
A COMPREHENSIVE ANALYSIS OF THE ROLE OF PROMOTERS IN COMPANY INCORPORATION

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ABSTRACT

The incorporation of a company is a foundational process in corporate law, primarily driven by the vision and actions of promoters. This research provides a comprehensive analysis of the promoter's role, tracing their influence from the conceptualization of business ideas to the formal statutory fulfilment of incorporation. Promoters occupy a unique legal position; while they are neither agents nor trustees of a company not yet in existence, they possess a fiduciary relationship characterized by the duties of good faith, full disclosure of material facts, and the avoidance of undisclosed personal profits.

Despite their essential contributions in organizing capital and preparing legal frameworks, the role of promoters is frequently marred by issues of accountability and ethical misconduct. This study examines the legal landscape under the Companies Act, 2013, highlighting the shift from historical common law principles to modern regulatory oversight. Central to the discussion is the critical evaluation of promoter liability, particularly in instances of financial fraud and the exploitation of regulatory loopholes—exemplified by high-profile cases of market manipulation and the misuse of shell entities.

Adopting a doctrinal research methodology, the paper analyzes statutes, judicial precedents, and secondary literature to explore the tension between promoter autonomy and investor protection. The findings underscore a pressing need for more robust enforcement mechanisms and transparency to mitigate conflicts of interest. Ultimately, the research proposes measures to fortify corporate governance, ensuring that promoters act as ethical architects of corporate entities rather than facilitators of financial malpractice.

Keywords: Promoter, Company Incorporation, Fiduciary, Accountability, Corporate Governance.

INTRODUCTION

The process of company incorporation is a significant part of the arena of corporate law and business formation. At the initial stage, Promoters have a crucial role in shaping the company's foundation. Promoters include the individual or group of individuals who bring a company into existence by fulfilling all the pre-incorporation tasks, such as finding appropriate business ideas, organizing initial capital, preparing legal documents, and completing statutory formalities. Promoters have an important role in developing the company's framework, keeping it in line with corporate legislation, and safeguarding the interests of prospective investors.

Historically, the role of promoters has evolved with company law, starting with the early common law provisions for their fiduciary duty and progressing to modern laws governing their conduct. In corporate law, the promoters are subjected to some conditions, including the condition of good faith, avoidance of any conflict-of-interest avoidance, and disclosure of material facts. However, amid such legislation, several issues and controversies continue to exist regarding the liability and accountability of the promoters.

The most significant issue of concern in the contemporary business world is the misuse of the role of the promoter for fraudulent activities, including shell companies, financial fraud, and regulatory non-compliance. Numerous high-profile scandals have come to the forefront, including promoters' exploitation of the legal loopholes to manipulate company formation for personal gains. In the very famous corporate frauds, "SEBI ruling determined that Adani promoters aided and abetted Ketan Parekh in the manipulation of shares of Adani Exports (now Adani Enterprises), showing that 14 Adani private companies transferred shares to entities controlled by Parekh."¹ With the growing emphasis on corporate transparency and good governance, there is an emerging need for stricter laws, better enforcement mechanisms, and greater awareness about promoters' roles in the incorporation of the company.

STATEMENT OF PROBLEM

The promoters have a central position in the process of the foundation of the company. So, the

¹ Bloomberg, "'Attack on India', Says Adani in 413-Page Reply to Hindenburg after \$51 Billion Wipeout" Deccan Herald (January 29, 2023) <<https://www.deccanherald.com/business/attack-on-india-says-adani-in-413-page-reply-to-hindenburg-after-51-billion-wipeout-1185840.html>> accessed 10 January 2026.

research aims to present a comprehensive analysis of the work of the promoters in forming the company. It also tries to examine the legal rights, liabilities, and positions of promoters in India, which have been researched specifically in light of their conduct in the pre-incorporation process. Further, this research intends to bring to the forefront the ethical and legal concerns arising out of the conduct of promoters and suggest certain measures that can fortify the regulatory mechanism for increased accountability and transparency.

RESEARCH METHODOLOGY

This paper requires conducting research by analysing available material, such as statutes, acts, laws, and legal precedents, and secondary sources of data, such as published articles, journals, research papers, and newspapers, among others. So, the current research issue necessitates a doctrinal research approach to undertake an effective and full evaluation of the entire concept of promoters and their role in the incorporation of the company, providing improved information and understanding.

RESEARCH OBJECTIVES

- To understand the definition, types, and legal position of promoters in company incorporation.
- To examine the work of promoters, including their duties, rights, and liabilities, in the process of company incorporation.
- To critically analyze key challenges of promoter influence and recommend measures for accountability, transparency, and ethical conduct.

RESEARCH QUESTIONS

1. What is the definition of promoters under the Companies Act of 2013, and how is the legal position of promoters defined in company law?
2. What are the legal rights and duties of the promoters while the company is incorporated, and how do these influence the company formation?
3. What are the promoter liabilities, and how does the Companies Act of 2013 address

such liabilities?

4. What are the legal and ethical problems associated with the role of promoters, and how do they affect the process of incorporation?

WHO IS A PROMOTER?

A promoter is an individual or a group of individuals who does all that is necessary to form a company, or who does everything necessary before the incorporation of a corporation. A promoter is thus the first point of contact of a company and is responsible for leading it through all primitive legal formalities and other formalities required for its incorporation under the Companies Act of 2013. Promoters play a pivotal part in the formation of a company right from the beginning.

“**Section 2(69)** defines the term ‘Promoter’, which means a person-

(a) who has been named as such in a prospectus or is identified by the company in the annual return in Section 92, or

(b) who has control over the affairs of the company, directly or indirectly, whether as a shareholder, director, or otherwise; or

(c) in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act:

Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity.”²

Cockburn C.J., in the case of “**Twycross v. Grant**, described a Promoter as one who undertakes to form a company regarding a given project, and to set it going, and who takes the necessary steps to accomplish that purpose.”³

Justice Lindley in ‘**Lydney & Wigpool Iron Ore Company v. Bird**’ described the position of a promoter as follows: “Although not an agent for the company, nor a trustee for it before

² Companies Act 2013, s 2(69).

³ Twycross v. Grant (1877) 2 CPD 469

its formation, the old familiar principles of the law of agency and trusteeship have been extended and very properly extended to meet such cases. It is perfectly well settled that a promoter of a company is accountable to it for all monies secretly obtained by him from it just as the relationship of the principal and agent or the trustee and the trust had really existed between him and the company when the money was obtained.”⁴

TYPES OF PROMOTERS

A promoter is a person, group, or institution that takes the initiative in forming a company. Promoters undertake efforts to create a company, raise capital, and undertake legal formalities. Promoters can be of various types depending on their involvement and expertise.

- i. **Professional Promoter-** A professional promoter knows how to initiate and establish businesses. These companies or individuals are experts in establishing businesses, arranging finances, and complying with regulations.⁵ Their work normally ends once the company is established, where they hand over the control and ownership to the shareholders.
- ii. **Financial Promoter-** A financial promoter is mostly interested in funding and investment in a company. They usually possess solid financial interests and are affiliated with private equity companies, banks, or financial institutions. They mostly focus on studying market trends, studying financial feasibility, and taking companies public at the appropriate time.
- iii. **Managerial Promoter-** A Promoter who possesses functions of both setting up and running a firm. Besides directing the incorporation of the company, they possess managerial control after the company has been incorporated. They actively participate in decision-making and ensure the well-being of the company after its establishment.
- iv. **Occasional Promoter-** In contrast to full-time promoters, occasional promoters usually start businesses on a need-to-need basis, mainly concentrating on fundraising and

⁴ Lydney and Wigpool Iron-Ore Co. v. Bird (1886) 33 Ch D 85

⁵ Ananya US - and Sriya K, ‘Analysis on the Position, Duties, Rights and Liabilities of Promoters’ (2023) 5 International Journal For Multidisciplinary Research 10125 <<https://www.ijfmr.com/research-paper.php?id=10125>> accessed 10 January 2026.

investment ventures. Their expertise only goes as far as raising capital and taking care of vital financial issues, but not ongoing management.

- v. **Entrepreneurial Promoter-** An entrepreneurial promoter is someone who not only formulates a business concept but also is involved in establishing and operating the company. Such promoters are subject to financial risk and are actively involved in the growth, operations, and success of the firm in the long term.

FUNCTIONS OF PROMOTERS IN COMPANY INCORPORATION

1. Determining the Business Opportunity

Finding a viable business idea that has the potential to turn a profit in the future is the first step for the promoter. This could entail innovating within an established sector or exploiting a new region of natural resources. To evaluate the opportunity's potential, the promoter frequently works with technical specialists in the field. The idea is further explored after the promoter concludes that the business venture has substantial development potential.

2. Detailed investigation or Extensive Study

At this point, the promoter thoroughly examines several variables to assess the business's long-term viability and profitability. This entails evaluating supply chain logistics, funding possibilities, transportation infrastructure, raw material availability, and market demand.

3. Name Approval and Selection

Following the completion of the corporate structure, the promoter registers the company under a name of their choosing, which the registrar of companies must authorize. The name must not be similar to any already-existing company name, nor should it contain terms like "national," "state," "king," or "queen."

4. Capital or Asset Arrangement

A business needs enough money to survive, just like a human body needs food and water. The promoter establishes the necessary money and finds funding sources, including bank loans, private equity, and initial public offerings (IPOs). Various legal and financial experts may be hired by the promoter to guarantee successful capital arrangements.

5. Preparation of documents, such as the AOA and MOA

Promoters are required to provide the registrar of companies with several other important documents in addition to the Memorandum of Association (MOA), which contains the company's charter. These consist of the prospectus, the certificate of incorporation, and the Articles of Association (AOA), which regulate the company's internal operations.

LEGAL POSITION OF PROMOTERS IN COMPANY LAW

Promoters are bound by a fiduciary duty to act in the best interest of the company and that of the shareholders. Courts have always believed that promoters should act honestly and openly, and their actions should be in the company's interests and not in their interests.

Key judicial interpretations:

In the **Erlanger v. New Sombrero Phosphate Co.** case, “Lord Cairns described promoters as being in a fiduciary relationship, stating that they are responsible for creating and shaping the company. They control how and when the company is established as a separate entity and thus can't make any secret profits because they are required to disclose what acts in the best interest of the company”⁶

In the United States, four legal methods exist through which promoters can do business with a company without losing their fiduciary obligation, as stated in “**Old Dominion Copper Mining Co. v. Bigelow**”⁷ have been determined by courts. These are:

- Disclosure to an independent and uninfluenced board.
- Disclosure to all original investors.
- Shareholder consent after the firm is firmly established.
- The promoter subscribes to the whole capital stock of the company.

In “**Weaver Mills Ltd. v. Balkis Ammal ILR**”⁸ the concept of pre-incorporation contracts

⁶ Erlanger v. New Sombrero Phosphate Co (1878) 3 App Cas 1218

⁷ Old Dominion Copper Mining Co. v. Bigelow (1909) 203 Mass. 159

⁸ Weavers Mills Ltd v. Balkies Ammal AIR 1969 Mad 462

was widened by the Madras High Court. Promoters purchased properties on behalf of a forthcoming firm, which later took possession and developed them. The court ruled that land purchased by promoters on behalf of a company before incorporation belonged to the company even though it was not formally transferred.

The court upheld the fiduciary relationship between promoters and the company in the case of “**Vali Pattabhirama Rao v. Sri Ramanuja Ginning and Rice Factory (P) Ltd.**”⁹. Additionally, it decided that promoters must operate in the company's best interests.

In “**Prabir Kumar Misra v. Ramani Ramaswami**”¹⁰, the Madras High Court held that the promoters need not always be either the directors or the shareholders to be held liable. The court applied the term "midwives" to describe the promoters and their role in the incorporation of the company, such as proposing objectives, forming schemes, arranging registration, and preparing necessary documents.¹¹ Hence, their liability exists due to their integral involvement in the company's formation.

These interpretations of the law highlight the enormous responsibilities and liabilities of the promoters in making the formation of a company fair, transparent, and accountable.

PRE-INCORPORATION CONTRACTS MADE BY THE PROMOTERS

Pre-incorporation contracts refer to contracts to which the promoters agree on behalf of an unincorporated company. They are for the acquisition of assets, raising capital, or arranging business operations.¹²

However, since a company is not a legal entity before incorporation, such contracts are not legally enforceable against the company. A valid contract must be between two legally recognized persons, but before incorporation, the company does not have any legal existence. Hence, unless the company ratifies the contract at incorporation, the promoters are liable for such contracts individually.

⁹ Vali Pattabhirama Rao v. Sri Ramanuja Ginning and Rice Factory (P) Ltd. AIR 1984 AP 176

¹⁰ Prabir Kumar Misra v. Ramani Ramaswamy [2010] 104 SCL 174

¹¹ Sumeet K, ‘Duties and Liabilities of Promoter’ (Black n’ White Journal, 9 August 2021) <<https://bnwjournals.com/2021/08/09/duties-and-liabilities-of-promoter/>> accessed 10 January 2026

¹² Dev A, ‘Pre-Incorporation Contracts: Relevance and Enforceability in Jurisprudential Framework of Company Law’ [2021] Journal of Corporate Governance and International Business Law <<https://lawjournals.celnet.in/index.php/jcgibl/article/view/991>> accessed 10 January 2026.

Kelner v. Baxter¹³ is a landmark English case law much discussed in Indian law when considering pre-incorporation contracts and the promoters' legal status. In this case, the court ruled that the promoters could not bind the company in any contract into which they had entered before the incorporation of the company because, at that time, the company was not legally established. The signing promoter was held liable personally. This case articulated the rule that pre-incorporation contracts entered into by the promoters can be enforced only when the company ratifies them after its incorporation. This is a doctrine that has been adhered to and practised in India, particularly where promoters make contracts before the company is incorporated.

RIGHTS OF PROMOTER

- **Right of indemnity:** Where there are several promoters in a company, one of the promoters can recover against another promoter for loss or damage suffered by that promoter personally. Because promoters are jointly and severally responsible, they are each on the hook for any misstatements that appear in the prospectus as well as for any unreported profit that has arisen in the course of the promotion of the company. This is to ensure that if a specific promoter is to pay damages, it can recover from other participating promoters.
- **Right to receive the legitimate preliminary expenses:** A promoter has the right to receive reasonable expenditure made in causing the company to be incorporated. These expenses may be advertisement charges, lawyer charges, payment to surveyors, and other incidental charges. Such recovery is not contractual but is subject to the decision of the company's board of directors. Such accounts must be provided before the reimbursement.
- **Right of Management of the Formation Process:** The promoters can go ahead and take the required steps towards the company's incorporation, such as preparation of the AoA and MoA, mobilization of the initial capital, and seeking the required approvals from the government. They have the sole right to administer the process of incorporation until the incorporation of the company. With the incorporation of the

¹³ Kelner v Baxter (1866) LR 2 CP 174

company, the Board of Directors replaced the rights and authority of the promoters.

- **Right to receive the remuneration:** Promoters don't have the privilege to pay under the statute unless the agreement or contract expressly entitles them to be paid. In some cases, the Articles of Association (AOA) of the company may authorise the directors to pay the promoters for services. Promoters are not given the contractual right of payment. The company's board exercises discretion. In practice, since in most cases, the promoters are directors themselves, they are compensated otherwise, i.e., share allotment or incentive for performance.

DUTIES OF PROMOTER

Apart from the above rights, the promoters are also bound and have some duties that they need to perform for the company incorporation to be in line with the law and ethics. These duties are not only crucial to the success of the company but also ensure that the promoters perform their duty in the best interest of the company and the shareholders. The following are the major duties of the promoters:

- i. **To disclose all material facts-** The promoter must disclose all material facts about the company's incorporation, e.g., financial transactions, contracts, and personal interests. In case the promoter fails to disclose major facts, the company can sue him. For example, if the promoter buys land on behalf of the company but fails to disclose a personal interest in the transaction, he can be sued for non-disclosure.
- ii. **To avoid any secret profit-** The promoter should avoid making any secret profit. In case he has made any secret profit, he must disclose all the information about the secretly obtained profit money to all the stakeholders of the company.
- iii. **To ensure Legal Formalities-** The promoters must see to it that all the legal formalities for company incorporation are executed within time. This shall comprise ensuring that the Memorandum of Association (MoA), Articles of Association (AoA), and supporting documents are filed with the Registrar of Companies (RoC).
- iv. **Duty of Care and Skill-** The promoters are obligated to exercise care and skill in taking their steps, and ensuring all steps in the exercise of forming the company are taken in reasonable care. This includes diligent inquiry into the legal, financial, and operational

needs of the enterprise, and the exercise of due precautions to protect the company from events. The promoters must never make decisions likely to harm the goodwill of the company or its legal position.

- v. **To Act Within the Scope of Authority-** The promoters should ensure that whatever acts are performed by them are within the scope of the authority that the promoters have received in the company formation. They should not make decisions or even enter into contractual agreements beyond the scope of the legal and operational capacity of the company.
- vi. **Fiduciary Duty-** Promoters are also under a fiduciary obligation to the company, which includes acting in good faith and in the best interest of the company. This includes avoiding conflicts of interest, bringing transactions to light, and decision-making in the best interest of the company and not in personal or monetary interests.

LIABILITIES OF PROMOTER

Promoters face severe legal risks, particularly if their actions are in contravention of legal or ethical requirements. These risks have to be understood so that the promoters will responsibly and within the law conduct themselves. The promoter liabilities are examined below:

- **Liability for Breach of Fiduciary Duty-** As the promoters are in a fiduciary relationship, they are legally bound to act in the interest of the company. If a promoter earns secret profits and does not disclose them adequately to the company, they can be held accountable. The company can do either of two things if a promoter does not disclose such profits: It can file a lawsuit against the promoter to recover the undisclosed profits, along with interest. It can terminate the contract for sale and get back the amount paid.
- **Liability for misstatement in the prospectus-** A prospectus under Section 26 of the Companies Act, 2013, should be complete and accurate in terms of the company's information, including the details of secretaries, auditors, legal advisors, bankers, trustees, and statements of the Board of Directors. If there is a prospectus containing false or deceptive information or the absence of information required, the promoter may be held liable under the law. "Section 447 states that wilful misrepresentation or

concealment of facts in the prospectus can invite imprisonment and fines.”¹⁴

- **Criminal Liability for misstatement in the prospectus-** “The promoters are criminally liable under section 34¹⁵ for the issue of a prospectus containing untrue or misleading statements if it is likely to mislead.” A promoter may be fined up to the amount of money used in the fraud and imprisoned for a minimum of six months to ten years. Additionally, the sentence must be at least three years in jail if the fraud in question involves the public interest.
- **Civil Liability for misstatement in the prospectus (Section 35)¹⁶-** An individual who has subscribed to the company’s securities and acts on any statement, exclusion or inclusion of any matter that is misleading and sustained any damage or loss, then as a consequence, the company and every individual mentioned within the section, including the company’s promoter shall be liable for payment of compensation to all those individuals sustaining such damage or loss.
- **Regulatory Fines-** Promoters who contravene the provisions of the Companies Act, 2013, or other laws made applicable thereto about corporate setup and functioning can be punished by the regulatory authorities like the Securities and Exchange Board of India (SEBI) or the Registrar of Companies (RoC). The penalty could be in the form of fines, sanctions, or even criminal prosecution, depending upon the nature and severity of the contravention.
- **Personal Liability of Pre-Incorporation Contracts-** One of the serious liabilities of the promoters is that they can be held personally liable for any obligation or contract that has been incurred before the company is incorporated. Since the company is not yet legally formed at the time the incorporation is undertaken, any agreement entered into by the promoters on behalf of the company is a contract with the promoter personally. This holds the promoters personally responsible for the monetary aspect if the company does not fulfil its commitments.

¹⁴ Companies Act 2013, s 447.

¹⁵ Companies Act 2013, s 34.

¹⁶ Companies Act 2013, s 35.

CRITICAL ANALYSIS OF THE ROLE OF PROMOTERS

Promoters play a foundational role in the creation of a company, acting as visionaries who conceptualize business ideas, arrange capital, and complete the legal formalities for incorporation. However, their role is often complex and controversial due to the significant power they have before a company is legally formed. The unregulated power exercised by the promoters before incorporation is most likely to generate conflicts of interest, unjust transactions, and company fraud.

Although the Companies Act of 2013 and SEBI regulations establish the framework for promoting regulation, there are loopholes in enforcement and inherent power disparities that allow for misconduct.

Risk of misuse of Power:

Before incorporation, decisions, money matters, and asset acquisition are in full control of the promoter. The lack of checks and balances offers channels for misuse of power, where the promoters can exploit the company structure for personal benefit.

For example, promoters can use insider trading by taking advantage of non-public financial information for their gain at the expense of minority shareholders. They can also manipulate share prices by artificially creating an impression of demand for the company's shares before an Initial Public Offering (IPO), then selling their shares at a premium, while investors suffer losses.

The Yes Bank Crisis- “Yes Bank was founded by Rana Kapoor and Ashok Kapoor as a private sector bank in India. It was initially seen as the high vision, high-growth, technology-friendly bank. But Rana Kapoor was playing a very high-risk game, as bad loans and NPA loans were given to people and companies that could not repay them.” His monopoly resulted in financial instability, and the Reserve Bank of India had to step in.¹⁷

Ethical Problems:

Conflict of interest is one of the main ethical concerns. Promoters have enormous interests or

¹⁷ Purnima S, ‘Yes Bank Co-Founder Rana Kapoor Gets Bail in Bank Fraud Case after Four Years’ The Hindu (19 April 2024) <<https://www.thehindu.com/news/national/yes-bank-co-founder-rana-kapoor-gets-bail-in-bank-fraud-case-to-walk-out-of-jail-after-four-years/article68083741.ece>> accessed 10 January 2026.

are holding a newly incorporated company in trust and therefore may perform in their economic or personal interest to the detriment of the company. This may lead to self-dealing, where the promoters deal in things that are in their interest and not in the interest of the company, such as lending personal loans or entering into disadvantageous contracts. Promoters can withhold information from the investors or shareholders that is critical for them to make sound decisions, leading to a loss.

The Satyam Scandal (2009)- India's largest corporate scandal was that of Satyam Computers Services, in which Ramalinga Raju, the promoter and main accused, fabricated the company's accounts to report unreal profits. The investors, based on the imaginary figures, invested money into the company, only to incur huge losses when the scam was exposed. The case led to severe punishment for the promoter in the form of criminal prosecution and market bans.¹⁸

Legal Uncertainties of Pre-Incorporation Contracts:

Before incorporation, promoters may enter into contracts in the company's name, e.g., the hiring of office facilities, acquisition of equipment, or hiring of employees. The company does not exist at law at this stage, and such contracts are therefore not binding on the company. This creates two problems: Promoters are individually liable if the company does not adopt the contract upon formation. This exposes them to economic loss, especially if the company fails or declines to perform the contract. If the contract benefits the promoter but harms the company, it can lead to legal disputes and investor losses.

The Companies Act of 2013 allows companies to ratify pre-incorporation contracts, but there is no automatic obligation to do so. This creates legal uncertainty, often resulting in litigation and disputes.

Legal Protection:

Legal protection may be available to promoters in various ways. While the Companies Act, 2013, places a few restrictions on the actions of promoters, loopholes in the law allow promoters to function with impunity. While promoters must act in the interest of the company, there is no robust legal process to penalise them, particularly in the pre-incorporation period.

¹⁸ Madan Lal B, 'Corporate Accounting Fraud: A Case Study of Satyam Computers Limited' (2013) 2 Open Journal of Accounting 26 <<https://www.scirp.org/journal/paperinformation?paperid=30220>> accessed 10 January 2026

Despite regulatory advancements, weak enforcement mechanisms and delayed legal proceedings allow many promoters to evade accountability for long periods.

SUGGESTIONS TO ENHANCE ACCOUNTABILITY AND TRANSPARENCY IN THE PROMOTERS' ROLE

- **Strengthening Regulatory Oversight mechanisms-** Regulatory bodies like the Registrar of Companies (RoC) and SEBI need to be empowered so that they can monitor the activities of the promoters, especially during the pre-incorporation period. This would involve ensuring that the promoters follow proper procedures while entering into contracts on behalf of the company and making their deals transparent. NCLT must impose stricter penalties and ensure faster resolution of fraud cases. Stronger coordination between financial regulators and law enforcement agencies can help track insider trading, share manipulation, and fund diversion more effectively.
- **Clear Legal Provisions for Pre-Incorporation Contracts-** The Companies Act, 2013, has to be amended to provide more detailed guidance toward the legality and enforceability of pre-incorporation agreements entered into by the promoters. This would determine the ambit of promoter powers and reduce ambiguity concerning their legal liabilities in the early stages of company incorporation.
- **Stricter Disclosure Requirements for Promoter Holdings and Transactions-** A lack of transparency in promoter shareholding patterns, pledged shares, and offshore financial dealings creates risks for investors. To prevent undisclosed financial manipulations, regulators should enforce real-time reporting of promoter holdings, pledged shares, and major financial transactions. SEBI should also mandate quarterly disclosures of all promoter transactions to minimise the risk of insider trading and fund diversion. Implementing stricter reporting standards will improve transparency and prevent hidden financial risks.
- **Mandatory Independent Audits-** Promoters often manipulate financial records, engage in insider trading, and divert funds due to weak financial scrutiny. Making independent forensic audits mandatory, particularly in promoter-led firms, will enhance transparency and detect financial irregularities at an early stage. Auditors should be fully independent from the promoters, ensuring unbiased reporting and preventing

conflicts of interest. Companies should also be required to disclose all related-party transactions to prevent secret dealings that benefit promoters at the company's expense.

- **Adopting International Best Practices in Corporate Governance-** Countries like the United States, the United Kingdom, and Singapore have developed stronger corporate governance regulations to limit promoter influence.¹⁹ India should adopt similar practices, such as mandatory risk disclosures for IPOs, strict insider trading laws, and stronger protections for minority shareholders. By adopting such global best practices, India can enhance corporate transparency, protect investors, and prevent promoter-led financial fraud.

CONCLUSION

The role of promoters is very crucial and intricate, as promoters form the bedrock of company formation and have an instrumental role in designing its initial structure and nature of business. This study has given a structured explanation of the promoters, with a description of their rights, obligations, and liabilities, including their corresponding issues, management problems, and regulatory inefficacies. While promoters help in the formation of businesses, raise funds, and spur economic growth, their unchecked power and susceptibility to misuse of those powers are critical issues. Conflicts of interest, misstatement of financial statements, insider trading, and abuse of company assets have frequently resulted in corporate fraud and governance failure.

To ensure ethical and transparent corporate governance, stronger regulatory oversight, independent auditing, better protection for minority shareholders, and greater legal liability for the promoters should be implemented. Thus, there must be a balance between promoter power and accountability to create a viable business ecosystem. With robust legal frameworks, better enforcement mechanisms, and responsible corporate leadership, promoters can continue to drive business innovation and economic progress while ensuring fairness, transparency, and sustainability in corporate affairs.

¹⁹ Shamsheer Mohamad and Zulkarnain Muhamad Sori, "Corporate Governance from a Global Perspective" (SSRN Electronic Journal, April 21, 2011) <https://www.researchgate.net/publication/228247817_Corporate_Governance_from_a_Global_Perspective> accessed 10 January 2026.

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