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CONCENTRATED OWNERSHIP AND CORPORATE CONTROL IN INDIA: AN ANALYSIS

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Introduction

India is a country where the business world is clearly divided into the model of concentrated ownership. The evidence of this ownership structure is in fact that a large part of company owners' equity is concentrated in a single person, a family or a closely knit group of associates. A lot of them are still influential founders and key shareholders who impose a great effect over the strategic outlook and management policy of their companies. The dominant form of ownership that characterizes these companies does not only influence the strategies they adopt but also the Indian market economy as a whole.

This takes the form of the concentrated ownership of voting shares, in this way a given percentage of board voting rights lies in the hands of one, or maybe, a small number of shareholders. Usually, the owners and managers are not the investors who are not geographically far from the business but are involved normally by family ties or are corporate executives that are actively engaged in the managing and planning of the company's future. In the Indian corporate context, these influential shareholders are called 'promoters' which is a legal classification of shareholders. This position is not of a symbolic kind. It is rather a formal declaration of the company's recognition of their valuable contribution. They are seen as a key staff needed not only for the beginning of the company but also its ongoing governance. Promoters are implicated in greater than financing. They also play active part in management operations as well as fundamental decisions that are related to long-term strategy.[2]

Factors Influencing Concentrated Ownership

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[2] Nashier T and Gupta A, "Ownership Concentration and Firm Performance in India" (2020) 24 Global Business Review 353 <http://dx.doi.org/10.1177/0972150919894395>.

Legacy and Family-owned Businesses

In India, family acts as the prime force of set up and the continuity of businesses with most of the multinational corporations drawing their roots from their forefathers who were skilful and hard-working entrepreneurs who started these enterprises and maintained the success for generations. Imagine the Tata Group, a group initiated by Jamshedji Tata in the late 19th century and which has become a global giant with a presence in everything from steel to software. Likewise, Birla family which was initially led by late Ghanshyam Das Birla has become another prominent family that have shaped not only the Indian industrial landscape but also contributed substantially to the Indian propensity towards industrialism from the early 20th century. Reliance Industries Ltd, (Dhirubhai Ambani) a small textile manufacturer, began its journey in the 1970s, and today emerged as a conglomerate across areas like petrochemicals, telecommunications, and retail businesses.[3]

These family-based companies have not only been the ones who led the industrial growth but also the ones who have been the benchmark for the corporate governance within the family structures, although not without the challenges, like the succession planning and the intra-family conflict. Meanwhile, the ownership of family leadership supplies them with deep-rooted values and a distinct vision which have lately given the enterprises to distinguish themselves even in unstable economy. Even so, the difficulties of keeping up this heritage, of passing the leadership from one generation to the next as well as incorporating assets of non-family executives in the senior management position are very serious and are often driving to the problems with the survival of a business and corporate culture.

Patronage and Political Connections

From the beginning of patronizing elections, political ties have been providing Indian business houses with access to resources, the influence on regulatory policies set by the government and the competitive advantage one gets in many markets. This co-mingling of business and politics has been a sort of two-way paths, or two-edged sword, where it has helped corporates to fast pace their growth and complex bureaucracy navigations and brought them under the spot of tarred brush over corruption and fair play issues.

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[3] Hegde S, Seth R and Vishwanatha SR, "Ownership Concentration and Stock Returns: Evidence from Family Firms in India" (2020) 61 Pacific-Basin Finance Journal 101330 <http://dx.doi.org/10.1016/j.pacfin.2020.101330>.

Competence and Leadership

Power in organizations where there are few shareholders is often concentrated with the CEO or the top shareholders, focusing on the role's volatility and those best equipped to lead these ventures. Leadership within such contexts is not just about business acumen and market foresight but also about effective management of relationships with stakeholders and trustworthiness of different parties, from family members to public shareholders.[4]

Institutional Factors

The roles of banks, financial institutions, and stock markets are the key determinant of the concentrated ownership landscape. These institutions, not only, address the scarcity of capital necessitated for development but also make it possible through their lending and investment standards to comply with governance norms. Besides, the legal structure which focuses on the involvement of corporate ownership and control in India is established by several authorities including the SEBI& laws which are in existent.The regulations and guidelines that the authorities have set include minimum shareholding patterns, disclosure norms, and the protection of the minority shareholders.

Entrenching Dominant Ownership

Especially in the system of business in India where the power of the dominant ownership is strong, necessary mechanisms for strengthening its position and deepening the entrenchment are done by different complex methods. These mechanisms are not only for the control but also for the increase of the influence of the major shareholders, often at the cost of the minority stakeholders. There are three important tools company normally uses for such close isolated ownership relationships which are the following: equal share cross-holding, strategic allocation of voting rights and control over board compositions.

The cross-holding of shares is a widely used tactic among company groups, where ownership shares are held in each other, thus resulting to a very rigid structure that virtually withstands exterior contrary sentiments and attempts of takeover. This network of interconnecting shareholdings guarantees that the controlling power remains in a closed circle of entities, effectively strengthening the dominance of the original controlling families or groups. For

[4] Sarkar J, "Ownership Control and Board Governance of Indian Business Groups: Continuity or Change?" [2023] India Studies in Business and Economics 59 <http://dx.doi.org/10.1007/978-981-99-5041-6_4>.

example, in conglomerate type of the management like that in Indian, the approach of Clan Encourages power concentration thereby ensuring that authority and management of decision makers is carried out in a centralized manner.[5]

Enfranchisement further evens the battle field as it provides another instrumental means for the oppressed to ultimately emerge victorious. In most cases, the voting rights are deeply unbalanced in favour of the promoters because of the special voting rights shares that give them more voting power than ordinary shareholders. This, on the contrary, raises the issue that although promoters hold a comparatively smaller number of economic shares in the company, they, however, reserve the right to make strategic decisions, financial allocation, and appoint top-level officers, outwardly governing the whole company.

Whether it is through board control or not, having the biggest share would always be the ultimate and most all-encompassing tool of majority shareholders. The dominant shareholders put the persons they trust and the loyalists in the key positions within the board so that the strategic decisions of the legal entity are made according to their vision and interests. This board is supposed to keep tabs and look out for all shareholders concerns; however, the powerful group sweeps under one banner and imposes their will when such practices are largely in existence.[6]

Consequently, the effects of these instruments on minority shareholders is subtly manifested in many ways. On the other hand, deeply rooted management can provide homogeneity, ongoing supervision, and perhaps even result in better results for all the shareholders. Conversely, ownership concentration can also lead to governance problems where the voice of minority shareholders is not heard and their interests are neglected, resulting in the abuse of power such as tunnelling of assets, unfair related party transactions, and opaque operations.

Pros and Cons of Promoter Control

Corporate control by promoters is, at times, considered to be the best strategy for sustainable growth as it promotes continuity and consistency. Under the new Promoters' power,

[5] Khann T and Palepu KG, "The Evolution of Concentrated Ownership in India Broad Patterns and a History of the Indian Software Industry" (*NBER*, July 1, 2004) <https://www.nber.org/papers/w10613> accessed May 12, 2024.

[6] Gupta N and others, "Ownership Concentration and Bank Performance: Evidence from India" (2022) 10 Cogent Economics & Finance <http://dx.doi.org/10.1080/23322039.2022.2114177>.

companies can focus on the long-term strategy, and not get distracted by the short-term market pressures, thus they can plan and invest with a long horizon. By providing stability, certain industries with hefty research and development inputs or capital-intensive structures, can reap their benefit. And not only do these volunteer-led organisations gain from being quick in making decisions, they also have the advantage of miniaturized structures. Through the unity of command, the decisions are not delayed by lengthy debates or the divergent interests in the boardroom. This is sometimes critical in making it possible for business to remain in pace with the waves of market changes or technological improvements.[7]

However, such empowerment creates risks of control of private data clusters. The concentration of power can result in the mismanagement and corruption if there are no mechanisms to check the power and balances it. Issues with the promoters' authority to appoint directors to the board and to the management are opened through which the directors may make decisions that benefit the controlling shareholder and not the company as a whole. This situation more often than not compounds problems such as as nepotism, related party transactions at non-competitive rates, and incompetent decisions that do not have sufficient oversight. The absence of external control or independent scrutiny makes it simpler for promoters to misuse their authority, which eventually can affect the company's health and shareholder value.

Corporate Governance Challenges in Prominent Groups

The removal of Cyrus Mistry as the chairman of the Tata Sons Inc. signified the failure to maintain good governance within one of India's most respected companies. The conflict raised issues with regard to the part of moral principles and trust in the family majority group of managers and instruments for reaching compromises when direct negotiations between the parties fell through. After the exit of Mistry, Tata Sons took a number of governance reforms to balance the power relations among the board, the management, and the Tata Trusts, which are big shareholders. These programs has been designed with specific objectives of

[7] Madhani PM, "Ownership Concentration, Corporate Governance and Disclosure Practices: A Study of Firms Listed in Bombay Stock Exchange" (*SSRN*, January 4, 2017) <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2892486> accessed May 12, 2024.

Promoting transparency as well as Accountability of those in various governments in a bid To restore confidence of the stakeholders.[8]

Infosys is not alien to the issues of governance in which it has experienced its moments of vicissitude on the ground of frequent CEO turnovers and public disputes by founders over how they should go about with strategic directions and management practices. These problems have had a variable effect on the investor confidence and the company's market performance, thus, emphasizing the key role of the stable and consistent governance structures in the technology firms where the strategic vision and innovation are the most important. The parties are in dispute and, therefore, the resolution of its problems and the stabilization of leadership in Infosys were main components to reestablishing the firm's reputation and operational stability.

Feasibility of Balancing Concentrated Ownership with Corporate Governance

The aspiration that "the best of two worlds" could be achieved where central government authority would not contradict local governance is attractive but a daunting task. In order to achieve this balance, the reforms and the policy measures should be directed at improving the board independence, implementing the strict checks and balances, and making the operations more transparent. The process of knowledge transfer from abroad, like the dual-board system in Germany or vigorous external audit requirements in the US, is one of many sources that helps us get to know more about the matter. India's highly mix of "family dominated" businesses and the public listed companies require a different methodology for which it merges respecting the old structure while advocating the modern corporate governance norms.

Conclusion

This all-around study of the concentrated ownership and control of the Indian corporate fabric, in its essence, is a maze of pros and cons. If a promoter controls the company, this factor might increase its stability and might support its quick decision-making, but at the same time, this factor will bring some governance challenges that can worsen the state of the firm and decrease the shareholder value. The experiences of Tata Group and Infosys are a

[8]"Ownership Concentration Of Indian Companies" (*Law Times Journal*, June 13, 2017) <https://lawtimesjournal.in/ownership-concentration-indian-companies/> accessed May 12, 2024.

witness of the dangers and the ways of governance reforms. In fact, the further development of corporate governance in India should be referring to the measures that will not put the interests of just a few stakeholders at risk and will instead be looking for the balance of effective oversight and strong chairmanship. Policymakers and business leaders are recommended to incorporate best-practiced international prescriptions. The legislative environment is enhanced.An ethical business culture is promoted to guarantee that the Indian corporate sector can flourish ethically and sustainably.