

**CONTROLLED COMPLIANCE: RETHINKING CORPORATE GOVERNANCE IN
PROMOTER-DOMINATED FIRMS IN INDIA**

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This article examines the structural role of promoter concentration in shaping corporate governance outcomes in India. Moving beyond traditional governance models premised on dispersed ownership, the study argues that promoter dominance constitutes a foundational feature of Indian corporate structures rather than a deviation from them. Through a theoretical and institutional analysis, the article highlights the limitations of conventional frameworks such as agency theory in capturing the dynamics of concentrated ownership, while integrating alternative perspectives, including entrenchment, stewardship, and non-linear models. It further evaluates the effectiveness of the regulatory framework under the Companies Act, 2013, and the SEBI (LODR) Regulations, 2015, demonstrating that governance mechanisms often operate within, rather than against, structures of control. The article develops the concept of controlled compliance to explain how governance institutions in promoter-dominated firms retain formal legitimacy while becoming structurally embedded within concentrated ownership arrangements. Unlike entrenchment-based accounts, which emphasise opportunistic extraction, controlled compliance is concerned with the institutional absorption of oversight mechanisms within control structures as a systemic governance feature rather than an exceptional failure. This reframing shifts the analytical emphasis from ownership concentration to the operational autonomy of governance institutions under conditions of concentrated control.

Keywords: Promoter concentration, corporate governance, ownership structure, disclosure regulation, controlled compliance.

I. Introduction

Corporate governance theory has traditionally been constructed around the assumption that ownership and managerial control are institutionally separated. Agency-based models, which have substantially influenced modern governance regulation, conceptualise governance as a mechanism for controlling managerial opportunism, reducing agency costs, and protecting dispersed shareholders. These assumptions have shaped the evolution of governance structures across jurisdictions, including the development of independent boards, audit oversight systems, disclosure obligations, and shareholder protection mechanisms. However, the explanatory strength of such frameworks becomes limited in corporate environments where ownership remains concentrated in the hands of controlling shareholders rather than dispersed across fragmented investors.

The Indian corporate structure presents a markedly different institutional reality from the ownership patterns around which much of conventional governance theory has evolved. A significant proportion of Indian listed entities continue to operate within promoter-dominated ownership structures in which controlling shareholders retain substantial influence over strategic direction, management coordination, and organisational decision-making. In such firms, ownership and control frequently remain interconnected rather than institutionally separated. Governance institutions therefore operate within structures shaped by concentrated ownership rather than external to them.

Indian corporate governance regulation, particularly under the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, seeks to strengthen accountability through mechanisms such as independent directors, audit committees, disclosure obligations, related-party transaction regulation, and minority shareholder protections. Yet the effectiveness of these mechanisms depends not merely upon formal statutory design, but upon the institutional conditions within which they function. In promoter-driven firms, governance structures often operate within organisational environments where concentrated ownership influences appointments, access to information, strategic coordination, and voting outcomes. Consequently, governance mechanisms may retain procedural validity while their operational autonomy becomes institutionally constrained by concentrated control.

Existing scholarship on Indian corporate governance has examined ownership concentration primarily through agency-cost analysis, minority shareholder protection frameworks,

entrenchment theory, and studies concerning the transplantation of Anglo-American governance norms into India's promoter-oriented corporate structure. While these approaches explain important dimensions of concentrated ownership, they remain largely focused on outcomes such as extraction, inefficiency, or governance breakdown. Less attention has been devoted to explaining how governance institutions continue to retain formal regulatory legitimacy while operating within structures substantially shaped by concentrated ownership. The concept of "controlled compliance" is developed to address this institutional dimension of governance operation.

The analysis proceeds on the basis that promoter concentration possesses both governance advantages and governance vulnerabilities. Concentrated ownership may strengthen strategic continuity, decisional stability, and internal coordination, particularly in environments where external monitoring remains fragmented or institutionally weak. At the same time, the concentration of control may also generate informational asymmetries, constrained oversight autonomy, and structural dependence within governance institutions. Governance outcomes therefore cannot be understood solely through binary assumptions that promoter dominance is either inherently efficient or inherently problematic.

A doctrinal, institutional, and illustrative comparative approach is adopted for the purposes of this analysis. The discussion relies primarily upon statutory interpretation, judicial decisions, regulatory materials, committee reports, and publicly available corporate disclosures. Selected company examples are examined illustratively in order to analyse how differing ownership structures influence governance operation, strategic execution, oversight capacity, and organisational risk. The objective is not quantitative measurement of governance performance, but the development of an institutional account of how governance mechanisms function within concentrated ownership systems.

The central argument advanced is that the primary challenge within promoter-dominated governance lies not merely in insufficient regulation or episodic governance failure, but in the institutional absorption of governance mechanisms within structures of concentrated control. Understanding this distinction shifts governance analysis beyond formal indicators of compliance towards the broader institutional realities through which corporate governance operates in practice within Indian firms.

II. Theoretical Indeterminacy in Promoter Concentration and Corporate Governance

Agency Theory and the Alignment Effect of Promoter Ownership

Agency theory traditionally conceptualises corporate governance as a mechanism for addressing conflicts between dispersed shareholders and professional managers arising from the separation of ownership and control. Within this framework, concentrated ownership is often viewed as a governance solution because significant shareholders possess both the incentive and the capacity to monitor managerial behaviour more effectively than dispersed investors. In promoter-dominated firms, concentrated ownership may therefore reduce classical managerial agency costs by aligning strategic decision-making with long-term shareholder interests and enabling greater continuity in corporate direction. However, while agency theory explains the efficiency rationale underlying concentrated ownership, its classical formulation remains primarily concerned with managerial opportunism rather than the institutional consequences of sustained promoter control. As ownership concentration increases, the central governance concern shifts from manager-shareholder conflict towards the possibility that governance institutions themselves may become structurally influenced by controlling shareholders.¹

Entrenchment Theory and the Risk of Controlling Shareholder Dominance

Entrenchment theory responds to the limits of agency theory in concentrated ownership structures by shifting the focus from managerial opportunism to the risks of excessive control by dominant shareholders. While agency theory emphasises efficiency through alignment, entrenchment theory highlights the potential for controlling shareholders to extract private benefits at the expense of minority investors.

A central feature of entrenchment is the use of related party transactions as a channel for the reallocation of resources within business groups. Such transactions, while legally permissible and often disclosed, can serve as vehicles for tunnelling where value is transferred from the firm to entities controlled by promoters.² This reflects a broader pattern in which governance structures are not bypassed but rather utilised to facilitate control-based outcomes. The issue, therefore, is not the absence of governance mechanisms, but their susceptibility to influence from within. Entrenchment-based approaches therefore shift the governance inquiry away from managerial opportunism and towards the institutional risks arising when concentrated ownership acquires the capacity to shape oversight mechanisms themselves.

Stewardship Theory and the Normative Justification of Promoter Control

¹ Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, 3 J. Fin. Econ. 305, 308-10 (1976).

² Andrei Shleifer & Robert W. Vishny, *A Survey of Corporate Governance*, 52 J. Fin. 737, 761-63 (1997).

Stewardship theory offers a contrasting perspective by suggesting that concentrated control may facilitate long-term strategic orientation, organisational continuity, and value creation rather than opportunistic extraction. Within promoter-driven firms, controlling shareholders are often viewed not merely as financial investors but as institutional stewards whose sustained involvement encourages continuity in governance, risk-taking capacity, and long-term planning. This perspective is particularly relevant in emerging market economies such as India, where family-promoter structures frequently maintain deep operational involvement and intergenerational continuity within corporate management. Promoter concentration may therefore strengthen strategic cohesion and reduce short-term market pressures that characterise dispersed ownership systems. Consequently, while stewardship theory explains the developmental and strategic advantages associated with promoter dominance, it does not fully address how governance mechanisms operate when oversight institutions themselves become dependent upon concentrated control structures.³

Non-Linear and Trade-Off Models of Ownership Concentration

The non-linear understanding of concentrated ownership rejects the assumption that promoter dominance produces uniformly positive or uniformly negative governance outcomes. Concentrated ownership may facilitate strategic continuity, monitoring efficiency, and long-term planning while simultaneously increasing the risks of entrenchment, informational asymmetry, and reduced oversight autonomy. Governance outcomes therefore depend not merely upon ownership concentration itself, but upon the institutional conditions within which concentrated control operates.⁴

While these theoretical frameworks explain competing consequences of concentrated ownership, they remain largely outcome-oriented in their analytical focus. They explain why promoter concentration may produce efficiency gains, alignment effects, or entrenchment risks, but do not sufficiently examine how governance institutions themselves adapt under conditions of concentrated control. The analysis therefore, now shifts from theoretical explanations of ownership concentration towards the institutional operation of governance mechanisms under Indian corporate law.

III. Institutional Limits of Regulation under Promoter Concentration

³ James H. Davis et al., *Toward a Stewardship Theory of Management*, 22 Acad. Mgmt. Rev. 20, 22-25 (1997).

⁴ Gamze Vural & Simoes Bacha, *The Nonlinear Effects of Ownership Concentration and Board Structure on Bank Performance*, 70 Panoeconomicus 101 (2022), <https://doi.org/10.2298/PAN190404002V>.

Board Independence and Structural Dependence

The structural limitations of board independence arise not merely from formal voting power but from the institutional processes through which boards are constituted and operated. Section 149 of the Companies Act, 2013 and Regulation 17 of the SEBI (LODR) Regulations mandate the maintenance of a specified proportion of independent directors on listed company boards.⁵ The legislative intent underlying these provisions is to introduce accountability through structural separation between managerial authority and board oversight. However, independence as a legislative category operates through an eligibility-based definition under Section 149(6) that identifies disqualifying relationships rather than affirmatively securing institutional capacity. The appointment mechanism under Section 152,⁶ read with the role of the Nomination and Remuneration Committee under Section 178,⁷ channels the selection process through a committee structure that is itself constituted primarily through shareholder approval, which, in promoter-concentrated firms, substantially reflects promoter voting power. The formal architecture of independence therefore, incorporates the very structural conditions through which that independence may be conditioned.⁸

The effectiveness of independent oversight is further limited by informational dependence. Board deliberation is largely structured around materials circulated through management channels, including agenda notes, financial summaries, internal audit reports, and strategic memoranda prepared under executive supervision. Although Secretarial Standard-1 requires advance circulation of agenda and supporting documents, the timing, framing, and depth of information remain substantially shaped by management-controlled processes closely aligned with promoter interests.⁹ Consequently, the central issue is not merely whether independent directors formally exist, but whether they possess sufficient institutional autonomy and informational access to meaningfully challenge promoter-influenced decision-making.¹⁰ Similarly, disclosures under Section 134 (Board's Report) and Regulation 30 of LODR

⁵ The Companies Act, No. 18 of 2013, § 149 (India); Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 17.

⁶ The Companies Act, No. 18 of 2013, § 152 (India).

⁷ The Companies Act, No. 18 of 2013, § 178 (India).

⁸ Umakanth Varottil, *The Evolution of Corporate Law in Post-Colonial India: From Transplant to Autochthony*, NUS Law Working Paper No. 2015/001 (2015).

⁹ The Institute of Company Secretaries of India, *Secretarial Standard on Meetings of the Board of Directors (SS-1)* (rev. ed. 2024), https://www.icsi.edu/media/webmodules/SS-1_1_2024.pdf.

¹⁰ Jairus Banaji & Gautam Mody, *Corporate Governance and the Indian Private Sector*, QEH Working Paper Series No. 73, (2001), [University of Oxford. Queen Elizabeth House Working Paper PDF](#).

ensure formal transparency but do not eliminate informational asymmetry, as independent directors continue to rely on filtered inputs.¹¹

Audit Committees and Information Control

The institutional limits of governance become particularly visible in the functioning of audit committees. Section 177 of the Companies Act, 2013 and Regulation 18 of the SEBI (LODR) Regulations vest audit committees with significant authority over financial reporting, internal controls, and scrutiny of related party transactions.¹² However, the effectiveness of these mechanisms depends heavily upon the quality, completeness, and timing of information generated within management-controlled processes. Audit committees typically rely on financial statements, compliance reports, internal audit findings, and transaction summaries prepared by executives and management personnel. This creates a structural asymmetry in which oversight mechanisms review information that is already filtered through promoter-influenced organisational structures.

This institutional dependence becomes especially significant in the context of related party transactions regulated under Regulation 23 of the SEBI (LODR) framework. Although such transactions require disclosure and, in certain circumstances, approval by disinterested shareholders, the initiation, structuring, and informational framing of the transaction originate within the controlling structure itself.¹³ Consequently, audit committees frequently perform procedural scrutiny without possessing equivalent capacity for independent substantive verification.

Disclosure Governance under the SEBI (LODR) Framework

Disclosure-based governance under the SEBI (LODR) framework is premised upon the assumption that transparency enables market discipline and shareholder accountability. Regulations 30 and 31 seek to operationalise this objective by mandating continuous disclosure of material events, promoter encumbrances, governance developments, and shareholding structures.¹⁴ However, disclosure governance does not eliminate informational

¹¹ The Companies Act, No. 18 of 2013, § 134 (India); Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 30.

¹² The Companies Act, No. 18 of 2013, § 177 (India); Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 18.

¹³ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 23.

¹⁴ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 30 and 31.

asymmetry; rather, it institutionalises a structured process through which information is communicated to the market.¹⁵

The effectiveness of this framework is shaped by several institutional limitations. Management retains substantial discretion in determining materiality thresholds, timing of disclosures, and narrative framing of corporate developments. Minority shareholders and retail investors frequently lack the informational capacity and organisational coordination necessary to convert disclosures into meaningful governance intervention. Consequently, disclosure may enhance formal transparency without materially displacing concentrated control over substantive decision-making.¹⁶

Minority Protection and Enforcement Constraints

Although Sections 241 and 242 of the Companies Act, 2013 provide remedies against oppression and mismanagement, the practical effectiveness of these mechanisms remains institutionally constrained. Minority shareholders frequently encounter evidentiary asymmetries arising from unequal access to internal corporate records, management communications, and transaction-level information. In addition, dispersed shareholders often lack sufficient economic incentive to initiate prolonged litigation due to procedural complexity, cost, and uncertainty associated with corporate disputes before the National Company Law Tribunal. Consequently, minority protection mechanisms frequently operate more as symbolic safeguards than as consistently accessible instruments of governance accountability.¹⁷

Judicial interpretation of the oppression and mismanagement remedy has also shaped the institutional limits of minority protection. In *Needle Industries (India) Ltd v Needle Industries Newey (India) Holding Ltd*, the Supreme Court recognised that the remedy under what is now Sections 241-242 is not designed to resolve ordinary commercial disagreements but to address conduct that is harsh, burdensome, or inequitable.¹⁸ The threshold inquiry therefore focuses on the quality of the dominant shareholder's conduct rather than the mere

¹⁵ Ishwar Khatri, Paul Einar Giskås, Anneli Kalliainen Kyrø & Frode Kjærland, Corporate Governance Mechanisms and Non-Financial Disclosure Quality: Evidence from Sustainability Committee, External CSR Assurance, and Stakeholder Engagement, 107 *Int'l Rev. Fin. Analysis* 104645 (2025), <https://doi.org/10.1016/j.irfa.2025.104645>.

¹⁶ Rakesh Mishra, *Effect of Ownership Structure and Board Structure on Firm Value: Evidence from India*, 17 *Corp. Governance* 1 (2017).

¹⁷ Dhiren Gupta, *Addressing Gaps in Indian Shareholder Litigation: The Imperative for Double Derivative Suits*, NLIU Ctr. Bus. & Com. Laws Blog (June 15, 2025).

¹⁸ *Needle Industries (India) Ltd v Needle Industries Newey (India) Holding Ltd*, (1981) 3 SCC 333.

concentration of control. Similarly, in *Dale and Carrington Invt. (P) Ltd v P.K. Prathapan*, the Court affirmed that majority action must be assessed against the standard of good faith and benefit to the company as a whole.¹⁹ While these decisions introduce normative standards for the exercise of promoter control, they operate within a framework where evidentiary requirements, procedural complexity, and access to internal documentation present structural barriers to minority shareholders pursuing governance-related claims before the National Company Law Tribunal.

Regulatory Enforcement and Institutional Constraints

The structural limitations of disclosure-based governance become particularly visible in the regulation of promoter shareholding and control. Indian securities regulation incorporates mechanisms such as minimum public shareholding requirements and mandatory disclosure of promoter encumbrances in order to introduce transparency within concentrated ownership structures. Under Rule 19A of the Securities Contracts (Regulation) Rules, 1957 and the SEBI (LODR) Regulations, listed companies are required to maintain at least 25% public shareholding.²⁰ While this creates formal ownership dispersion and market liquidity, it does not substantially dilute promoter control, as promoters in most Indian listed companies continue to retain decisive influence over board appointments, voting outcomes, and strategic decision-making.

A similar limitation is visible in the disclosure framework governing promoter encumbrances. Regulation 31 of the SEBI (LODR) Regulations mandates disclosure of promoter shareholding patterns and pledged shares, thereby enhancing transparency regarding ownership and financial exposure. However, disclosure requirements do not restrict promoters from structuring ownership arrangements that preserve control while shifting economic risk. High levels of promoter pledging have, in several cases, raised concerns regarding financial vulnerability and contingent changes in control without immediately affecting formal ownership structures.²¹

Minimum public shareholding requirements introduce formal dispersion without displacing control, while disclosure obligations enhance transparency without materially limiting

¹⁹ *Dale and Carrington Invt. (P) Ltd v P.K. Prathapan*, (2005) 1 SCC 212.

²⁰ Securities Contracts (Regulation) Rules, 1957, r. 19A.

²¹ Natika Poddar & Jayashree Correia, *An Empirical Study on Promoters' Shares Pledging and Its Effect on Stock Returns*, 14 Biosci. Biotech. Res. Commc'n (Special Issue) 7 (2021).

promoter influence. Governance regulation therefore, operates within the framework of concentrated ownership rather than fundamentally transforming it.

IV. Promoter Concentration as a Functional Governance Mechanism

Reframing Promoter Dominance within Governance Structures

Promoter concentration in Indian companies cannot be adequately understood as a deviation from ideal corporate governance models premised on dispersed ownership. Rather, it constitutes a foundational structural feature around which governance institutions are organised. In such firms, mechanisms such as boards, committees, and disclosures do not operate independently of control but are embedded within a framework where promoters play a central coordinating role in corporate decision-making.

Shareholding disclosures across Indian listed entities consistently demonstrate the persistence of concentrated promoter ownership, with a substantial proportion of listed firms continuing to exhibit promoter holdings sufficient to retain decisive influence over board composition, voting outcomes, and strategic corporate decision-making.²²

Tata Consultancy Services (TCS), with promoter group holding approximately 72% equity, illustrates how concentrated ownership structures can support long-term strategic continuity and stable managerial direction. At the same time, it demonstrates that governance outcomes in promoter-dominated firms depend significantly on the internal governance norms of the controlling group, rather than solely on external regulatory mechanisms.²³

Internal Monitoring in Promoter-Led Firms

In dispersed ownership systems, monitoring is typically externalised through independent directors, shareholder activism, and market discipline. These mechanisms are designed to check managerial power when ownership is widely held among many shareholders. In promoter-led firms, monitoring is largely internalised within ownership structures rather than externalised through dispersed shareholder oversight. High equity concentration enables promoters to exercise continuous supervision over managerial decisions, reducing coordination problems typically associated with widely held ownership.²⁴

²² Tripti Nashier & Amitabh Gupta, Ownership Concentration and Firm Performance in India, 24 *Glob. Bus. Rev.* 377 (2023).

²³ Tata Consultancy Services Ltd., *Shareholding Pattern* (2025) (quarterly report).

²⁴ John C. Coffee, Jr., *The Rise of Dispersed Ownership: The Roles of Law and the State in the Separation of Ownership and Control*, 111 Harv. L. Rev. 1 (2001).

Bajaj Finance Limited illustrates this structure, where sustained promoter ownership has enabled active involvement in strategic decision-making and risk oversight. This form of monitoring is embedded within ownership control rather than dependent primarily on formal board independence mechanisms.²⁵

However, such internalisation is not institutionally neutral. Its effectiveness depends on alignment between promoter incentives and minority shareholder interests, making governance outcomes contingent on the nature of controlling shareholder behaviour.

Incentive Alignment and Long-Term Strategic Orientation

Promoter concentration often aligns ownership incentives with long-term strategic decision-making, as controlling shareholders retain significant exposure to firm value. This structure can support investments requiring long gestation periods and sustained capital commitment.

The relevance of this dynamic is particularly evident in sectors characterised by long investment horizons. For instance, Reliance Industries Limited illustrates this through long-term capital allocation across energy, telecommunications, and retail sectors, reflecting continuity in strategic planning under concentrated ownership.

However, empirical studies suggest a non-linear relationship, where governance benefits weaken beyond high control thresholds due to entrenchment effects.²⁶

Informational Centralisation and Decision Efficiency

Promoter-led firms exhibit informational centralisation, where critical business knowledge is concentrated within the controlling group, enabling faster decision-making. This efficiency advantage is visible in dynamic sectors requiring rapid responses to market changes. However, informational concentration also creates governance risks when oversight mechanisms are weak or information is deliberately withheld.²⁷

The disputes within Infosys Limited highlight how informational asymmetry between founders and professional management can shape governance outcomes beyond formal

²⁵ Bajaj Finance Limited, *Management Discussion and Analysis*, in *Annual Report 2021-22* (2022), available at <https://www.bajajfinserv.in/finance-digital-annual-report-fy22/finance-digital-annual-report-assets/pdf/BFL-Management-Discussion-and-Analysis.pdf>.

²⁶ Shantanu Banerjee & Swarnodeep Homroy, *Managerial Incentives and Strategic Choices of Firms with Different Ownership Structures*, 48 J. Corp. Fin. 314 (2018), <https://doi.org/10.1016/j.jcorpfin.2017.10.001>.

²⁷ Zoltán Bakonyi, *Why Do Firms Centralise Their Strategic Decision-Making During Crisis? A Qualitative Study*, 31 J. Organizational Change Mgmt. 678 (2018), <https://doi.org/10.1108/JOCM-12-2016-0303>.

structures. More starkly, the collapse of Satyam Computer Services demonstrates how concentrated informational control can facilitate governance failure when misused.

Stability, Continuity, and Risk Absorption

Promoter concentration contributes to organisational stability by ensuring continuity in leadership and strategic direction. ITC Limited illustrates this through gradual diversification across FMCG, hospitality, and paperboards under sustained governance continuity rather than frequent ownership-driven disruptions.

Promoters also function as residual risk-bearers, enhancing resilience during financial stress through continued capital support, though this may also introduce rigidity in governance adaptation.²⁸

Promoter Control as a Response to Institutional Constraints

Regulatory observations and governance reports indicate that shareholder participation in voting processes remains relatively low, and institutional investors, despite holding significant stakes, often adopt a passive approach to governance engagement. In this environment, promoter control functions as a substitute for weak external monitoring, concentrating governance functions within the controlling shareholder structure.²⁹

Sun Pharmaceutical Industries Limited demonstrates how promoter-led control can facilitate strategic expansion and operational integration across markets, particularly in environments where external governance engagement is limited. However, this substitution increases system dependence on promoter conduct, making governance outcomes highly contingent on controlling shareholder integrity and competence.

Conditional Nature of Governance Efficiency

Promoter concentration performs multiple governance functions, including coordination, monitoring, incentive alignment, and substitution for weak external oversight. However, these functions operate conditionally and are highly sensitive to how control is exercised.³⁰

²⁸ Anos Chitamba, *Ensuring Leadership Continuity: An Integrative Review of Succession Planning, Leadership Development and Organisational Memory*, 9 Edelweiss Applied Sci. & Tech. 2869 (2025).

²⁹ Basanagouda M. Patil, *Promoters to Persons in Control: Examining the Regulatory Landscape and Its Implications for Corporate Governance*, SSRN (July 20, 2024).

³⁰ Manisha Singal & Vijay Singal, *Concentrated Ownership and Firm Performance: Does Family-Control Matter?*, 5 Strategic Entrepreneurship J. 373 (2011), <https://doi.org/10.1002/sci.119>.

Judicial recognition of this duality is evident in *Tata Sons Pvt Ltd v Cyrus Investments Pvt Ltd*, where the Supreme Court acknowledged the legitimacy of decisions within a controlling shareholder framework while also recognising tensions with minority shareholder protection.³¹ The case reflects that concentrated ownership is not incompatible with corporate law, but its governance legitimacy depends on the manner of its exercise.

This dual structure forms the central insight of this analysis: promoter concentration is neither inherently efficient nor inherently abusive, but structurally contingent. The next chapter examines how this conditional efficiency transitions into entrenchment and governance failure. The governance value of promoter concentration, therefore, lies not in its structure alone, but in the constraints and behavioural norms that govern its exercise.

V. From Control to Entrenchment: Structural Pathways of Governance Distortion

Erosion of Board Mediation within Controlled Structures

The transformation from control to entrenchment becomes most visible in the weakening of the board's mediating function. In concentrated ownership systems, the board does not operate as an independent counterweight but as an institution whose effectiveness is conditioned by the controlling shareholder's influence over its composition and functioning.

The collapse of Infrastructure Leasing & Financial Services (IL&FS) illustrates how formally compliant boards may fail to exercise effective oversight over risk accumulation and financial decision-making. Despite the presence of independent directors and committee structures, governance mechanisms did not prevent the build-up of systemic risk, ultimately leading to regulatory intervention through board restructuring by the Central Government.³² This reflects a structural limitation in concentrated systems: board independence may exist in form but remains constrained in function by underlying control dynamics

Institutional Channels of Entrenchment: Transactions and Information

Entrenchment is reinforced through legally sanctioned institutional mechanisms, particularly related-party transactions and informational asymmetries. These mechanisms do not necessarily involve overt violations; instead, they enable the continuous exercise of influence through formally sanctioned processes. Dewan Housing Finance Corporation Limited (DHFL) illustrates how related-party and inter-corporate transactions, even when routed

³¹ *Tata Sons Pvt. Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449.

³² Baranidharan Subburayan, *Unraveling the Mirage: The IL&FS Accounting and Financial Fraud Case Study*, 14(2) IIUM J. Case Stud. Mgmt. 1 (2023), <https://ssrn.com/abstract=4519685>.

through formal approval and disclosure mechanisms, may facilitate the movement of funds across connected entities, raising concerns regarding the effective neutrality of transactional oversight.³³

Control over information further reinforces structural imbalance in concentrated ownership systems. Although disclosure-based governance assumes informational symmetry among shareholders, in practice the interpretation, timing, and granularity of disclosures remain influenced by those who control internal information flows. The crisis at Yes Bank illustrates the limitations of disclosure-based governance in capturing underlying financial stress, which eventually required regulatory intervention by the Reserve Bank of India.³⁴ Similarly, the collapse of Satyam Computer Services demonstrates how concentrated informational control can undermine even formally robust governance structures.³⁵

Compliance as Form: Institutionalisation of Entrenchment

A central dimension of governance distortion lies in the formalisation of compliance, where regulatory requirements relating to board structure, disclosures, and approvals are met in form but do not necessarily constrain underlying control.³⁶ Compliance thus operates as a legitimising mechanism rather than an effective limitation on decision-making power. This pattern is not confined to isolated instances of misconduct but reflects a structural coexistence of regulatory compliance and concentrated control. Judicial reasoning in *Tata Sons Pvt Ltd v Cyrus Investments Pvt Ltd* reflects this duality by recognising that controlling shareholders may act within legally permissible frameworks even when their decisions generate tensions with minority interests.

Entrenchment therefore emerges not as an external deviation from governance systems but as an outcome produced through their internal operation. Regulatory mechanisms remain formally functional, yet their constraining capacity is conditioned by the structure of concentrated ownership.³⁷ This results in a governance equilibrium where compliance and

³³ Vidisha Pagaria, *Anatomy of a Corporate Collapse: The Downfall of Dewan Housing Finance Corporation Ltd.*, IJLLR J. (Aug. 14, 2024).

³⁴ Tushar Ranjan Barik, *Yes Bank Crisis-A Critical Analysis on Causes, Effects & Recommendations*, 2(3) Int'l J. Multidisciplinary Rsch. Configuration 41 (2022), <https://doi.org/10.52984/ijomrc2307>.

³⁵ Amna Niazi, *The Debacle of Satyam Computers Ltd: A Case Study from Management's Perspective*, 3(2) Universal J. Indus. & Bus. Mgmt. 58 (2015), <https://doi.org/10.13189/ujibm.2015.030204>.

³⁶ Mariana Pargendler, *The Corporate Governance Obsession*, 42 J. Corp. L. 359 (2016).

³⁷ Khaled Amri, Fatma Wyeme Ben Mrad & Mouna Guedri, *The Impact of Internal and External Corporate Governance Mechanisms on Tax Aggressiveness: Evidence from Tunisia*, 13(1) J. Acct. Emerging Economies 43 (2023), <https://doi.org/10.1108/JAEE-01-2021-0019>.

control coexist, making entrenchment a structurally embedded feature rather than an exceptional failure.

VI. Control and Performance in Corporate Governance: A Comparative Analysis of Ownership Structures

This section examines how ownership concentration interacts with financial performance by comparing firms in similar industries but with different promoter control structures. Using publicly available disclosures, it analyses how variations in ownership shape growth trajectories, capital allocation, and governance responsiveness in similar sectoral contexts.

The comparative discussion below is not intended to establish a direct causal relationship between ownership concentration and financial performance. Rather, it examines how differing ownership structures shape the institutional manner in which growth, capital allocation, risk, and governance oversight are organised within firms operating under similar market conditions.

Ownership Concentration, Growth, and Strategic Execution

In Adani Green Energy Limited, promoter shareholding remains consistently above 60%, reflecting stable controlling ownership. This concentrated structure enables long-horizon investment planning and large-scale renewable energy expansion without significant coordination constraints from fragmented shareholders. This ownership stability is reflected in rapid expansion of operational renewable capacity and rising consolidated revenues, indicating execution efficiency in capital-intensive infrastructure projects.³⁸

Tata Power Company Limited presents a contrasting structure, where promoter ownership remains below majority levels and institutional investors hold a significant stake. While the company has also expanded its renewable energy capacity and revenues, its growth trajectory reflects a more moderated pace, shaped by broader stakeholder participation in governance and capital allocation decisions.³⁹

The comparison suggests that ownership concentration is associated not with the presence or absence of growth, but with differences in the speed, intensity, and decisiveness of strategic execution.

Capital Structure, Leverage, and Strategic Expansion

³⁸ Adani Green Energy Limited, *Annual Report 2024-25* (2025).

³⁹ Tata Power Company Limited, *Annual Report 2024-25* (2025).

In Adani Green Energy Limited, expansion has been supported by sustained capital inflows and increasing leverage, reflecting an aggressive financing strategy aligned with large-scale infrastructure growth. Despite repeated capital raising, promoter shareholding has remained above 60%, indicating that financing decisions are structured to preserve control while enabling external capital mobilisation.

Tata Power Company Limited reflects a comparatively balanced capital structure, with investment expansion accompanied by more measured leverage and capital expenditure. The presence of significant institutional shareholding introduces additional scrutiny in financing decisions, moderating the pace of capital deployment.

This contrast illustrates how ownership concentration influences not only the scale of expansion but also the risk appetite embedded in capital allocation decisions.

Profitability, Risk, and Limits of External Oversight

The relationship between profitability and governance is most revealing when financial growth is assessed alongside risk exposure and monitoring capacity. In Adani Green Energy Limited, strong revenue growth coexists with elevated financial and execution risks arising from large-scale expansion and leverage. Although long-term power purchase agreements provide revenue visibility, risk management decisions remain largely within the domain of controlling shareholders, limiting external influence over strategic risk exposure.

Tata Power Company Limited demonstrates comparatively moderated risk exposure, supported by diversified operations and more structured disclosure practices. While institutional shareholders enhance oversight through voting and board engagement, promoter control remains significant, indicating that governance operates within constrained oversight boundaries rather than fully dispersed accountability.

The comparative analysis demonstrates that financial performance and governance constraints are not mutually exclusive. High growth, capital intensity, and strategic expansion can coexist with concentrated ownership and limited external influence. Ownership structure therefore shapes not whether firms grow, but how growth is executed, financed, and governed, revealing corporate governance as a continuum between control and constraint rather than a binary condition.

VII. Controlled Compliance and the Limits of Governance in Promoter-Driven Firms

The preceding analysis demonstrates that promoter concentration in India is not merely an ownership characteristic but an institutional condition that fundamentally shapes the operation of corporate governance mechanisms. Existing corporate governance frameworks under the Companies Act, 2013 and the SEBI (LODR) Regulations, 2015 continue to retain a structural orientation towards models developed in dispersed ownership systems, where governance mechanisms are designed to operate as external constraints upon managerial discretion. However, the institutional realities of promoter-dominated firms differ significantly from these assumptions. In such firms, ownership, management influence, strategic direction, and informational control frequently remain interconnected within promoter structures. As a result, governance institutions do not operate independently of concentrated ownership but function within institutional conditions shaped by it.

This structural interaction between governance mechanisms and concentrated control produces a model of governance that may be described as controlled compliance. Controlled compliance refers to a governance arrangement in which regulatory requirements are formally satisfied while substantive decision-making authority remains concentrated within promoter structures. Under this model, governance institutions continue to function procedurally and legally, but their operational autonomy becomes conditioned by the distribution of control within the firm.⁴⁰

The significance of controlled compliance lies in the fact that it differs fundamentally from conventional understandings of governance failure. The central issue in promoter-dominated firms is not necessarily the absence of regulation, the complete breakdown of governance structures, or persistent non-compliance with legal requirements. Boards are constituted, committees are established, disclosures are made, shareholder approvals are obtained, and statutory procedures are generally followed. The governance framework therefore continues to operate in formal terms. However, the substantive functioning of these mechanisms is shaped by the institutional influence of concentrated ownership, particularly through control over appointments, informational flows, strategic coordination, and voting outcomes. Governance mechanisms consequently operate within structures of control rather than outside them.

This institutional conditioning of governance mechanisms explains why formal compliance and concentrated control frequently coexist without direct contradiction. Independent

⁴⁰ Maria Aluchna & Emilia Tomczyk, *Compliance with Corporate Governance Best Practice: The Perspective of Ownership Structure*, J. Mgmt. & Fin. Sci. (2019), <https://doi.org/10.33119/JMFS.2018.32.1>.

directors may satisfy statutory independence requirements while remaining structurally dependent upon promoter-backed appointment and continuation processes. Audit committees may undertake procedural scrutiny while relying upon information generated through management-controlled systems. Disclosure obligations may improve transparency while leaving substantive decision-making authority unaffected. Minority protection remedies may remain legally available while operating within evidentiary and procedural constraints that limit their practical effectiveness. In each instance, governance mechanisms remain institutionally present, yet their ability to function as autonomous oversight structures becomes shaped by the broader distribution of control within the firm.

Classical agency theory primarily conceptualises governance as a response to conflicts between dispersed shareholders and professional managers arising from the separation of ownership and control. However, promoter-dominated firms present a structurally different governance environment in which ownership itself performs governance functions while simultaneously shaping the effectiveness of oversight institutions. Governance mechanisms are therefore not positioned externally against concentrated ownership but become embedded within it. This institutional embeddedness alters the manner in which governance structures function in practice.

The analytical contribution of controlled compliance lies in recognising that governance in promoter-driven firms operates through institutional adaptation rather than institutional displacement. Governance mechanisms do not disappear under concentrated ownership, nor are they rendered entirely ineffective. Instead, they adapt to the realities of concentrated control while continuing to preserve formal legitimacy, regulatory compliance, and organisational functionality. This explains why promoter-dominated firms may simultaneously exhibit strong governance structures in formal terms and persistent concerns regarding oversight autonomy, minority protection, or entrenchment risks.

The broader implication of this framework is that governance effectiveness in concentrated ownership systems cannot be assessed solely through procedural compliance indicators. The institutional autonomy and informational independence of governance mechanisms remain equally significant in determining their substantive effectiveness.

Accordingly, the central tension within Indian corporate governance is not simply between compliance and non-compliance, but between concentrated control and the institutional capacity of governance mechanisms to meaningfully constrain that control. Recognising this

distinction shifts governance analysis beyond formal regulatory design towards the broader institutional realities within which corporate governance actually operates. Promoter concentration should therefore be understood neither as an exceptional deviation from governance norms nor as an inherently defective governance structure, but as a foundational institutional condition that shapes the operation, limits, and possibilities of corporate governance within Indian firms.

VIII. Regulatory Implications and Future Governance Directions

The analysis developed throughout this article demonstrates that the principal weakness of governance regulation in promoter-dominated firms does not arise from regulatory absence but from regulatory internalisation. Indian corporate governance law increasingly relies upon procedural governance architecture: independent directors, audit committees, disclosure systems, voting mechanisms, related-party transaction approvals, and layered compliance obligations. These mechanisms are intended to create institutional distance between concentrated economic power and governance oversight. However, in promoter-dominated firms, governance mechanisms frequently operate within organisational environments where the very structures they are expected to supervise continue to shape their informational access, strategic visibility, and institutional effectiveness.

This structural limitation becomes particularly visible in the functioning of independent oversight institutions. The regulatory model underlying the Companies Act, 2013 and the SEBI (LODR) framework presumes that formal independence can produce effective supervisory distance from managerial or controlling shareholder influence. However, in concentrated ownership systems, independence frequently operates within conditions of institutional dependency. Independent directors may satisfy statutory eligibility requirements while remaining dependent upon promoter-supported nomination processes, informational channels controlled by executive management, and organisational cultures structured around strategic centralisation. As a result, governance independence becomes procedurally visible yet institutionally constrained. The issue therefore is not whether independent directors formally exist, but whether governance institutions possess sufficient informational and operational autonomy to function independently of concentrated control structures.

Future governance reform in India may therefore require greater emphasis upon the operational functioning of governance institutions rather than continued expansion of procedural compliance obligations alone. Governance effectiveness in concentrated

ownership systems depends not merely upon formal institutional design, but upon whether oversight mechanisms possess sufficient practical capacity and informational independence to evaluate promoter-influenced decision-making.

Recent amendments to the SEBI (LODR) framework increasingly reflect regulatory concern regarding concentrated ownership and transactional influence within listed entities. Enhanced disclosure requirements relating to related-party transactions, promoter encumbrances, and material events, together with expanded approval obligations involving minority shareholders, indicate a gradual movement towards greater scrutiny of promoter-controlled decision-making. Nevertheless, these reforms continue to operate predominantly through procedural governance techniques centred upon disclosure, committee review, and shareholder voting mechanisms. Their effectiveness therefore remains dependent upon the informational quality, institutional independence, and scrutiny capacity of the governance mechanisms through which such oversight is exercised.

Future governance reform in India must therefore move beyond the assumption that expanded procedural compliance alone can ensure effective oversight within concentrated ownership structures.

IX. Conclusion

Corporate governance in India cannot be adequately understood through models premised solely upon dispersed ownership and managerial agency conflicts. The predominance of promoter-driven firms creates an institutional environment in which governance mechanisms operate within, rather than independently of, concentrated control structures. This article has argued that promoter concentration should not be treated merely as an ownership characteristic, but as a structural condition that shapes the operation, effectiveness, and limits of corporate governance institutions under the Companies Act, 2013 and the SEBI (LODR) framework.

Boards, disclosure systems, committee structures, and minority protection mechanisms continue to function procedurally, yet their substantive autonomy frequently remains shaped by promoter influence over informational access, strategic coordination, and organisational decision-making.

The future effectiveness of Indian corporate governance depends not merely upon expanding procedural compliance obligations, but upon strengthening the substantive autonomy and

institutional independence of governance mechanisms operating within concentrated ownership structures.

