

# The Failure of Corporate Governance at Infrastructure Leasing and Financial Services Limited: Lessons Learnt

South Asian Journal of  
Business and Management Cases  
10(1) 63–76, 2021

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DOI: 10.1177/2277977921991897  
journals.sagepub.com/home/bmc



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## Abstract

This case study investigates multiple issues related to corporate governance, regulations, auditing and financial reporting of Infrastructure Leasing and Financial Services Limited (IL&FS). Combinations of these issues resulted in default in payment obligations by IL&FS in August 2018 originated from the agency problem. It posed a substantial systematic risk to the whole financial system of India. This case study highlights the severe drawback of concentration of decision-making and unprofessional work ethics at the senior management level. Further, the case study also provides the opportunity to discuss the inappropriate regulations and governance practices which cause a severe problem in long-standing and prominent organizations like IL&FS.

**Research Questions:** (a) Discuss the vital role of corporate governance in major corporations and the reasons behind governance failures. (b) How did asset–liability mismatch create liquidity problems in a company which deals with long-term projects? (c) How does lack of a proper and unified regulatory framework for Non-Banking Financial Corporation (NBFC) harm investors' interest?

**Link to Theory:** This case study provides an opportunity to learn the role of corporate governance in NBFC. This case demonstrates the problems arisen because of agency problem and conflict of interest among real-world stakeholders. The case study also highlights the importance of assets–liabilities management in a strategically important organization like IL&FS.

**Phenomenon Studied:** This case study attempts to understand the potential problems that occurred in IL&FS from the failure of good governance, lack of unified regulations for NBFCs and non-adherence of professional responsibilities by the external auditors.

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**Disclaimer:** This case is a revised and enlarged version of the original case titled 'IL&FS Fallout: Is it business model failure or corporate governance failure?', presented at International Conference of Management Cases 2019, organized by Birla Institute of Management Technology, Greater Noida, India, 5 and 6 December 2019.

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