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**Market Watch**

# View: The crisis at YES Bank is an opportunity to start correcting the wrongs

BY TOI CONTRIBUTOR | UPDATED: MAR 10, 2020, 10.37 AM IST

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By **Lloyd Mathias**

The crisis in [Yes Bank](#) and its impact on customers nationwide has yet again raised the issue of business accountability. Last September, the Mumbai based Punjab and Maharashtra Cooperative (PMC) Bank was placed under an RBI administrator for six months due to massive under-reporting of unrecoverable loans. 73% of its advances are believed to have been given to one realty company DHFL, now bankrupt, with thousands of customers facing difficulty in withdrawing their money due to restrictions imposed by RBI.

Banks are not the only businesses that have put consumers in a spot. The collapse of [Jet Airways](#) and Cox & Kings left many travellers stranded and left their plans in disarray. Even outside direct impact, investors in firms like IL&FS and DHFL saw their investments evaporate overnight due to mismanagement, fraud and rampant corruption. Many Indians still bear the scars from corporate scams and failures ranging from the [Harshad Mehta](#) scam in the 90s, to the [Satyam Computer](#) collapse in 2009. All this has resulted in widening the already existing trust deficit with businesses.

Edelman's Business Trust Barometer 2020 – covering 28 markets and 34,000 respondents around the world – shows that people trust businesses based on two distinct attributes: competence (delivering on promises) and ethical behaviour (doing the right thing and working to improve society). Businesses, in general, rate well on competence but lag heavily on the ethical front. Ethical attributes drive

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76% of the trust of global companies while competence drives 24%. Good reason why businesses have a long way to go to build public trust.

But why do business leaders take seemingly rash decisions and put high profile careers at risk? One reason is personal greed. History is replete with examples of corporate czars who fall for the temptation to add another zero against their already high net worth. In addition to this, years of success lull many leaders into believing they are infallible and pliant boards don't provide the necessary check and balance.

The second reason is the relentless market pressure to maximise shareholder return. According to the findings of a scientific study, a culture that implicitly puts financial gain above all else fuels greed and dishonesty and makes executives more likely to cheat. The need to increase shareholder return could mean pushing the stock price higher by artificially inflating profit, often resulting in short term decisions and disregarding prudence. Specific to Yes Bank, this extended to lending to high risk companies; charging a higher interest rate to offset the risk; collecting high fees upfront and taking shares in these very companies as collateral.

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The third issue, endemic to our culture, is cronyism. The nexus between politicians, bureaucrats, industrialists and bankers is legion in India. It is not uncommon for politicians and bureaucrats to tweak laws and bend complex regulation for a favoured business, or even pressurise a banker for easier loans; which is reciprocated by the business through myriad ways – ranging from election funding, preferred employment, and other sops. Weak boards mostly comprising friends and family, pliant auditors and poor internal controls don't really mitigate these issues.

What can be done to ensure that lapses like the Yes Bank don't recur? First, the need to tighten corporate governance. As long as Indian businesses do not have fiercely independent boards that are accountable and can challenge management the danger of business heads running fiefdoms will continue. [Corporate governance](#) will need to cover all aspects of compliance including the ethical standards of the organisation, and provide for mechanisms for whistleblowers and ombudsmen, so that dissenting voices can be heard.

The United States enacted the Sarbanes-Oxley Act in 2002 in reaction to a number of corporate and accounting scandals that shook public confidence and affected markets. The Act increased the oversight role of boards and the independence of external auditors who review the accuracy of corporate financial statements and made penalties for fraudulent financial activity much more severe. The act also covers issues such as auditor independence, corporate governance, internal control, assessment, and enhanced financial disclosure. India badly needs to re-evaluate its existing corporate governance laws to make businesses more accountable.

Good corporate governance requires fair legal frameworks enforced by an impartial regulatory body, for the full protection of all stakeholders. As part of re-enacted corporate governance laws, stringent controls need to be put in place to record any external interference in key corporate decisions. Specific to the banking sector, the financial ecosystem needs better risk management and disclosure. Another urgent need is for public sector banking reform, getting babus out of day-to-day banking and giving PSBs professional autonomy.

Finally, business objectives must include social accountability, or holding institutions to a moral standard that protects people's rights and general welfare. This means focussing on more than just profit and seeking to bring value to the world at large. Exhaustive research shows that companies that do well on social, environmental and governance issues also consistently deliver better results in their bottom line.

However, one must accept that the ethical environments Indian companies work in, will be a reflection of overall ethical standards prevalent – so expecting squeaky clean business overnight may be unrealistic. We also need to recognise that there is an element of

risk in any business and an entrepreneur often has to work against the odds to succeed. Penalties for bad loans and failed businesses must factor this in or we will completely stymie entrepreneurship.

Taking effective remedial steps to ensure good health and credibility of the Indian business and banking system is crucial to fulfilling India's ambitions as a rising power. The process needs to start now.

*(The writer is an early stage investor and business strategist. Views expressed are personal)*

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