

A STUDY ON EVOLUTION OF CORPORATE GOVERNANCE IN INDIA – A LEGAL PERSPECTIVE

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ABSTRACT:

The concept of corporate governance encompasses the rules, regulations, and practices that guide the administration and control of corporations, ensuring transparency, fairness, and accountability in interactions with stakeholders such as shareholders, employees, and regulators. A strong corporate governance framework promotes economic stability, protects shareholder interests, and boosts investor confidence. In India, corporate governance has evolved significantly due to economic reforms, regulatory changes, and global best practices. Initially hindered by government-controlled industries and family-owned businesses, India's corporate governance system was reformed after the 1991 economic liberalization, necessitating stronger governance mechanisms to enhance transparency and credibility in the newly opened markets. In this article, we are going to know the evolution of corporate governance in India by analysing the Companies Act, 2013, SEBI and other regulatory bodies rules.

INTRODUCTION:

The framework of rules, regulations, and practices that govern the administration and control of corporations is referred to as corporate governance. It guarantees transparency, fairness, and accountability in a company's interactions with stakeholders, such as shareholders, employees, consumers, and regulators. A corporate governance system that is well-functioning promotes economic stability, safeguards shareholder interests, and enhances investor confidence. Economic reforms, regulatory adjustments, and global best practices have all played a significant role in the evolution of corporate governance in India. Initially, India's corporate governance was inadequate as a result of government-controlled industries, family-owned businesses, and inadequate investor protection. India's markets were opened to foreign investors as a result of economic liberalisation in 1991, which required the implementation of more robust governance mechanisms to guarantee

transparency and credibility.

SCOPE OF THE STUDY:

In India, corporate governance is governed by a variety of laws and institutions, including the Companies Act of 2013, which requires independent directors, audit committees, and corporate social responsibility (CSR). The Securities and Exchange Board of India (SEBI) is responsible for the enforcement of governance standards for listed companies through the implementation of LODR Regulations, insider trading norms, and takeover regulations. The RBI, MCA, and NFRA are additional regulators that are responsible for the oversight of financial governance, banking regulations, and auditing standards.

FOCUS OF RESEARCH:

This investigation investigates the historical development, legal and regulatory framework, impact of corporate scandals, function of independent directors, and emerging trends in corporate governance in India. The goal is to

examine the impact of India's legal system on corporate governance and the obstacles that persist in the pursuit of ethical and transparent corporate practices.

1. THE EVOLUTION OF CORPORATE GOVERNANCE IN INDIA:

A Historical Perspective

Various economic and regulatory phases have influenced the evolution of corporate governance in India. From the colonial era to the current governance frameworks, a variety of legal reforms have influenced corporate transparency, accountability, and investor protection.

Colonial Era and Early Corporate Regulations

The UK Companies Act, 1862, had an impact on corporate governance during British rule. The Indian Companies Act of 1866 was the first formal corporate law in India, establishing fundamental registration and reporting requirements. This legislation was subsequently succeeded by the Indian Companies Act, 1913, which enhanced shareholder rights, director responsibilities, and financial disclosures.

Developments Following Independence

The Companies Act of 1956, which was enacted following India's independence, became the most comprehensive corporate law in the country. Nevertheless, the governance structure remained vulnerable as a result of state-controlled industries, family-owned businesses, and inadequate investor protections. Reforms to Corporate Governance and Economic Liberalisation. The 1991 economic liberalisation represented a significant transformation. India was required to enhance its governance framework in order to attract foreign investment. Numerous committees were established:

- **Kumar Mangalam Birla Committee (1999):** The committee recommended the establishment of independent directors, audit committees, and financial disclosures.

- **Narayan Murthy Committee (2003):** Resulted in the implementation of Clause 49 of the SEBI Listing Agreement, which enhanced risk management and board structures.
- **Uday Kotak Committee (2017):** Suggested that board accountability, transparency, and disclosure standards be enhanced. Weak regulations have given way to a robust legal framework in India's corporate governance. Nevertheless, there are ongoing obstacles to ethical compliance and enforcement, necessitating ongoing reforms.

2. THE IMPORTANCE OF THE COMPANIES ACT, 2013 IN THE ENHANCEMENT OF CORPORATE GOVERNANCE

The Companies Act, 2013, succeeded the antiquated Companies Act, 1956, by integrating global best practices to improve corporate governance, accountability, and investor protection.

Provisions Enhancing Corporate Governance
Independent Directors: It is mandatory for listed companies to have independent directors. Necessary to prevent conflicts of interest and guarantee transparency.

Committees of the Board:

The Audit Committee is responsible for the oversight of financial reporting and compliance.
Nomination and Remuneration Committee: Guarantees equitable director appointments and compensation. Minority shareholder rights are safeguarded by the Stakeholders' Relationship Committee.
Corporate Social Responsibility (CSR): Organisations that satisfy particular criteria are required to allocate 2% of their profits to social causes.

Enhanced Disclosure and Transparency Standards: Mandatory financial disclosures and related-party transaction reporting. In comparison to the Companies Act of 1956 Detailed corporate governance provisions were absent from the 1956 Act, which primarily addressed company formation. Financial

transparency, board accountability, and stringent governance norms were implemented by the 2013 Act. The 2013 Companies Act substantially enhanced governance, thereby fostering greater investor confidence and compliance. Nevertheless, enforcement challenges continue to exist, necessitating more stringent supervision.

3. THE INFLUENCE OF SEBI AND OTHER REGULATORY BODIES ON CORPORATE GOVERNANCE

The Securities and Exchange Board of India (SEBI) is a critical entity in the enforcement of corporate governance standards. Governance is also influenced by other regulatory bodies, including the Reserve Bank of India (RBI), Ministry of Corporate Affairs (MCA), and National Financial Reporting Authority (NFRA). SEBI's Contribution to Corporate Governance The Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015, require financial disclosures and governance structures. Establishes the qualifications and obligations of an independent director. The Takeover Code (2011) guarantees that corporate acquisitions are conducted in a fair manner. Protects minority shareholders. Insider Trading Regulations: Prevents trading on the basis of unpublished sensitive information. Additional Regulatory Bodies The finance sector is governed by the Reserve Bank of India (RBI). MCA: Enforces and supervises compliance with the Companies Act. NFRA: Guarantees the integrity of audits and the adherence to financial reporting standards. Obstacles to Implementation - Strict enforcement is impeded by political influence and corporate lobbying. Despite regulations, numerous organisations disregard disclosure standards.

Governance in India has been enhanced by SEBI and other regulatory bodies. Nevertheless, it is imperative to implement more stringent enforcement measures to guarantee compliance and prevent corporate fraud.

4. THE IMPACT OF CORPOATE SCANDALS ON GOVERNANCE REFORMS IN INDIA

Governance deficiencies have been disclosed by corporate controversies, which have resulted in substantial legal reforms. Case studies of significant frauds underscore the necessity for more stringent enforcement and the existence of vulnerabilities in the corporate framework.

Large-scale corporate scandals in India

Satyam Scam (2009): A \$1.47 billion deception was the result of falsified accounts. As a consequence, the National Financial Reporting Agency (NFRA) was established to supervise auditing.

IL&FS Crisis (2018): A systemic crisis was precipitated by financial malfeasance. Caused the RBI to implement more stringent regulations regarding non-banking financial companies (NBFCs).

Nirav Modi-PNB Scam (2018): Fraudulent letters of understanding (LoUs) that resulted in a billion-dollar banking fraud. Resulted in enhanced banking regulations and fraud detection mechanisms.

Regulatory Reforms Companies Act of 2013: Implemented more stringent governance and audit provisions in response to the scandals.

SEBI Regulations: Intensified disclosure and insider trading regulations.

Whistle-blower Protection Mechanisms: Improved legal safeguards for whistleblowers. Although corporate scandals have resulted in more stringent regulations, governance failures persist as a result of inadequate enforcement. It is imperative to enhance ethical leadership and oversight.

Future Challenges and Emerging Trends in Corporate Governance

The future of corporate governance in India is being influenced by new trends and challenges as it continues to evolve. Technological advancements, stricter compliance norms, and

ESG (Environmental, Social, and Governance) are all gaining significance.

New Developments in Corporate Governance

ESG (Environmental, Social, and Governance) Compliance: Investors require transparency in sustainability initiatives. ESG disclosures have been required for listed companies by SEBI. Corporate Governance Technology: Fraud detection and compliance monitoring are enhanced by block chain and AI. Real-time risk management is facilitated by digital governance instruments.

Enhancing Enforcement Mechanisms:

Transparency is fostered by enhanced whistleblower protections.

Misconduct is discouraged by the imposition of more severe penalties for corporate fraud.

Challenges in Corporate Governance

Guaranteeing Improved Enforcement: Laws exist; however, compliance continues to be a challenge.

Addressing Conflicts of Interest: The independence of the board is impacted by the fact that many companies are still family-owned.

Best Practices on a Global Scale: India must ensure that its governance framework is consistent with international standards.

ESG adoption, technological integration, and more stringent enforcement mechanisms will determine the future of corporate governance in India. It is imperative to fortify corporate ethics and transparency in order to guarantee sustainable business practices.

CONCLUSION:

Economic reforms, global influences, and corporate controversies have all contributed to the substantial legal and regulatory changes that have characterised the development of corporate governance in India. Initially, India's governance structures were inadequate, as they lacked transparency, accountability, and investor protection. Nevertheless, the economic

liberalisation of 1991 initiated a series of reforms that were designed to enhance corporate governance.

The Companies Act of 2013 was instrumental in the improvement of governance by instituting provisions such as mandatory board committees, corporate social responsibility (CSR), and independent directors. Regulations such as LODR (Listing Obligations and Disclosure Requirements), insider trading rules, and takeover codes were implemented by the Securities and Exchange Board of India (SEBI) to further strengthen governance norms. Additional regulatory bodies, including the Reserve Bank of India (RBI), Ministry of Corporate Affairs (MCA), and National Financial Reporting Authority (NFRA), have played a role in the promotion of financial integrity and corporate supervision.

Corporate crimes such as the Satyam Scam (2009), IL&FS Crisis (2018), and the Nirav Modi-PNB Scam (2018) have revealed gaps in governance frameworks, despite these advancements. These scandals resulted in enhanced disclosure requirements, more stringent enforcement mechanisms, and more robust audit supervision. In the future, emergent trends such as ESG (Environmental, Social, and Governance) compliance, AI-driven compliance mechanisms, and stricter accountability measures are anticipated to further influence corporate governance in India. Nevertheless, obstacles persist, such as inadequate whistleblower protections, conflicts of interest, and ineffective enforcement. Legal reforms, regulatory interventions, and corporate failures have all contributed to the development of corporate governance in India. Although substantial progress has been achieved, it is imperative to maintain global compliance, ethical business practices, and strict enforcement in order to facilitate sustainable corporate expansion. The objective of this research is to offer a comprehensive legal perspective on corporate governance in India, emphasising significant developments,

obstacles, and potential future directions.

Corporate governance is a dynamic process that necessitates ongoing legal and regulatory enhancements. Despite the substantial progress that has been achieved, it is still imperative to ensure ethical corporate practices, promote transparency, and strengthen enforcement mechanisms in order to achieve sustainable corporate growth in India.

SUGGESTIONS:

Enhanced Regulation Enforcement
Enforcement in India is inadequate, despite the existence of a strong legal framework. In order to guarantee strict adherence to governance norms, regulatory bodies such as SEBI, MCA, and NFRA should improve their monitoring mechanisms.

Companies that violate governance regulations should be subject to more severe penalties, such as financial penalties, blacklisting, and criminal proceedings against executives.

Improving the Accountability of Independent Directors and Boards
Independent directors are essential to governance; however, they frequently lack genuine autonomy. In order to guarantee the effectiveness of independent directors, it is imperative that they adhere to more stringent qualifications and training requirements. In order to ensure accountability, it is imperative that boards and independent directors undergo consistent performance evaluations.

Enhancing Protection Mechanisms for Whistle-blowers

Employees are discouraged from disclosing corporate fraud due to the threat of retribution. India should establish more robust whistle-blower protection laws that include legal immunity, anonymous reporting mechanisms, and financial incentives for whistle-blowers.

Implementing ESG Compliance and Global Best Practices

India should ensure that its corporate governance framework is consistent with global

best practices, including the OECD Principles of Corporate Governance and the Sarbanes-Oxley Act (USA). Companies should be obligated to incorporate Environmental, Social, and Governance (ESG) factors into their business strategies, with mandatory ESG reporting for listed firms.

Utilising Technology for Governance and Compliance

By automating compliance processes, ensuring real-time financial disclosures, and detecting fraud, AI, block chain, and data analytics can enhance governance. In order to improve governance supervision and fraud detection, regulators should implement AI-driven monitoring tools.

Enhanced Protection of the Rights of Minority Shareholders
Conflicts of interest and oppression of minority shareholders are common in numerous Indian enterprises that are family-owned. The government should enhance the laws that guarantee minority investors equitable representation, voting rights, and grievance redressal mechanisms.

Consistent Reforms in Law and Policy
Corporate governance is a dynamic process that necessitates regular legal revisions to address new challenges. The government should implement policy reforms that are informed by market needs, global trends, and stakeholder feedback, and conduct regular corporate governance audits.

Corporate governance in India has made significant progress; however, it is imperative to continue enhancing it in order to preserve economic growth, business sustainability, and investor confidence. In order to guarantee ethical corporate practices, financial integrity, and robust legal enforcement, it is imperative to implement a multi-stakeholder strategy that includes regulators, companies, investors, and policymakers. India can further improve its corporate governance framework and align with global standards by strengthening laws, increasing transparency, and leveraging technology.

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