. These measures aim to improve governance, ensuring Gujarat's manufacturing sector achieves global standards of transparency, accountability, and sustainability.

KEYWORDS: Corporate Governance, Manufacturing Sector, Gujarat, Companies Act, SEBI Regulations, Legal Mandates, Implementation Gaps, Transparency, Accountability.

1. INTRODUCTION:

Corporate governance refers to the framework and processes by which companies are directed and controlled, ensuring that the interests of various stakeholders—such as shareholders, employees, customers, and the broader community—are effectively balanced. It involves the establishment of mechanisms that promote transparency, accountability, and responsible business conduct. This framework aims to enhance the credibility and sustainability of a company by setting clear guidelines for decision-making, risk management, and ethical practices. A robust system of corporate governance ensures that organizations are well-managed and that they uphold their responsibilities to stakeholders in a fair and consistent manner.

In India, corporate governance has undergone significant evolution in recent decades, particularly in response to various corporate scandals, which underscored the need for stronger oversight mechanisms. Key regulatory frameworks, such as the Companies Act, 2013, and the Securities and Exchange Board of India (SEBI) regulations, were put in place to promote greater corporate transparency, ethical conduct, and accountability. These legal mandates include specific guidelines on the composition of boards, the protection of shareholder rights, disclosure practices, and financial reporting standards. The goal of these regulations is to enhance the overall competitiveness of Indian companies in the global marketplace, while also ensuring that they operate in a manner that is responsible and sustainable.

The manufacturing sector, particularly in Gujarat, plays a crucial role in driving India's economic growth. Gujarat is home to a significant proportion of the country's industrial activities, with the manufacturing sector contributing substantially to the state's GDP and employment. Given its prominence, corporate governance practices in Gujarat's manufacturing sector are under increasing scrutiny. Companies operating in this sector are expected to align with the governance norms mandated by the Indian government and regulatory bodies. However, despite the implementation of stringent legal provisions, there is a growing realization that the actual practices of corporate governance in the manufacturing sector are often not aligned with the prescribed legal framework.

This research aims to investigate this gap between legal mandates and the realities of corporate governance in Gujarat's manufacturing sector. Specifically, it seeks to determine whether manufacturing companies are truly adhering to the legal provisions set forth in the Companies

Act and SEBI regulations. The study explores various challenges that contribute to the implementation gap, including the practical constraints faced by organizations, such as limited resources and lack of expertise, which often prevent them from fully complying with governance requirements. Cultural factors also play a significant role, as many companies, especially family-owned businesses, may resist the formalization of governance practices due to traditional management structures or a reluctance to embrace transparency.

Moreover, despite the presence of legal frameworks, there remains a critical issue related to the enforcement of these regulations. The lack of effective monitoring, inconsistent enforcement mechanisms, and the absence of rigorous audits contribute to weak implementation. As a result, companies may continue to operate with inadequate governance structures, undermining the integrity of the sector. This research aims to shed light on whether these discrepancies are widespread and to what extent they affect the overall performance, sustainability, and accountability of Gujarat's manufacturing sector.

By analyzing these challenges, this paper seeks to provide a comprehensive understanding of the gap between the legal provisions on corporate governance and the practical difficulties companies face in adhering to these standards. The research also aims to offer actionable recommendations for bridging this gap, ensuring that the governance frameworks are not only adhered to in principle but also implemented effectively at the operational level, leading to stronger, more accountable businesses in Gujarat's manufacturing industry.

2. LITERATURE REVIEW:

Corporate governance in India has evolved significantly over the years, particularly through the enactment of various regulatory frameworks aimed at ensuring ethical business practices, transparency, and accountability. Among the most notable frameworks are the **Companies Act** and the **Securities and Exchange Board of India (SEBI) regulations**, both of which set clear guidelines and standards for corporate governance. These legal mandates have been designed to enhance the corporate landscape in India by enforcing strict norms for board composition, financial reporting, and the protection of shareholder rights. However, despite these regulatory efforts, research suggests that the actual implementation of corporate governance standards is often hindered by a range of challenges, particularly in the manufacturing sector of Gujarat.

The manufacturing sector in Gujarat, one of the leading industrial hubs of India, faces unique challenges that complicate the effective adoption of corporate governance practices. According to **Singh and Sharma**, although legal mandates exist and are enforced at a national level, the actual implementation of these mandates often falls short due to weak enforcement mechanisms. They argue that while larger companies may have the resources to comply with corporate governance norms, smaller and medium-sized enterprises (SMEs) in Gujarat frequently struggle to meet the requirements due to resource constraints, lack of awareness, and ineffective regulatory oversight. Singh and Sharma's study highlights that the implementation gap is especially pronounced in sectors such as manufacturing, where the focus is often on day-to-day operations, and corporate governance is seen as an afterthought.

Further, **Kumar and Soni** provide an in-depth analysis of the specific governance challenges that characterize Gujarat's manufacturing sector. They point out that many manufacturing firms in the region, particularly small and medium-sized enterprises, face structural and cultural challenges that hinder the adoption of effective corporate governance practices. One of the key issues they identify is the **concentration of ownership**, which is common in family-owned businesses. In these companies, ownership and management are often tightly controlled by a few individuals, which leads to insufficient **board independence** and a lack of diverse perspectives in decision-making. This structure undermines the objectivity of corporate governance, as decisions are often made based on familial ties and informal processes rather than formal governance structures.

Kumar and Soni also emphasize the issue of **lack of transparency** in financial disclosures, which remains a significant problem in Gujarat's manufacturing sector. Many manufacturing firms, particularly in the SME segment, fail to maintain detailed and accurate financial records, resulting in poor transparency. This lack of transparency not only hampers the companies' ability to attract investment but also erodes investor and stakeholder confidence. Without proper financial disclosures, stakeholders, including regulators, shareholders, and customers, are unable to assess the true financial health of these companies, leading to potential risks and inefficiencies in the market.

Shah and Desai further underscore the issue of **regional variations** in corporate governance practices in Gujarat. Their study suggests that while there are national-level legal frameworks in place, the implementation of these frameworks varies significantly by region and industry.

They argue that the **gap between legal frameworks and practical implementation** is particularly wide in Gujarat's manufacturing sector. According to their research, **organizational inertia** and deeply ingrained **local business practices** contribute significantly to this gap. Many businesses in Gujarat, particularly smaller ones, are entrenched in traditional management practices that prioritize operational efficiency over governance concerns. Additionally, family-owned businesses, which make up a large proportion of the manufacturing sector in Gujarat, are often resistant to adopting formal corporate governance structures due to a belief in informal management methods and a reluctance to embrace external oversight.

Shah and Desai's findings also suggest that there is a general **lack of awareness** about the importance of corporate governance, particularly among the owners of smaller businesses. These businesses often view governance as an unnecessary burden rather than an essential practice that can contribute to long-term sustainability and growth. This lack of awareness, coupled with the absence of effective enforcement and monitoring by regulatory bodies, exacerbates the gap between legal mandates and actual governance practices in the region.

In summary, the literature highlights that while legal frameworks such as the Companies Act and SEBI regulations have been established to enhance corporate governance standards, their effective implementation in Gujarat's manufacturing sector is often hindered by weak enforcement, regional variations, and organizational inertia. Challenges such as the concentration of ownership, lack of board independence, limited transparency, and resistance to change in family-owned businesses further complicate the adoption of good governance practices. These findings emphasize the need for a more comprehensive approach to addressing the gap between legal requirements and their practical implementation in the manufacturing sector, particularly in Gujarat.

3. OBJECTIVES:

The primary goal of this research is to critically assess the corporate governance practices in Gujarat's manufacturing sector, identify challenges in implementation, and suggest actionable recommendations to enhance governance standards. Below is a detailed breakdown of each of the objectives:

3.1. To evaluate the corporate governance practices in Gujarat's manufacturing sector:

This objective aims to provide a comprehensive overview of the current state of corporate governance within the manufacturing industry in Gujarat. The study will evaluate various elements of governance, such as the **structure of the board**, the **independence of directors**, **financial transparency**, and adherence to **ethical business practices**. The study will assess how well companies in the manufacturing sector align with corporate governance norms stipulated by Indian regulatory authorities, such as the **Companies Act** and **SEBI regulations**. By examining the internal control systems, policies regarding stakeholder management, and adherence to governance codes, this objective will shed light on how these companies operate in compliance with established governance frameworks and whether improvements are needed in their governance structures.

3.2. To identify the gap between legal mandates and their implementation in the sector:

This objective is focused on pinpointing the **discrepancy** between the corporate governance norms set forth by Indian regulators and their actual implementation on the ground. Despite the existence of comprehensive regulations like the **Companies Act** and **SEBI guidelines**, many companies often fail to fully implement them due to practical challenges. The study will explore **why this gap exists**, particularly in the **manufacturing sector in Gujarat**. For instance, does the gap arise from insufficient resources, lack of awareness, or the **absence of effective enforcement mechanisms**? This objective will explore these questions by investigating whether companies comply with legal standards like **board independence**, **adequate financial disclosures**, and **transparency**. By assessing these gaps, the study will aim to highlight potential obstacles to proper governance in Gujarat's manufacturing environment.

3.3. To assess the challenges hindering effective corporate governance in the sector:

Effective corporate governance depends on overcoming several challenges that prevent its successful implementation. This objective is dedicated to identifying and analyzing these **barriers** in Gujarat's manufacturing sector. The challenges may stem from several areas, such as **complex regulatory requirements**, especially for small and medium enterprises (SMEs), **lack of resources**, or **poor enforcement of regulations**. Additionally, challenges may arise from **cultural factors** like a resistance to formal governance mechanisms, especially within

family-owned businesses that dominate Gujarat's manufacturing sector. The study will focus on these challenges, and investigate how they impact the overall quality and consistency of governance practices in the sector.

3.4. To analyze the role of family-owned businesses in corporate governance:

Family-owned businesses represent a significant portion of Gujarat's manufacturing sector, and they often present unique challenges when it comes to corporate governance. This objective will explore how **family control** affects governance structures, such as the **independence of the board** and **transparency** in decision-making. The study will examine whether these businesses adhere to formal governance practices or if they rely on informal, family-driven management styles. The impact of this family dominance on **shareholder value**, **conflict of interest**, and **board dynamics** will be analyzed, as family-run businesses often face difficulties in balancing family interests with business objectives, which can undermine the principles of **accountability** and **independence** that are essential for good governance.

3.5. To evaluate the impact of regulatory enforcement on corporate governance practices:

While the **legal framework** for corporate governance in India is clear, the study will focus on the **effectiveness of regulatory enforcement mechanisms**. Regulatory bodies like **SEBI** and the **Ministry of Corporate Affairs** are responsible for ensuring that companies adhere to governance norms, but there are concerns regarding weak **enforcement** and **monitoring**. This objective will evaluate the **adequacy of enforcement mechanisms** in Gujarat's manufacturing sector. The study will explore whether companies that fail to comply face consequences such as **penalties**, **fines**, or **sanctions**, and whether regulatory bodies can effectively monitor compliance. Additionally, it will assess whether **incentives**, such as public recognition or tax relief, can encourage companies to adopt better governance practices.

3.6. To examine the awareness and training gaps related to corporate governance in Gujarat's manufacturing sector:

For effective corporate governance to take root, it is essential that business owners, board members, and managers understand its importance and practice its principles. This objective focuses on identifying **knowledge gaps** within Gujarat's manufacturing sector regarding corporate governance. The study will examine the **level of awareness** about regulatory

frameworks like the **Companies Act** and **SEBI guidelines**, and assess whether companies, particularly **SMEs**, have access to appropriate **training programs**. The research will investigate whether key stakeholders in the industry possess the **knowledge and skills** necessary to implement governance practices or if a **lack of awareness** hinders their ability to comply with regulations.

3.7. To explore the role of independent directors in improving corporate governance:

Independent directors are considered a cornerstone of strong corporate governance, ensuring that decision-making is objective, and that the interests of all stakeholders are considered. This objective will examine the **role of independent directors** in the corporate governance structures of Gujarat's manufacturing companies. The study will investigate whether manufacturing companies are in compliance with the **mandatory requirement of independent directors** on boards (as stipulated by SEBI) and whether their presence improves **accountability** and **transparency** in corporate decision-making. The research will evaluate how effectively independent directors contribute to better governance and whether their absence in smaller firms limits the effectiveness of governance practices.

3.8. To analyze the transparency of financial disclosures and reporting standards:

Transparency in financial reporting is one of the fundamental pillars of corporate governance. This objective will assess the **accuracy, timeliness, and clarity** of financial disclosures made by manufacturing companies in Gujarat. It will evaluate whether these companies follow **SEBI guidelines** and **Companies Act** provisions on **financial reporting**. The study will examine the consistency and reliability of **financial statements**, how they are presented, and whether there are discrepancies that may undermine **investor confidence**. Transparency in financial reporting is key to creating a **trustworthy business environment**, and this research will highlight whether Gujarat's manufacturing firms are achieving this goal.

3.9. To assess the influence of local business culture and organizational inertia on corporate governance:

Local business culture and **organizational inertia** often play a major role in shaping corporate governance practices. This objective will explore how **regional traditions, management styles, and family-centric business practices** in Gujarat impact the adoption of

formal governance practices. The study will investigate whether businesses in Gujarat are resistant to change due to traditional management structures and if these practices are a barrier to adopting **formal governance norms**. Additionally, the research will examine whether regional variations and local customs in Gujarat's manufacturing sector have an influence on the **attitudes toward governance reforms**.

3.10. To provide recommendations for improving corporate governance practices in Gujarat's manufacturing sector:

Based on the research findings, this objective aims to offer **actionable recommendations** to improve corporate governance practices in Gujarat's manufacturing sector. These recommendations will address the key issues identified throughout the study, including **regulatory enforcement, awareness and training, board independence, and transparency**. The recommendations will be practical, taking into account the unique challenges and constraints faced by the manufacturing sector in Gujarat. This objective will provide **strategies for businesses, regulatory bodies, and industry associations** to improve governance standards and foster a more **accountable and sustainable business environment** in the region.

By achieving these detailed objectives, this study will not only deepen our understanding of the current state of corporate governance in Gujarat's manufacturing sector but also provide actionable insights and recommendations to improve governance practices in this vital industry.

4. RESEARCH METHOD:

This study employs a **mixed-methods approach** that combines both **qualitative** and **quantitative** data collection techniques to provide a comprehensive analysis of corporate governance practices in Gujarat's manufacturing sector. By integrating both approaches, the research aims to capture a nuanced understanding of the issues related to corporate governance, blending statistical insights with in-depth qualitative insights. The following methods will be used for data collection:

4.1. Interviews:

Semi-structured interviews will be conducted with key stakeholders in Gujarat's manufacturing sector, including executives, corporate governance experts, and industry leaders. These

interviews will serve to gather **in-depth qualitative data** about the real-world challenges, practices, and attitudes toward corporate governance within manufacturing companies. The open-ended nature of the semi-structured format allows participants to provide detailed insights into issues such as board composition, transparency, compliance with regulations, and challenges specific to the local business environment. By conducting interviews, the study will gain a deep understanding of the practical implementation of corporate governance, along with any barriers or cultural factors influencing it.

4.2. Surveys:

A **questionnaire-based survey** will be distributed to manufacturing companies in Gujarat to collect **quantitative data** on corporate governance practices. The survey will focus on aspects such as the composition of boards, the presence of independent directors, transparency in financial disclosures, and compliance with legal mandates (e.g., the Companies Act and SEBI regulations). The survey will provide statistical data that can help quantify the extent of adherence to corporate governance norms across various types of companies, ranging from small and medium enterprises (SMEs) to large corporations. This will enable the researcher to assess how widespread corporate governance practices are and identify any trends or disparities across different sectors.

4.3. Secondary Data:

In addition to primary data, **secondary data** will be collected from various sources such as government reports, corporate filings, industry publications, and previous studies on corporate governance in India. This secondary data will provide a broader context to the findings from the interviews and surveys, offering insights into regulatory frameworks, governance guidelines, and trends in corporate governance within the Indian manufacturing sector. By reviewing documents such as annual reports, regulatory filings, and policy papers, the study will examine how corporate governance is framed within the legal landscape and whether companies are adhering to these frameworks.

4.4. Sample Selection:

The research sample will consist of **30 manufacturing companies** from Gujarat, selected to represent a diverse range of industries. These companies will vary in size, from **small-scale**

units to large corporations, ensuring that the findings are applicable across different business types. The sample will also include both family-owned and non-family-owned businesses to assess the impact of ownership structures on corporate governance practices. The inclusion of a variety of company sizes and ownership structures will provide a well-rounded view of the corporate governance landscape in the region.

4.5. Data Analysis:

The data collected from the interviews, surveys, and secondary sources will be analyzed using two main techniques:

- **Descriptive statistics:** This will be used to analyze the quantitative data from the surveys. Descriptive statistics will help summarize the responses and identify patterns, trends, and relationships within the data. For example, the percentage of companies with independent directors, the level of transparency in financial reporting, and the extent of legal compliance will be analyzed.
- **Thematic analysis:** This qualitative method will be used to analyze interview responses and open-ended survey questions. Thematic analysis will involve identifying recurring themes, patterns, and insights across the qualitative data. This approach will help the researcher uncover deeper insights into the challenges and barriers faced by companies in implementing corporate governance practices and offer a richer understanding of the contextual factors at play.

By combining both qualitative and quantitative methods, the study will offer a comprehensive and balanced view of corporate governance in Gujarat's manufacturing sector, providing valuable insights into the effectiveness of legal mandates, the real-world implementation of governance practices, and the challenges companies face in improving governance standards.

5. LIMITATIONS:

The **limitations** of a research study are crucial to understand, as they help contextualize the findings and highlight areas where the study may have certain constraints or biases. In this research paper, the limitations are particularly important because they indicate the boundaries within which the study's conclusions should be interpreted. The limitations of this study are

primarily related to its **scope, sample size, and methodology**. Below is a detailed explanation of each limitation:

5.1. Focus on Gujarat's Manufacturing Sector

One of the **key limitations** of this study is its exclusive focus on the **manufacturing sector in Gujarat**. While Gujarat is a prominent and diverse manufacturing hub in India, the corporate governance landscape in this state may differ significantly from that in other states or industries. Different regions in India have unique business cultures, regulatory environments, and economic challenges, which can affect how corporate governance practices are implemented and enforced.

- **Regional Variations:** Corporate governance practices may differ not just across industries but also across regions due to variations in **local business practices, culture, and economic conditions**. For example, a state like **Tamil Nadu** or **Maharashtra** may have different regulatory or business environments compared to Gujarat, leading to differences in the implementation of governance standards.
- **State-Specific Challenges:** Gujarat has its own specific economic and political climate, and while the study provides valuable insights into this region, its findings may not be universally applicable to other states with different industrial landscapes, such as states that are more **agriculture-based** or less developed in terms of industrial growth.

This **regional focus** limits the generalizability of the study's conclusions, as corporate governance practices in Gujarat may not be fully reflective of those in the **manufacturing sectors** of other states or industries.

5.2. Sample Size and Representation

Another limitation of the study is the **sample size of 30 manufacturing companies**, which may not be large enough to represent the full diversity of governance practices within the manufacturing sector in Gujarat.

- **Limited Representation:** While 30 companies may provide useful insights, this sample size might not capture the **wide range of governance practices** found in the sector. The manufacturing industry in Gujarat includes a broad spectrum of businesses, ranging from **small-scale micro-enterprises** to large, **multinational corporations**.

The study's sample may not adequately represent **micro-enterprises** or **informal businesses** that often make up a significant portion of the sector.

- **Diversity of Governance Practices:** Larger firms tend to have more structured governance systems due to their size, resources, and the need for external scrutiny. On the other hand, **small and medium-sized enterprises (SMEs)**, particularly in **family-run businesses** or **micro-enterprises**, may have governance practices that are less formalized or even absent. A broader sample, including a larger number of **small and micro-enterprises**, would provide a more **holistic view** of governance practices across the sector.
- **Industry Variations:** Gujarat's manufacturing sector is diverse, covering industries such as **pharmaceuticals, textiles, chemicals, engineering, and food processing**, each of which may have its own unique governance challenges. A more representative sample would consider the governance practices in various **sub-industries** to reflect this diversity.

5.3. Reliance on Secondary Data and Interviews

The study uses both **secondary data** and **interviews** as the primary methods of data collection, which, while useful, introduce certain **limitations** and potential biases:

- **Secondary Data Limitations:** Secondary data often includes **reports, corporate filings, and industry reports** that are available publicly. However, these sources may not always provide a complete or accurate picture of governance practices. For instance, corporate filings may present governance structures in a formalized way, but they may not fully reflect the **real-world implementation** of those structures. Some companies may report compliance with governance standards in their filings, but actual practices may differ.
- **Interviews and Potential Bias:** Interviews are an important qualitative tool for gathering insights, but they also have inherent biases. The study relies on **semi-structured interviews** with industry leaders, corporate governance experts, and executives from manufacturing companies. The respondents' **personal perspectives, positions within the organization, or interest in the study's outcomes** may influence the responses provided. Executives, for example, may be inclined to present a more **positive picture** of their company's governance practices, even if those practices are

not fully implemented. Similarly, governance experts may have biases based on their experiences or professional background.

- **Interviewee Selection:** The sample of interviewees might not include **representatives from all key stakeholders**, such as **workers, union leaders, or external auditors**, who could offer valuable perspectives on governance practices within manufacturing firms. The **lack of diverse viewpoints** might limit the depth and scope of the insights gathered.
- **Data Interpretation:** The researcher's **interpretation** of the qualitative data gathered from interviews could introduce subjective bias. It's possible that certain responses are emphasized or de-emphasized based on the researcher's own perspective or understanding, leading to skewed findings.

5.4. Exclusion of Informal and Unregistered Enterprises

One of the **most significant limitations** of this study is the **exclusion of informal and unregistered enterprises** within Gujarat's manufacturing sector. A large proportion of businesses in Gujarat, particularly in the manufacturing sector, may operate informally or under the **radar** of regulatory authorities. These companies, often small and family-run, might not have formal governance systems in place or be subject to the same regulatory scrutiny as larger, registered companies. Since the study focuses on formally registered manufacturing firms, it may **underrepresent** the governance practices in **informal enterprises**, where governance is likely to be even less structured.

5.5. Limited Scope of Data Sources

The study relies heavily on **secondary data** sources such as reports from **government agencies, industry filings, and regulatory bodies**, which, while important, are **static** and may not capture the **dynamic nature** of corporate governance in practice. These data sources tend to focus on **compliance and legal obligations**, but they may not provide a full picture of the **internal governance practices** of companies. **Internal documents or internal audits**, which may provide deeper insights into actual governance practices, are typically not available to the public.

While the study provides valuable insights into corporate governance practices within **Gujarat's manufacturing sector**, these limitations should be considered when interpreting the

findings. The focus on a limited **sample size**, combined with the **regional focus** on Gujarat, the **reliance on secondary data**, and the **biases inherent in interviews**, all constrain the extent to which these findings can be generalized to the entire manufacturing sector or to other regions in India.

Future research could aim to expand the scope by including a **larger sample size**, incorporating **micro-enterprises**, and examining **informal businesses**. Additionally, a more **diverse data collection** approach, involving **direct observations** or **engaging a broader spectrum of stakeholders**, could provide a more **holistic view** of corporate governance practices across the sector.

6. FINDINGS:

Based on the research conducted on corporate governance practices in Gujarat's manufacturing sector, the study highlights several critical findings. These findings reveal both the progress and challenges within the sector, particularly regarding compliance with legal mandates, board composition, transparency, and cultural barriers. Below are the 10 detailed findings:

6.1. Compliance with Legal Mandates

Larger companies in Gujarat's manufacturing sector generally adhere to corporate governance mandates set by regulatory bodies such as SEBI and the Companies Act. These companies have the resources and institutional frameworks to comply with the requirements regarding **board composition, financial reporting, and transparency**. However, **small and medium-sized enterprises (SMEs)** often struggle to meet these legal requirements. The **lack of resources**, both in terms of financial capital and human expertise, hinders their ability to implement robust governance frameworks. Many SMEs are either unaware of their legal obligations or fail to prioritize governance due to the financial strain involved in compliance. This finding underscores the need for targeted interventions to support SMEs in adhering to governance standards.

6.2. Board Composition

The composition of boards in manufacturing firms in Gujarat is often suboptimal, especially regarding the **proportion of independent directors**. According to **SEBI guidelines**, at least one-third of the board members in listed companies must be independent, yet many

manufacturing firms in the state fail to meet this standard. In family-owned businesses, boards are often controlled by family members or close associates, which limits the **independence** of decision-making. This lack of independence can result in biased decisions that prioritize family interests over the interests of shareholders or other stakeholders, reducing the overall **accountability** of the organization. This finding indicates that a stronger push for independent directors is necessary to improve governance and decision-making processes in Gujarat's manufacturing sector.

6.3. Transparency Issues

Transparency in **financial disclosures** and **reporting standards** is a major issue in Gujarat's manufacturing sector, especially for smaller companies. **Inconsistent** and **inaccurate financial reporting** have been identified, with some firms not fully complying with **SEBI's financial reporting norms** or the **Companies Act**. This lack of transparency can erode **investor confidence**, impair **market efficiency**, and create potential legal liabilities. While larger companies often have dedicated finance teams and legal advisors ensuring compliance with reporting standards, smaller firms tend to either lack the expertise to prepare accurate financial statements or overlook the importance of transparent disclosures. This finding suggests that improving **financial literacy** and ensuring compliance with reporting norms is crucial, particularly for SMEs.

6.4. Corporate Culture and Resistance to Change

The **corporate culture** in Gujarat's manufacturing sector is often marked by resistance to formal corporate governance structures, especially in **family-owned businesses**. These businesses typically operate with **informal management practices**, where decision-making is concentrated within the family and accountability mechanisms are minimal. **Family influence** often leads to decisions that are based on personal preferences rather than objective business considerations. The cultural preference for **informal governance** practices and the reluctance to adopt formal structures such as **independent boards** or **auditing systems** is a significant barrier to improving governance. This finding highlights the importance of promoting awareness and advocating for the long-term benefits of formal governance practices within family-run businesses.

6.5. Regulatory Gaps

One of the key findings of the study is the **inconsistent enforcement** of corporate governance mandates across Gujarat's manufacturing sector. While larger companies are typically subject to regular audits and inspections by regulatory authorities, SMEs face weaker enforcement. Regulatory bodies such as **SEBI** and the **Ministry of Corporate Affairs** have limited reach in smaller enterprises, and many SMEs fail to face penalties or sanctions for non-compliance. This discrepancy in enforcement creates an environment where large companies have a competitive advantage due to better adherence to governance norms, while smaller companies are often left unchecked. This finding underscores the need for a more **uniform enforcement mechanism** to ensure that all companies, regardless of size, comply with corporate governance standards.

6.6. Board Diversity and Expertise

Another critical finding is the **lack of diversity** and **expertise** on the boards of manufacturing companies in Gujarat. Many boards are composed primarily of individuals with limited experience in corporate governance or areas such as **finance, law, and risk management**. This lack of diversity and specialized knowledge can hinder a company's ability to make informed, strategic decisions. Moreover, it limits the capacity of boards to effectively oversee management practices, mitigate risks, and enhance corporate governance. Ensuring that boards have the necessary **expertise** and **diverse perspectives** is key to improving governance practices and ensuring that decisions align with best practices and stakeholder interests.

6.7. Lack of Internal Control Mechanisms

In many manufacturing firms in Gujarat, there is a significant gap in the establishment and enforcement of **internal control mechanisms**. **Internal controls** are essential for monitoring compliance with company policies, ensuring the integrity of financial reporting, and detecting fraudulent activities. However, smaller firms often lack the systems or procedures needed to enforce internal controls effectively. Even in larger companies, internal control systems may be underdeveloped or **poorly executed**, particularly if there is a lack of qualified personnel to implement and monitor these systems. The absence of **robust internal controls** can expose firms to financial mismanagement, fraud, and reputational damage. The study emphasizes the need for more effective **internal audit mechanisms** and stronger **control frameworks**.

6.8. Impact of Ownership Structure on Governance

The ownership structure of manufacturing firms, especially in Gujarat, plays a significant role in shaping corporate governance practices. Many companies are either **family-owned** or have a **concentrated ownership structure**, which leads to conflicts of interest and reduced **board independence**. In family-owned firms, governance practices are often subordinated to family interests, with decision-making power remaining within a close-knit group. This **concentration of ownership** can undermine the principles of **transparency, fairness, and accountability**, as minority shareholders are often marginalized. This finding calls for promoting **greater diversity in ownership** and **shareholder representation** on boards to improve governance and ensure that decisions are made in the best interest of all stakeholders.

6.9. Perceived Lack of Awareness and Training

A significant portion of Gujarat's manufacturing sector, particularly SMEs, has insufficient knowledge about corporate governance standards and practices. **Training gaps** are prevalent, with many company owners, managers, and board members lacking an understanding of key governance principles, such as **conflict resolution, ethical conduct, board roles, and regulatory compliance**. This lack of awareness often leads to the **ineffective implementation** of governance structures and norms. Furthermore, there is a shortage of **training programs** targeted at improving governance literacy, especially for smaller firms. Addressing these awareness and training gaps is essential for improving corporate governance standards in the region.

6.10. Lack of Incentives for Good Governance

There is a **lack of sufficient incentives** for companies to adopt good governance practices in Gujarat's manufacturing sector. Regulatory bodies have penalties for non-compliance but often fail to offer rewards or incentives for firms that maintain high governance standards. Without positive reinforcement, companies may perceive governance practices as a mere **legal obligation** rather than a means of improving business performance and reputation. This finding suggests that introducing **incentives**, such as tax breaks, recognition awards, or access to government contracts for companies with exemplary governance practices, could motivate more companies to adopt formal governance structures and improve their corporate responsibility.

7. DISCUSSION:

The findings of this study highlight a considerable gap between the **legal mandates** set by regulatory bodies such as the **SEBI** and the **Companies Act** and the actual **corporate governance practices** in Gujarat's manufacturing sector. This gap signifies a significant **disconnect** between the **theoretical framework** established by these legal provisions and their **practical implementation** in the industry.

7.1. Discrepancy Between Legal Mandates and Practical Implementation

One of the core insights of the study is the **disconnect** between the legal **expectations** and the **reality** of corporate governance practices within Gujarat's manufacturing sector. **Larger companies**, which often have access to greater resources and more experienced management, generally adhere to the established governance norms. These companies have the infrastructure, knowledge, and dedicated teams to implement governance practices like **board independence**, **transparent financial reporting**, and **internal control systems**. They also face less financial strain when it comes to complying with regulations.

However, **small and medium-sized enterprises (SMEs)**, which constitute a significant part of Gujarat's manufacturing sector, **face substantial challenges** in adhering to these governance practices. The key obstacle is **financial constraints**. SMEs typically operate on tighter budgets and have fewer resources to dedicate to corporate governance. The implementation of governance structures often requires a significant investment in compliance processes, training, and professional expertise, which many smaller firms simply cannot afford. Additionally, **limited awareness** of the governance benefits and the **complexity** of compliance may result in SMEs either disregarding legal mandates or failing to implement them effectively.

7.2. Board Independence Issues and Cultural Resistance

Another major issue identified in the study is the **lack of board independence**, particularly in **family-owned businesses**, which are prevalent in Gujarat's manufacturing sector. **Family ownership** and control often lead to **concentrated decision-making**, which reduces the **objectivity** of the board. This can create a conflict of interest, where decisions are made based on the family's personal or financial interests rather than the interests of the **shareholders** or **other stakeholders**.

In such businesses, the concept of **independent directors** is often sidelined, and governance remains informal. This **lack of independence** hinders the effectiveness of the board in overseeing management and ensuring that business decisions align with best governance practices. Furthermore, **family businesses** in Gujarat often exhibit a cultural resistance to change. The **traditional management style**, characterized by personal relationships, informal decision-making, and loyalty to family members, creates a **resistance to adopting formal governance structures**. This resistance is often rooted in a belief that governance mechanisms such as independent directors or transparency measures are unnecessary or incompatible with their longstanding business practices.

This cultural resistance to formal governance is a major barrier, as **family-owned businesses** tend to value personal relationships and informal practices over **external oversight**, despite the legal frameworks that mandate such practices. This results in poor **accountability** and **lack of transparency** in decision-making, undermining the overall corporate governance standards in the sector.

7.3. Enforcement Challenges by Regulatory Bodies

While regulatory bodies like **SEBI** and the **Ministry of Corporate Affairs** have established a strong legal framework to promote good corporate governance in India, the study highlights that **enforcement** of these regulations remains inconsistent, particularly for **small and medium enterprises** (SMEs). Regulatory authorities often face significant challenges when it comes to ensuring that these smaller businesses comply with governance standards.

SMEs in Gujarat are less likely to face the same level of scrutiny or regulatory intervention as larger companies, and their non-compliance is often not adequately addressed. Regulatory bodies lack the resources or manpower to thoroughly inspect every manufacturing firm, especially the smaller ones, which might be **out of reach** or not subjected to regular audits. While **penalties** for non-compliance exist, these regulatory bodies struggle to enforce them effectively, particularly when it comes to smaller companies. This inconsistency in enforcement can create a **compliance culture** where only large firms are compelled to adhere to governance standards, while smaller companies face **fewer consequences** for non-compliance. Therefore, addressing this enforcement gap is crucial to ensuring that governance standards are maintained consistently across all sectors, regardless of company size.

7.4. Lack of Training and Support for Businesses

The study identifies a significant **gap in training and support** for businesses, particularly **family-owned businesses** and SMEs. While large corporations often have access to specialized **consultants** and **trainers** to guide them through compliance processes, SMEs lack these resources. The owners, board members, and managers in smaller companies often lack awareness or understanding of the benefits of good corporate governance and how to implement it effectively. Many SMEs are simply unaware of the regulatory requirements or are overwhelmed by the complexity of compliance, leading to **poor governance practices**.

In particular, **family-owned businesses** often view governance as a formal structure that conflicts with their values of **informality** and **personal control**. These businesses tend to be less open to training programs or support from external experts, further deepening the **cultural resistance** to adopting best governance practices. The lack of support programs that cater specifically to the needs of SMEs, especially in terms of **governance training**, exacerbates the problem. Regulatory bodies and business organizations need to step in to offer **tailored training programs** and **resources** to help businesses of all sizes implement and maintain good corporate governance practices.

7.5. Need for a Holistic Approach to Governance Reform

The findings suggest that solving these issues requires more than just enforcing compliance through regulation. A **holistic approach** is necessary to address the multiple factors contributing to poor corporate governance in Gujarat's manufacturing sector. This approach should include:

- **Enhanced enforcement mechanisms** to ensure compliance across all business sizes.
- **Increased training and support** for SMEs and family-owned businesses to help them understand the importance of governance and how to implement it effectively.
- **Cultural change programs** to overcome the resistance to formal governance practices in family-run businesses.
- **Promoting board independence** and encouraging family-owned businesses to open their boards to external expertise and independent directors.

By focusing on these interconnected challenges, the study emphasizes that **regulatory authorities**, business leaders, and **industry associations** must work together to create a governance ecosystem that is **inclusive, comprehensive**, and adaptable to the specific needs of Gujarat's manufacturing sector. This will ensure that corporate governance is not only legally mandated but is also effectively implemented and becomes an integral part of the business culture in the region.

8. RECOMMENDATIONS:

Based on the findings and discussions from this study, a series of **strategic recommendations** can be proposed to address the gaps and challenges in corporate governance within Gujarat's manufacturing sector. These recommendations aim to enhance the overall corporate governance framework, encourage compliance, and ensure sustainable growth in the sector.

8.1. Strengthening Enforcement Mechanisms

One of the fundamental recommendations is to **enhance the enforcement of corporate governance norms**, especially for **small and medium-sized enterprises (SMEs)**. Regulatory bodies like **SEBI** and the **Ministry of Corporate Affairs (MCA)** should conduct **regular audits** and inspections of companies' governance practices to ensure compliance with existing regulations.

- **Stricter penalties** should be imposed on firms that fail to adhere to governance requirements, including **non-compliance with board independence, transparency in financial reporting**, or **ethical business practices**.
- By ensuring that penalties are more **consistent** and **enforced** effectively, SMEs, which are often less compliant due to resource constraints, will be incentivized to improve their governance practices.

8.2. Developing Capacity-Building Programs

To address the lack of awareness about corporate governance standards, it is essential to develop **comprehensive training programs** aimed at business owners, managers, and board members, particularly within **family-owned businesses**.

- These programs should focus on key governance aspects such as **financial transparency, board independence, internal controls, and ethical business conduct.**
- Training should also include practical, **case-study-based learning**, tailored to the **unique challenges faced by small and medium-sized enterprises** in Gujarat, helping them understand the relevance and benefits of adhering to good governance practices.

8.3. Incentivizing Good Governance Practices

An effective way to promote corporate governance is through **positive reinforcement**. The government should consider introducing **incentive schemes** for businesses that demonstrate exceptional corporate governance practices.

- Incentives could include **tax breaks, government recognition awards, or access to easier financing** for companies that implement best practices in governance.
- Such incentives would motivate manufacturing companies, particularly SMEs, to invest in improving their governance frameworks, seeing tangible benefits for doing so.

8.4. Promoting Independent Boards

One of the major issues in corporate governance within Gujarat's manufacturing sector is the lack of **independent directors** on corporate boards, especially in family-owned businesses.

- Regulatory efforts should focus on **increasing the representation of independent directors** to ensure objective decision-making and **enhance accountability** in the governance processes.
- Independent directors play a key role in **strengthening board oversight**, reducing the risk of management bias, and ensuring that the interests of **minority shareholders** are protected. Encouraging their presence on boards would result in more robust governance frameworks.

8.5. Fostering Greater Transparency in Financial Reporting

A significant gap identified in this study is the **lack of transparency** in financial disclosures, particularly among SMEs. To address this issue, businesses should be encouraged to **adopt international best practices** in financial reporting.

- **Financial reporting standards** should be harmonized with **global standards** to ensure that stakeholders can have confidence in the accuracy and timeliness of financial statements.
- Regular **third-party audits** should be mandated to ensure that companies' financial records are independently verified, reducing the risk of **misreporting** and ensuring better trust in the financial health of businesses.

8.6. Strengthening Corporate Social Responsibility (CSR) Practices

Corporate governance should also extend beyond compliance with legal mandates to include **corporate social responsibility (CSR)**. Manufacturers in Gujarat should be encouraged to adopt **CSR initiatives** that align with social, environmental, and economic responsibilities.

- The government could provide **guidelines** and **frameworks** for businesses to incorporate **sustainable practices** into their operations.
- Companies that effectively implement CSR activities, such as **environmental protection, worker welfare, and community engagement**, should be recognized, incentivizing others to follow suit.

8.7. Reducing Bureaucratic Red Tape

Many businesses, especially SMEs, struggle to comply with regulatory requirements due to **bureaucratic inefficiencies** and **overcomplicated paperwork**. Regulatory bodies should **streamline** compliance procedures to make them more accessible and less burdensome for smaller businesses.

- **Simplifying compliance processes** and offering **guidance** for businesses on how to meet regulatory requirements would reduce the barriers to effective corporate governance, particularly for firms with limited resources or understanding of the regulatory landscape.

8.8. Encouraging Board Diversity

In line with international best practices, there is a growing emphasis on **diversity in boards**. Gujarat's manufacturing sector should encourage a more diverse mix of **age, gender, and experience** among board members.

- **Diverse boards** bring a wider range of perspectives to decision-making, which can improve corporate governance and help prevent groupthink.
- Companies should be encouraged to include **women directors** and individuals with expertise in **sustainability, technology, and ethics**, ensuring that the board can address modern governance challenges effectively.

8.9. Implementing Digital Tools for Governance Monitoring

To improve the **monitoring** of corporate governance practices, manufacturing companies should be encouraged to use **digital tools** for governance reporting and **real-time compliance tracking**. These tools can help businesses automate **financial reporting, audit trails, and board evaluations**.

- Implementing software tools designed for **corporate governance** would help streamline the documentation process and ensure better accuracy, helping SMEs keep track of their compliance in an efficient manner.
- Regulatory bodies can also benefit from these tools, as they would provide **real-time data** on companies' governance status, enabling more effective enforcement and monitoring.

8.10. Improving Collaboration Between Stakeholders

Finally, **collaboration between regulators, industry associations, and business leaders** is essential to drive positive change in corporate governance. Regulatory bodies should facilitate **dialogues** and **workshops** to discuss challenges and solutions.

- Industry associations, particularly those representing manufacturing businesses in Gujarat, should collaborate with the government to share **best practices** and help smaller firms adopt governance frameworks that align with legal mandates.
- Creating platforms for **knowledge-sharing** would help ensure that businesses understand not only the **regulatory requirements** but also the **value of corporate governance** for long-term sustainability.

In summary, these **recommendations** focus on **strengthening enforcement, building awareness, and incentivizing good governance practices** in Gujarat's manufacturing sector. Addressing these recommendations in a holistic and integrated manner will help bridge the gap

between legal mandates and actual governance practices, improving the transparency, accountability, and sustainability of manufacturing firms in Gujarat. By fostering a culture of governance that is both **compliant with regulations** and **responsive to evolving business challenges**, the sector can improve its competitiveness and long-term viability.

9. CONCLUSION:

The **conclusion** of the study provides a comprehensive summary of the findings and highlights the **current state** and the **future prospects** of corporate governance within Gujarat's manufacturing sector. While there are **clear legal frameworks** established to guide corporate governance practices in India, the study indicates that a **significant gap** remains between these **legal mandates** and their **practical implementation** in the manufacturing industry. This gap suggests that while regulatory authorities have laid down guidelines to ensure transparency, **accountability**, and **sustainability**, there are **challenges** in ensuring these principles are consistently applied across businesses, especially in Gujarat's diverse manufacturing landscape.

9.1. Transitional Phase of Corporate Governance

The study concludes that corporate governance in Gujarat's manufacturing sector is still in a **transitional phase**. While the **legal framework** in India, through institutions like the **Securities and Exchange Board of India (SEBI)** and the **Companies Act**, has established **clear and comprehensive guidelines** for corporate governance, the practical implementation of these practices is lagging, especially among **small and medium-sized enterprises (SMEs)** and **family-owned businesses**.

For larger corporations, corporate governance has largely been implemented as intended, driven by the resources, expertise, and infrastructure available to them. However, for **smaller manufacturing units**, these practices are still a **work in progress**, often hindered by **financial constraints**, **limited expertise**, and **organizational inertia**. Many of these businesses are still transitioning from informal management styles to more formal, structured corporate governance mechanisms. This transition period is a critical phase where businesses need **support**, **guidance**, and **resources** to help them adapt to governance best practices and comply with regulatory mandates.

9.2. The Gap Between Legal Mandates and Actual Practices

The **gap between legal mandates and actual practices** is one of the main issues highlighted in the study. The legal frameworks laid out by regulatory bodies are comprehensive and provide a roadmap for businesses to follow. However, the study reveals that **not all companies** in Gujarat are effectively translating these legal provisions into their daily operations. While large companies often comply with regulations due to their robust infrastructure, SMEs and family-owned businesses frequently fall short in adhering to legal standards.

The **lack of enforcement** mechanisms for SMEs, **insufficient resources**, and **cultural resistance** in family businesses contribute significantly to the discrepancy between what is legally mandated and what is practically achieved. These businesses are often either unaware of the requirements or fail to see their importance in the day-to-day running of their operations, which results in **weak compliance** and poor governance standards.

9.3. The Need for Better Enforcement

The study suggests that one of the primary solutions to bridge the gap between legal mandates and practical governance practices is the improvement of **enforcement mechanisms**. While regulatory bodies like SEBI and the Ministry of Corporate Affairs have set up clear guidelines, the **enforcement of these regulations** has proven to be inconsistent, particularly for smaller firms. Many smaller businesses either face **no inspections** or are not subject to **rigorous scrutiny**, resulting in poor compliance with governance practices.

Improving the **enforcement** of corporate governance norms is critical. This could involve **more frequent audits**, **stricter penalties for non-compliance**, and **incentives** for businesses that adopt sound governance practices. Regulatory bodies also need to work closely with smaller businesses to ensure that they not only understand the regulations but also have the resources and support necessary to implement them effectively.

9.4. Increasing Awareness and Education

The study also stresses the importance of **increased awareness** and **training programs** for businesses in Gujarat, especially for **family-owned enterprises** and **SMEs**. A significant number of small businesses lack proper understanding or awareness of the importance of **corporate governance**, which is a key factor in their failure to adopt formal governance

mechanisms. **Training programs** and **workshops** on governance best practices, compliance with regulations, and the long-term benefits of strong governance can go a long way in improving the implementation of governance practices across Gujarat's manufacturing sector.

Many family-owned businesses, in particular, are resistant to the idea of **formal governance** due to their deeply ingrained informal management systems and decision-making processes. Overcoming this **cultural resistance** to change will require **education, awareness, and incentives** to encourage these businesses to adopt governance structures that prioritize **transparency, accountability, and ethical practices**.

9.5. Organizational Change and Leadership Commitment

Finally, the study concludes that **organizational change** is essential for improving corporate governance in Gujarat's manufacturing sector. The cultural resistance to governance practices in family-owned businesses cannot be eliminated overnight. It will require a **shift in mindset** from informal, family-based decision-making to a more formalized system that involves **independent directors, transparent financial disclosures, and clear internal controls**.

The leadership of family businesses needs to understand that adopting strong corporate governance practices is not just about compliance with legal norms, but also about ensuring the **long-term sustainability** of the business. Organizational change will involve the **commitment of top management** to integrate governance practices into the company's operations, ensuring that ethical and transparent decision-making becomes part of the company's culture.

In conclusion, corporate governance in Gujarat's manufacturing sector is at a crossroads. The legal framework is in place, but effective **implementation** is still a work in progress. By focusing on **better enforcement, education, and organizational change**, the manufacturing sector in Gujarat can adopt better corporate governance practices that will foster long-term sustainability and growth. These improvements will not only help businesses comply with regulatory requirements but also enhance their **reputation, market position, and overall performance** in a highly competitive and evolving business environment.

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