# CG THEORY OF BUSINESS GROWTH

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*Abstract*

The paper aims to develop a CG theory of business growth. It aims so on several counts. One, several failures in corporate governance may be attributed to the pursuit of untenable growth trajectories and the pace of growth. Two, separation of ownership and management in corporate settings creates room for opportunistic managerial behaviour vis-à-vis business growth that needs to be addressed by effective corporate governance. Three, and as a corollary to two, whilst the extant CG theories viz., shareholder, stakeholder and trusteeship theories do provide a normative template for effective corporate governance, a more grounded CG theory of business growth is likely to emphasize the governance discourse from, instead of compliance to performance. A CG theory of business growth would be rooted more in the competence of the board and other CG mechanisms than abstract moral integrity. Fourth, while the extant literature on business growth does provide economic theory and managerial/ strategic theory perspectives on business growth, a governance theory of business growth is conspicuous by its absence. Generalizing the CG theory of business growth even further, the paper delineates governance roles during the successive stages of business growth via organizational transformation. Fifth, CG theory of business growth would be integrative of the institutional context of corporate governance just the way variety of capitalism (VOC) perspective permits acceptance of a variation in corporate governance mechanisms across different setting viz., diffused ownership, concentrated ownership, mode of finance, the scale of business, etc.

**Keywords / key phrases**: Corporate governance theories; theory/ies of business growth; governance roles during business growth via organizational transformation

**JEL Classification Codes**: JEL G3- Corporate finance and governance; JEL L2- Firm Objectives, Organization, and Behaviour

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## INTRODUCTION

Several instances of corporate governance scams, scandals and failures imply pursuance of ambitious growth as one of the main reasons. Ambitious growth often pushed beyond the limits of the economics of business growth gives rise to a host of governance-related risks. These risks may be accentuated by the concentration of power of decision-making preventing critical thinking. This concentration of decision-making power may be institutionally determined. In situations where the demarcation between ownership and control is sharply defined e.g. Anglo-Saxon settings there obtain two distinct forces at work. A centripetal force that results in the concentration of control over the physical assets among one/ few managerial personnel e.g. the CEO. In contrast, beneficial ownership of these physical assets is subject to a centrifugal force tending to divide and sub-divide to tradable lots (Berle & Means, 1968/2009). In other settings such as family-controlled corporate enterprises (FCCEs) managers from the controlling family wield similar power. For an illustration, see Table-1.

**Table-1: An Illustrative List of Corporate Debacles Resulting from Ambitious Growth**

| S. No. | Corporate Scam/ Scandal/ Failure | Specific Aspect of Growth, If any |
|---|---|---|
| 1. | Parmalat, Dairy, Italy, 2003. Europe's biggest bankruptcy | Debt financed i.e. heavily leveraged acquisitions |
| 2. | Maxwell Communications, Media, UK, 1991. | Ambitious acquisitions and takeover; over expansion. |
| 3. | BCCI, Banking, UK, 1991 | Rapid expansion of credit |
| 4. | WorldCom, Telecommunications, US, 2002 | Inorganic growth- large number of unrelated, opportunistic acquisitions; failed merger |
| 5. | Vivendi, Mass Media and Telecommunications, France, 2002. Biggest corporate loss of Euro 23.3 billion in French history | Over expansion, unrelated diversification via acquisitions |
| 6. | Kirch Media, Media, Germany, 2002 | Over expansion and acquisitions |

Source: Author compilation

It is not just coincidental that the resultant managerial hubris has been held to be responsible for many a corporate downfall (Collins, 2009) (Seth, 2007). It does not

require complex time regression to dissect the sequence of events often getting escalated to the level of corporate catastrophe. Catastrophe is preceded by crisis. Crisis is preceded by distress. Distress follows discomfort. Discomfort is preceded by complacency arising from previous success. Coming events cast their shadow before. We shall see, that corporate governance thus faces successive challenges along different stages in organisational evolution, read, business growth.

## LITERATURE REVIEW

This section contains a select yet systematic review of literature on business growth particularly and the organizational evolution generally. This section substantially draws on the foreword to (Slater, 1980) and the work of Edith Penrose's theory of the growth of the firm (Penrose, 1959). We also delve into the strategic and financial theory of business growth intending to delineate challenges to and opportunities for effective corporate governance vis-à-vis business growth. However, it is important to note that the neo-classical economic theory i.e. the theory of the firm and the classical organization and management theories (OMTs) did not engage with the idea of business growth. And it is understandable. The organization of industrial production as a firm had just begun. And the focus was on the efficiency of the industrial system. The dominant form of business was proprietary. The firm's objective, as well as business success, was measured in terms of profit maximization. The very idea of the firm was modeled on the mechanistic 'black box' of a factory that was likened to a big machine!

### Economics of Business Growth

The genesis of theorization of business growth or theory of growth of firm may be attributed to the work of Edith Penrose (Penrose, 1959). Prior to that, the theory of firm, depending upon the market structure- whether perfect or imperfect, focused on price and output decisions within the firm and demand for its products. The dynamic idea of growth of the firm featured in a rather static sense of the firm's ability to increase the size and scale of its operations in the long run.

**Penrose's Theory of the Growth of the Firm**

Ms. Penrose did not concur with the traditional economic analysis of business growth in terms of comparative statics of different sizes. She emphasized "the internal process of development leading to cumulative movements" where an increase in size is "more or less incidental result of a continuous on-going or 'unfolding' process" (Penrose, 1959). The internal process referred to here is the dynamic interaction between the management and the productive services of all other resources of the firm.

Whilst Ms. Penrose acknowledged that a comprehensive theory of the growth of firm must take account "not only of the sequence of changes created by a firm's own activities but also of the effect of changes that are external to the firm and lie beyond its control" (*ibid*), yet much of her theoretical analysis of business growth focuses on internal resources of the firm. Penrose's view is that growth results from the effort of the management to make the best use of the resources of the firm. In fact, in her conceptualization management itself is a resource, a productive service that it is capable of rendering to the firm. What distinguishes it from other resources is the fact that the competence and experience of management affect the productive services that all other resources are capable of rendering. Business growth, therefore, may be regarded as the dynamic interacting process between management and the other resources available to the firm. Thus, it is likely to persist albeit rate of growth may decline. It is here that Penrose's work distinguishes from the traditional economic view that limited the scope of the growth of the firm to the determination of an optimal output given the cost and revenue configurations in different market structures. In fact, there are several essential differences between traditional economic interpretation of growth and Penrose's theory of the growth of the firm. It would be useful here to state these for clarity of perspective. Table -2 gives a birds-eye view of the differences between the traditional economic approach to business growth and Penrose's theory of growth of the firm for ease of understanding.

**Table-2: Traditional Economic *versus* Penrose's Theory**

| Bases of Difference | Traditional Economic Approach to Business Growth | Penrose's Theory of Growth of The Firm |
|---|---|---|
| Emphasis | Result- increase in output / size | Process- dynamic interaction between management and other resources of the firm |
| View of the firm | Disembodied- cost-curve and demand curve (depending upon market structure. Thus, firm's output and its growth decisions occur sans decisions and will of the people who make it. | Embodied- organisation of people, decisions of the management. Penrose defines firm both as an administrative organization as well as a collection of productive resources. |
| Meaning of growth | Increase in output, size of the firm | An internal process of development leading inter alia to increase in output / size |
| Limit to growth | Finite. Single-product, single-market, essentially that permitted by moving to larger plant size and constrained by the falling demand curve. | Continuous. By negotiating the limits to growth. Considers diversification and mergers. While growth may be continuous, the rate of growth may decline. |
| Reasons for limit to growth | Diminishing returns to the fixed factor i.e. management. Managerial diseconomies causing the increase in costs, limitations of the market causing decrease in revenue from sales for the firm's product or uncertainty about future prospects causing both rising costs and falling revenues | Management is a variable factor; it's a team to which new managers may be recruited. Growth is constrained by management's entrepreneurial competence and motivation: to see, seize and act upon the opportunities. It lies in ability to adapt the administrative apparatus to cope with the challenges of growth |
| Nature of firm's organization | Proprietary so that there is a limit also of investment (fixed factor, capital) on growth | Corporate. Conceptualization of firm as a corporation, or limited liability company severed the connection between firm's operations and the personal financial position of the owners. |

Source: Author's Compilation

**Other Perspectives**

Toward the development of a theory of growth of the firm a notable work has been that of Baumol. He constructed a mathematical model of firm growing at a constant rate. He, however, predicated sales/revenue maximization as the criterion of optimization. His analysis excluded mergers on the ground that sales maximization was a sufficient condition of equilibrium given (a) firm would be very small relative to the potential market; (b) market would be growing adequately enough to accommodate firm's expansion.

An important development in theorizing business growth was the emergence of behavioural approaches to the description of the firm. One of the approaches emphasized limits on rationality ("bounded rationality") that may not lead to profit maximizing growth opportunities (Cyert & March, 1963). The other approach viewed firm as a coalition of diverse interests and emphasized their respective bargaining powers in the choice of the objectives of the firm (March, 1962). With the advent of corporate form of organization of industrial production the behavioural aspects of decision-making became more pronounced. Indeed, the most pervasive influence of corporations as a form of economic organization, in author's view, lies not as much in the limited liability of the owners as it pertains to the potential for the enormous power in the hands of the managers to use owner's money.

Marris explained the succession of the objective of profit maximization with revenue maximization with reference to the corporate firm (Marris, 1964). Marris argued that the salaried managers of the firm are more likely to pursue sales growth, as they themselves did not receive the profits and that the organizational size resulting from sales growth gave them power besides spectacular compensation. Since the potential for growth in a given market might saturate, the managers may also diversify the firm. They would however be deterred from pushing the growth beyond a limit by the market for corporate control. That is, the sales growth that compromises with profitability would compel the shareholders to sell their shares to take-over bidders. This threat of takeover with the likely change in management would restrain the managers from pursuing excessive growth.

The separation of investment decision for effecting long-term growth and its financing, more so, in the corporate setup opens up a host of implications for firm's growth as well as corporate governance that we shall be turning our attention to as we discuss concomitants of growth. For now, we retain focus on the managerial / administrative implications of the growth of the firm, the mainstay of Penrose's theory. For example, Chandler's work on business history that was near contemporary to Penrose's work focused on the emergence of divisionalized structure in the wake of diversified corporation (Chandler, 1963).

**Managerial Challenges During Growth**

Chandler's work emphasized the need for adapting the firm's organizational structure in the course of the growth of the firm. In strategy literature, studies on the malleability *versus* rigidity of structure comprise an important area of research. While it would be otiose to elaborate on this relationship, it should suffice here to note that the management has to be aware of and prepared for the fact that business growth would demand changes in the organizational structure of the firm. The strategy-structure fit is also emphasized in the later work in respect of transnational growth of the firm (Bartlett & Ghoshal, 1989). Indeed, managerial challenges during firm's growth are not limited to adapting the firm's organizational structure alone. This idea can be generalised into a managerial theory of business growth. The idea is significantly captured in the title of a paper 'Evolution and Revolution as Organizations Grow' (Greiner, 1972). Greiner maintains that growing organizations move through five distinguishable phases of development. Each phase contains a relatively calm period of growth and ends with a management crisis. Further, each phase is strongly influenced by the previous one. This implies that management with a sense of organizational history would be able to anticipate and prepare for the next developmental crisis (*ibid*). The managerial crises envisaged comprise a crisis of leadership, autonomy, control and red tape. The successive stages of firm's growth are stated to be growth through entrepreneurial creativity, direction, delegation & decentralisation, coordination and collaboration (*ibid).* It is pertinent to state here that growth necessitates enterprise-wide realignment of firm's "hardware" and "software", viz. its structure, systems, and culture.

Acknowledging growth implies change both as an antecedent as well as a consequence and in greater sync with the behavioural theory of the firm, managerial theory of business growth *ipso facto* belongs to the realms of management of change and organizational transformation. Managerial theory of growth, as such, has shown tremendous resilience in coping with the challenges of rapid growth, born global businesses (Rennie, 1993) and the fast growing platform economy (Davis G., 2016). Literature on corporate governance, however, seems a lot conspicuous by absence of any discussion on business growth. We shall be evaluating this in the section on CG-Business Growth Tangents. For now, select review of studies on growth in strategy literature.

**Growth as a Strategy**

Firm or organizational growth is characteristically different from organismic growth despite being analogous. It is deliberate /volitional and originates in the thought, decision and intentions of the management. It is also distinguishable from a firm's product life cycle as the firm's growth transcends its existing products and markets. These aspects of firm's growth pertain to the realms of strategy where strategy may be defined a deliberate course of action chosen with reference to the firm's distinct resources /capabilities and the environmental opportunities. The aim is to grow at a rate that beats its own past rate of growth as well as the industry average. Penrose focused on the internal resources of the firm as the driver of business growth. Indeed, this led to the development of resource based view of the firm's strategy (Barney, 1991). Strategy links a firm's resources to its environment. In a simultaneous consideration of a firm's internal resources and the environment in which it operates, growth is the strategic choice in the SO quadrant of SWOT analysis, where S&W respectively imply a firm's strengths & weaknesses in terms of its internal resources and competencies and OT refer to opportunities & threats emanating from its business environment. Growth, indeed can also be a means to minimize environmental dependencies in terms of the resource dependence theory of the firm forwarded by Pfeffer and Salancik (Pfeffer & Salancik, 1978).

As for the direction of growth, Ansoff (Ansoff, 1957) stated his famed product-market strategies for business growth alternatives, viz., product development, market

penetration, market development and diversification. In the domain of cross border growth of the firm the ideas of investment development path (Dunning , International production and the multinational enterprises, 1981), eclectic paradigm (Dunning, 2001) and sequential globalisation (Uppsala model) lend directional perspective to a firm's growth. We have also stated the notion of born global and rapid growth/ globalisation.

We are of the view that the paradigm shift of the growth of the firm from the realms of economics to management and strategy besides the separation of management from the direct supervision and control of the owners are deep concomitants of the development of corporate governance theory of business growth. Three other important concomitants are financing of growth, institutions and technology.

**Financing of Growth**

Penrose's theory of the growth of the firm primarily is the growth via ploughing back of profits. In fact that provides further credence to the objective of profit maximization. Managers must earn profits so that they may reinvest these (or a part thereof) into firm's growth. She notes 'growth and profits become equivalent as the criteria for the selection of investment programmes' (Penrose, 1959, p. 30). Marris also emphasized that a firm's growth policy comprises not only an investment policy, but also a policy for the financing of that investment (Slater, 1980, p. XV).

Marris's work paved the way for the development of theory of capital structure or financial policy of the firm with reference to returns to the shareholders, risk, market valuation and its cost of capital. Delinking ownership of capital by the shareholders and investment thereof by managers implied that the managers could trade on others' money. Moreover, the view that a firm's financing had no relevance for its valuation [most notably that of (Modigilani & Miller, 1958)] meant that the managers could raise funds from sources other than the owners thereby increase their autonomy even more and undertake hitherto infeasible risks. On the supply side of finance, development of refinance institutions, financial engineering whereby debt could be securitised and traded in the secondary market only fuelled these tendencies. The financial engineering within the firm would mean that weaker investments could similarly be parcelled with better

ones, credit rating agencies would oblige and thus these would be turned into tradable commodities.

As a result, business growth is no more a matter of expansion in sales, assets, markets or capabilities. It has now become a matter of "valuation." So many firms are vying not for profitable sales but market valuations. Financiers too seem not as much interested in the sustainability of business and its growth but more on valuation so that they may exit posting capital gains. It does not require much imagination to envisage the attendant corporate governance risks.

**Institutional Concomitants**

It would be rather naive to presume that the firms emerge, survive and grow subject only to the operation of the economic forces. In fact economy itself and business more so is a socially, politically instituted construct (Polanyi, 1944), (North, 1990), (Rodrik, 2007). In the context of business one could envisage micro, meso and macro level institutions- economic, social, political- affecting, in the instant case, business growth. For example in pre-1990 era of licensing of industrial production, many a Indian business house diversified in unrelated areas availing of whatever licenses came their way. Political institutions such as antitrust and competition regulations influence firm size and its other competition restrictive and unfair trade activities. In general size of the economy provides an umbrella limit on the growth of the domestic firms. So do the development of capital markets and financial institutions and institutions that regulate these. Thus, law, finance and other institutions shape the growth and the very idea of a firm (Davis G. , 2016).

**Platform Economy**

This is the technological concomitant of growth comprising mainly, though not limited to, online matchmakers. It is also referred to at times as digital economy, gig economy and on-demand economy. The resultant virtual organization of design & development, production marketing and distribution has compressed mind-to-market product cycle by astronomical proportions. An article published in Economist citing the example of the hoverboard exemplifies three facets of business in a platform economy,

viz., propensity to blur the boundaries between fantasy and reality, creating viral trends on the social media, high-speed, agile manufacturing lines and global marketing and distribution (Economist, 2016). Such platforms are fraught with churning out "next big thing" to "bad joke" products creating hazards for consumers, investors and companies and thus pose a serious governance challenge.

**Elements of the CG Theory of Business Growth**

In view of the impetus for the paper stated in the introductory session and the select review of literature presented in the second section it should now be possible to develop CG theory of business growth. Even at the expense of repetition it needs to be emphasized that the concept and importance of effective governance has not as yet adequately and explicitly entered the lexicon of the theory of the growth of the firm. Thus, there is a need to develop an operational definition of the term 'corporate governance' with reference to business growth before we proceed any further.

**Growth Embedded Definition of CG**

Corporate governance is defined as a set of mechanisms, particularly the internal mechanism of the Board of Directors (BoD), for evaluating management's proposals for business growth and monitoring firm's performance should these proposals are ratified for implementation. The definition clearly demarcates the roles of the BoD and the management. The latter proposes a growth decision; the former ratifies [or rejects it]. The latter implements the decision; the former monitors it.

**Relation with the Extant Theories of CG**

The extant theories of corporate governance provide a good starting point to develop a CG theory of business growth.

The foremost is the agency theory (Ross, 1973), (Pratt , 1985). The agency theory pertains to the problem of self-serving behaviours of the agents, in the extant case the managers, vis-à-vis- their duty to serve the interest of their principals that is the shareholders. The theory of the growth of the firm, in fact the theory of firm in totality, presumed that market by itself was sufficient to guard against the moral hazard associated

with opportunistic behaviours of the management in relation to business growth. That is, if the business growth were to be pursued at the expense of the profits, shareholders would sell their holdings to the acquisition bidders. The acquirers would replace the management team that did not sub serve their interests. Even if that were the case, the agency theory of corporate governance mandated the board of the directors to oversee the management on behalf of the shareholders. It provided that the managers function subject to the superintendence of the board. The superintendence by the board involved inter alia ratifying and monitoring roles of the directors as stated in the definition of CG above. In the context of business growth, such a mechanism can be an effective way of keeping a check on excessive ambitions of the managers pushing growth to untenable pace and into untenable trajectories.

An important aspect of CG theory of business growth is stakeholder theory (Freeman & David, 1983) as distinguished from agency theory. The agency theory considers the relationship between owners and the managers as the only determinant of opportunistic behaviour, in the immediate context, of inadequately contemplated growth trajectories. It is important to recognize that in practice there may be more than one principals and that corporate decision making may be subject not only to principal-agent but also principal-principal conflicts (Young, Peng, Ahlstorm , Bruton, & Jiang, 2008). For example, in most Asian economies family ownership of corporate enterprises, their presence, if not predominance on management team and board of directors, complicates the governance of such enterprises. In such scenarios and even more generally it would therefore be advisable to consider a broader theory of corporate governance i.e. stakeholder theory of corporate governance (*ibid)*. This is also consistent with the variety of capitalism (VOC) perspective (Hall & Soskice, 2001), (Carney, Gedajlovic, & Yang) and hence diversity of corporate governance mechanisms, structures and processes (Aguilera & Jackson, 2002).

Whilst the agency theory takes a more legalistic view of the firm, stakeholder theory is more political in nature. Both aim at improving the contract between principal and agent, legal, economic, political and fiduciary. The resultant corporate governance mechanisms are aimed at mitigating agency costs and the associated probabilities of adverse selection and moral hazard. If we apply these theories to the corporate

governance of business growth the core idea would be diligent check on the discretionary behaviour of the managers and some principals such as the dominant [read family] shareholders. Expectation would be that the compliance with the regulations alone would ensure good corporate governance. Thus, when corporate scandals break out, a review of corporate governance practices follows and fresh a regulation is introduced (Gopinath, nd). And thus the cat and goose chase continues.

In contrast to the legalistic approaches to corporate governance predicated by agency and stakeholder theories of corporate governance, of late, there has been an emphasis on trusteeship theory of corporate governance. It is being argued that Gandhian concept of "trusteeship" can serve as a philosophical foundation for a business and provide requisite moral template of corporate conduct and performance. The need for the moral foundation for business arises from the fact that a corporation rather than being an artefact of private property is an entity created by the state (operation of law) for a public purpose. The corporation is a collective of the people who comprise it. If individuals have moral standards and the corporation is a person in the eyes of society, shouldn't it also have moral standards (Gopinath, nd)? Besides, the enormous power that the corporations wield, entitles them to be morally accountable. The moral template of business growth would comprise in whether corporate growth is inclusive, does not annihilate competition and hence not hostile, is sustainable and does not emerge from speculative motive of the management drawing on fads and resulting in asset and valuation bubbles. Recently, the authors of this paper have also looked into the possibility of constructing the idea of a corporation as an enactment in harmony (Saxena & Jagota, 2019).

**Salience of CG theory of Business Growth**

CG theory of business growth proposed in this paper draws on legal and ethical templates discussed above. It however takes a competency-based view of governance of the growth of the firm. It makes a case for simultaneous consideration of risks associated with growth along with reward perceptions. Here the board actually assumes the role and responsibility of providing direction to the firm. The emphasis here is on performance, not just compliance. Performance expectations placed on the board consist of ensuring

360-degree evaluation of economic, legal and ethical aspects of business growth. It also inheres in board's capacity to provide leadership during organizational transformation that growth often entails. As such the CG theory of business growth presented here pertains to the entire life span of an enterprise, a theory that adapts to and help negotiating the successive organizational transitions. It also integrates studies on evolution of board independent of business growth e.g. (Charan, 2012), (Gupta N. , 2018) into a consistent, continuous and complete theory.

CG theory of business growth also accounts for how costs of governance are to be apportioned among the various stakeholders more so in case of growth of the entrepreneurial firms. The authors of the paper have elsewhere argued that small firms must not be governed the corporate way even if organized as a company. And relying on theory of articulation of decision-making (Holesovsky, 1977) we recommended sharing of the costs and responsibility of governance by the participants in the articulation (Saxena & Jagota, 2015). In another work, even though in the context of entrepreneurial firms, we recommended sociocratic governance of firms [and their growth] (Saxena & Jagota, 2016).

**CG-Business Growth Tangents**

In the discussion of the salience of the CG theory of business growth we have stated that it is extendable to the entire life span of a firm. However, here we restrict to the discussion of key governance issues related to the various facets of growth (Table-3).

**Table-3: CG- Business Growth Tangents**

| Business Growth Scenarios | Key Governance Issues |
|---|---|
| Rapid growth of entrepreneurial firms | • Pace of growth- born big, born global?<br>• Overseeing entrepreneurial ambition<br>• Strengthening of management team<br>• Extent of leverage / borrowing<br>• Pay-offs to venture capitalists / private equity<br>• Systems & Processes<br>• Sustainability |
| Growth of established enterprises | • Stifling Complacency<br>• Structure and process of strategic decision-making |

| Business Growth Scenarios | Key Governance Issues |
|---|---|
| | • Direction of growth-related or unrelated<br>• Financing of growth<br>• CEO Compensation |
| Growth of family controlled / closely held enterprises | • Balancing of the interests of the controlling family and common shareholders<br>• Expropriation Risk<br>• Effective separation of ownership from management<br>• Professionalization of Board and Management<br>• Chairman and Managing Director duality<br>• Succession planning |
| Domestic Mergers & Acquisitions | • The necessity of rapid, inorganic growth<br>• Mode of financing<br>• Impact on stakeholders in the acquired, acquiring company<br>• Differences in organizational cultures<br>• Integration & synergy |
| Overseas Mergers & Acquisitions | • The necessity of rapid growth<br>• Mode of financing<br>• Institutional diversity across jurisdictions/ cultures<br>• Integration & synergy<br>• Impact on stakeholders in the acquired, acquiring company<br>• Differences in organizational cultures |

*Source: author's compilation*

Table-1 is indicative of the manifestation of governance issues arising out of and in the course of business growth. These issues, more generally, imply organizational transformation. The CG theory of business growth proposed in the paper attends also to the governance roles during growth via organizational transformation.

**Governance Roles During Growth via Organizational Transformation**

Organizational transformation is likened to the painful process of transformation of a caterpillar into a butterfly. It involves its own anxieties and excitements. The CG theory of the growth of the firm envisages different corporate governance roles (CGR) during the process (Figure-1).

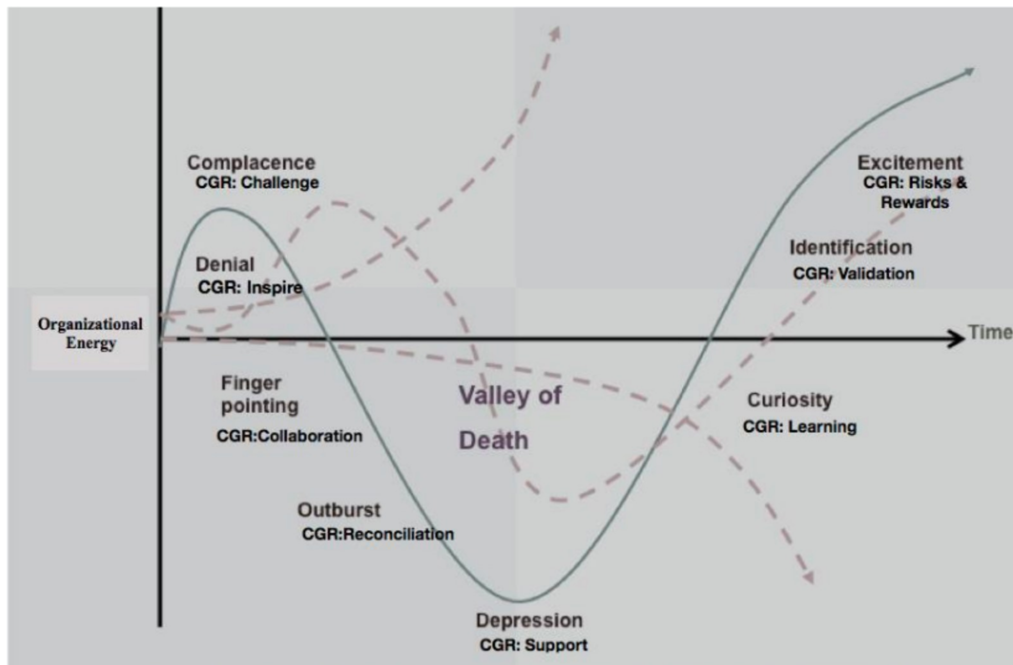


Figure-1: CG Roles (CGR) During Growth

Business growth, apart from physical and financial resources, entails investment of psychic and emotional energy, we have referred to these collectively as 'organizational energy.' The CG roles envisaged in Figure-1 aim to prevent firm's drift into the valley of death. Thus, if there is complacence, CGR is that of challenge; in the situation of depression, CGR is support; and in case of euphoric excitement, CGR is of drawing attention and attribution to and distribution of risks and rewards.

The role of corporate governance is particular with regard to the former, i.e. the risk complexion of the firm and changes in it due to organizational transitions. These risks may pertain, inter alia to firm's reputation (e.g. frauds, expropriation, misappropriation), valuation (e.g. firm valuation or any of its assets), liquidity & solvency (e.g. asset-liability mismatch), strategic (e.g. diversification choice, choice of funding, concentration, etc.) or operational /implementation related (e.g. time & cost overruns). CG theory of the growth of the firm proposed here thus emphasizes early stage prevention and pre-emption of any corporate catastrophe.

**CONCLUSIONS**

Operationalizing the growth embedded definition of corporate governance would necessitate the constitution of a business development / strategic direction committee of the board of directors. It may be called 'Business and Organizational Development Committee (BODC).' This committee should comprise business experts and strategic thinkers. Whilst there would be a need for nominations from the management team and controlling family on the board, the majority, including the chairman of the committee, should comprise independent professionals. The mandate of the committee would be to evaluate managerial proposals for business growth / organizational development and monitor their implementation.

The BODC will act in close coordination with the other committees of the board, particularly the risk-assessment, audit and nomination & remuneration committees. Lest the committees should be working in isolation of each other, the board of directors (BoD) must develop effective mechanism for inter se coordination.

We have emphasized collaborative and consent based approach to corporate governance. Prudential governance indeed must account for judicious allocation of costs of governance depending for example on the size and affordability thereof at the end of the corporation. Governance is an imperative for all the firms, big or small. It impacts all the stakeholders and the economy, ecology and community at large. The stake has to be bilateral more so in the cases where the firm may not be able to afford the cost of putting in place effective governance mechanism. For example, the regulators and financial institutions may appoint and remunerate directors, auditors, valuers, etc. to engage with the entrepreneurs / management team so that the benefits of governance are realized yet the cost of governance does not devolve on to the firm.

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