

Don't Promote Promoterphobia



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Some 40 years ago, while dropping me to a meeting at Yojana Bhavan, the driver asked me, 'Do the problems of people like us get discussed in your meetings?' I have been increasingly reminded of the driver's question when absorbing the recent discussions on corporate governance in India.

Central to most such conversations is the institution of independent directors (IDs), and how IDs ought to be strengthened, individually and collectively, to stand up to promoters. Capturing this extremist, confrontational view is a sentence from Ranganathan V's recent article (bit.ly/2NAtOWL): 'Deepening and strengthening the framework of governance, within which the promoters are kept in check, and their latitude to cut corners is progressively narrowed down, is bound to boost growth in the corporate sector in the long run.'

It is time that someone looks at corporate governance from the promoter's point of view. This would require the suspension of distrust of promoters and belief

that they are crooks and criminals, kept in check only by IDs, intrusive auditors and hyperactive regulators.

All discussions on corporate governance exist only because companies exist. Companies are entities that have been set up, and invested in, by promoters. What a promoter brings to the table is an idea, an investment to get the idea to take shape, and the combination of enthusiasm, energy, excitement in ensuring the growth of that enterprise. If the intention was only to commit fraud and to swindle some money, there would be more cost-effective ways of doing it than setting up a company.

This is not to say that among promoters there is no one who pursues the path of unenlightened self-interest at the expense of other

shareholder groups in the company. But tarring all promoters with the same brush is clearly inappropriate. Also, there indeed must be checks and balances to ensure not only the prevention of fraud, but also the curbing of excessive enthusiasm that could drive the corporate entity to grief. It is this area that the trinity of IDs, auditors and regulators should collectively seek to address.

Recent pronouncements by persons at the highest level of the political executive emphasise the need to respect the creators of wealth. Consistent with that approach, there is the attempt to unload several public sector undertakings on the private sector. While I am not a votary of wholesale privatisation based on the blind belief that the private sector is necessarily more efficient, I see in these pronouncements the expectation that the private sector can play a significant role in the development and progress of the nation.

Therefore, the question that needs to be asked is whether regulation and law should continue to be based on a distrust of those bitten by the entrepreneurial bug, and set up entities that continue to provide goods and services for the large population. Or should we move away from board-based ab initio distrust, and look at 'trust but verify' as an approach to be preferred?

A number of promoter-led in-

stitutions have sought to bring on to their boards IDs who they believe will add value. This should be no surprise, since it is in the interest of the promoters — at least as much as it is in the interest of anyone else — to add value for himself or herself, and for other constituents. To believe that the interest of the promoters must always be adverse to the interest of all other stakeholders is to bark up the wrong tree.

As a first step, Securities and Exchange Board of India (Sebi) should have meaningful constructive conversations with representative samples of promoters of big and small companies, to understand where the shoe pinches. If, in the interest of promoting corporate governance, the bar is raised unreasonably high in a disruptive manner, many will choose to walk under the bar, rather than attempt to clear it.

If ease of doing business is an area where we wish to see significant progress, those that do business must be enabled to play their part. By all means, an example must be made of those who are habitual offenders. At the same time, responsible businesses, which respect the law, should not be crushed by the burden of compliance. Kneejerk responses, in the form of new regulations, when individual isolated transgressions take place, is a habit that must be eschewed.

The writer is former chairman, Sebi



Not a representative image

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