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CORPORATE GOVERNANCE IN INDIA: A CONCEPTUAL AND REGULATORY OVERVIEW

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Abstract

Business Ethics refers to carrying business as per self-acknowledged ethical standards. It is a structure of ethical principles and code of conduct applicable to a business. Corporate governance specifies the relationship among various primary participants (shareholders, directors, and managers) in determining the directions and performance of corporations. Ethical decisions in a business have implications such as satisfied work force, high sales, low regulation cost, more customers and high goodwill. Good corporate governance seeks to make sure that all shareholders get a voice at general meetings and are allowed to participate. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights. Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment. The paper tries to analyse the corporate governance in Indian scenario and suggests steps to establish good corporate governance in companies.

Key words: corporate, governance, business, SEBI, practices.

1.1 Introduction

According to Investopedia, 'Corporate Governance' means the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.[1879]

The Business Dictionary defines 'Corporate Governance' as the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community). The corporate governance framework consists of (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards, (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles, and (3) procedures for proper supervision,

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[1879] Definition of 'Corporate Governance', http://www.investopedia.com/terms/c/corporategovernance.asp (last accessed on: October 25, 2025) control, and information-flows to serve as a system of checks-and-balances.[1880]

The earliest definition was of Corporate Governance by the Economist and Noble laureate Milton Friedman[1881]. According to him, *"Corporate Governance is to conduct the business in accordance with owner or shareholders' desires, which generally will be to make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs."*

Some more established definitions state that *"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders and also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."*

According to Shri Kumar Mangalam Birla *"fundamental objective of corporate governance is the 'enhancement of the long-term shareholder value while at the same time protecting the interests of other stakeholders."*

1.2 Ethics and corporate governance under the Companies Act, 2013

The Companies Act, 2013 brought in a bunch of changes to push Indian companies toward better ethics and stronger governance.[1882] For example, Section 149 says certain companies need independent directors and at least one woman director on their boards. These independent directors help keep decisions fair and objective. Also a Code of Conduct for them (Schedule IV), which lays out the need for integrity and responsibility to act in everyone's best interests.

Sections 177 and 178 talk about important 'board committees'. The Audit Committee checks that financial statements are accurate and transparent. The Nomination and Remuneration Committee looks after how directors and top managers are chosen and paid — making sure it is done fairly. The Stakeholders' Relationship Committee, handles complaints and looks out for shareholders and investors.

The Act also shook things up with Corporate Social Responsibility (CSR). Under Section 135, some companies have to spend at least two percent of their average net profits from the last three years on CSR activities. Plus, Sections 92 and 134 push for more transparency, requiring companies to share detailed annual reports and board statements about how they're run and how they performed.

To keep things ethical inside the company, Section 177(9) makes it mandatory for companies to set up a Vigil Mechanism or Whistleblower Policy. This gives employees and directors a safe way to report anything unethical or shady without worrying about backlash. Section 188 keeps an eye on Related Party Transactions, making sure all deals are fair and out in the open. And if anyone tries to cheat or break the rules, Sections 447 to 453 lay down some tough penalties for fraud, insider trading, and other illegal acts.

At the heart of good corporate governance, one will find a few key ideas: accountability, transparency, fairness, responsibility, independence, and integrity. Management answers to the board and shareholders. Information is shared clearly, not hidden. Everyone in the company and outsiders are treated fairly. The companies must follow both the law and moral standards. Decisions are made independently, and above all, with integrity.

The Board of Directors is right at the center of all this. They set the ethical tone for the company and keep management heading in the right direction. The Audit Committee checks internal controls and financial records. The Nomination

[1880] Corporate Governance, http://www.businessdictionary.com/definition/corporate-governance.html (last accessed on: October 27, 2025)

[1881] Mayank Vashisht, corporate governance, https://www.lawrbit.com/article/corporate-governance/ (last accessed on: October 27, 2025)

[1882] Puneeta Goel, Implications of corporate governance on financial performance: an analytical review of governance and social reporting reforms in India, 3 ASIAN J. SUSTAINABILITY & SOC. RESP. 4 (2018); https://doi.org/10.1186/s41180-018-0020-4.

and Remuneration Committee makes sure top executives are chosen and paid the right way. And the CSR Committee ensures the company meets its social responsibilities openly and effectively. All in all, the Companies Act, 2013 does not just lay down rules — it tries to build a culture where doing the right thing is part of everyday business.[1883]

1.3 Ethics and Corporate Governance through Regulatory Agencies in India

Ethics and good corporate governance are not just nice-to-haves—they are what keep a business world running smoothly. In India, making sure companies play by the rules is not the job of just one agency. Several regulatory bodies share this responsibility. They are there to keep companies honest, fair, and open, which protects not just investors and stakeholders, but everyone connected to the business world.[1884]

The Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Institute of Chartered Accountants of India (ICAI), and the Insurance Regulatory and Development Authority of India (IRDAI)—all of them play their own part in keeping business ethical and promote effective corporate governance.

The MCA sits at the centre of it all. It is the main government arm in charge of the Companies Act, 2013, which spells out the rules for corporate governance in India. The MCA pushes for ethical behaviour through laws that demand transparency, accountability, and a sense of social duty from companies. One can see its work in creation of rules including about how boards are put together, requirements for independent directors, CSR mandates, audit committees, and protections for whistleblowers etc. The Serious Fraud Investigation Office (SFIO), which works under the MCA, digs into corporate fraud and shady financial practices. Thanks to these tools, the MCA can clamp down on bad practives and keep companies honest.

SEBI steps in to watch over listed companies and the securities market. Born from the SEBI Act, 1992, SEBI's main job is to look out for investors and make sure capital markets are fair. It enforces strict rules through the Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015. These rules push companies to be open about their finances, keep their boards independent, and set up proper audit and risk committees. SEBI also demands full disclosure of important information, related party deals, and shareholding details—making sure investors are not left in the dark. Plus, SEBI's code of conduct for directors and top management lays down clear lines around ethics, insider trading, and conflicts of interest.[1885]

The RBI, India's central bank, focuses on ethics and governance in banks and financial institutions. The RBI issues detailed guidelines on risk management, board oversight, and transparency for both banks and non-banking finance companies. Its Corporate Governance Framework (2021) spells out what is expected from boards, independent directors, and audit committees to keep financial management clean. The RBI also enforces customer protection, fair lending, and anti-money laundering rules. All this helps keep India's financial system steady and trustworthy.

The ICAI, set up under the Chartered Accountants Act, 1949, keeps the standards high in corporate reporting and auditing. It has its own Code of Ethics for chartered accountants—so audits are done with independence and integrity. ICAI sets the bar for accounting and auditing, making sure financial statements truly reflect a company's health. If any auditor is caught cutting corners or breaking the rules, ICAI can take tough disciplinary action. This

1883 Umakanth Varottil & Richa Naujoks, Corporate Governance in India: Law and Practice, SSRN (2016) https://papers.ssrn.com/abstract=2951705 (last visited Apr 27, 2022).
1884 Raj Aggarwal & Sandra Dow, Corporate governance and business strategies for climate change and environmental mitigation, 18(3-4) THE EUROPEAN J. FIN 311 (2012).
1885 Rajan S. A Study on Role of Sebi As A Regulatory Authority in Indian Capital Market, https://ijcrt.org/papers/IJCRT2007358.pdf1 (last accessed on: October 25, 2025)

holds everyone in financial reporting to a higher standard.

IRDAI handles the insurance sector, making sure insurance companies and their agents follow ethical practices. It enforces rules on customer protection, honest disclosure, and good governance. Insurers must have audit committees, risk policies, and strong compliance systems so customers and stakeholders don't get a raw deal. The Pension Fund Regulatory and Development Authority (PFRDA) does something similar for pension funds, protecting subscribers with tight governance standards. Not to forget the stock exchanges like BSE and NSE. They help out by enforcing listing agreements and keeping an eye on whether listed companies stick to governance rules.

1.4 Importance and Impact of corporate governance

The subject of corporate governance has assumed much importance in India, given the growing number of corporate bodies, the growing number of public investors, and the integration of the Indian economy into the world economy. It refers to a system by which corporations are managed and controlled, taking into consideration the interests of the shareholders, management, consumers, debtors, the government, and society, among others. In a developing nation such as the Indian nation, corporate governance is viewed as the basis for the sustainable growth of businesses.[1886]

Protection of the interests of the shareholders, particularly the minority, is one of the most crucial reasons for the relevance of corporate governance in India. Many sectors in India had the characteristic of being promoter-control driven. This led to a situation where the Company's power and resources were being misused. Corporate governance practices like the use of independent directors, audit committees, and disclosure standards prevent the abuse of power and ensure equity and justice.[1887]

Another area significantly affected by corporate governance in India relates to transparency and disclosure practices. With the Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015[1888] (LODR Regulations), Listing Obligations and Disclosure Requirements, issued by SEBI, there has been greater accountability in terms of financial disclosures, related-party transactions, and risk management, and this has helped to eliminate the instances of fraudulent practices and corporate scandals being witnessed in the country.

Corporate governance also plays a significant role in boosting the confidence of investors. Effective implementation of good governance standards ensures that investors feel secure about their investments and that the companies are being run in an efficient and moral way. This has helped to boost foreign direct investment and foreign institutional investments in India.

Corporate governance also enhances corporate performance and sustainable development. It is assumed that properly run corporations are likely to have efficient strategic planning and internal controls. Corporate governance also promotes good leadership. It puts emphasis on ethics and social responsibility, and this makes corporations focus on sustainable development rather than following short-term objectives.[1889]

In the Indian scenario, corporate governance has been a very important factor in preventing and responding to corporate irregularities. Cases of corporate failures and scams have

[1886] ICAEW, What is corporate governance?, http://www.icaew.com/en/technical/corporate-governance/overview/does-corporate-governance-matter (last accessed on: October 29, 2025)

[1887] Banda, Masiye & Mwange, Austin, Corporate Governance: A Conceptual Analysis, RJFA, 2023. 10.7176/RJFA/14-17-05.

[1888] Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Fourth Amendment) Regulations, 2019, Gazette of India, pt. III, sec. 4 (July 29, 2019).

[1889] Gaurav Akrani, Importance of Corporate Governance - Need Significance, http://kalyan-city.blogspot.in/2011/10/importance-of-corporate-governance-need.html (last accessed on: October 25, 2025) brought to light the importance of better standards of corporate governance. The constant amendments made to corporate laws as well as securities laws can well denote the effort made by India to conform to international best standards of corporate governance. In summary, the significance and implications of corporate governance in the Indian context can be identified in its ability to ensure accountability, transparency, protection of investors, and development of the Indian economy. As Indian corporations strengthen their presence across the globe, their corporate governance structures would continue to play a pivotal role in keeping their integrity intact.

1.5 Key Steps of establishing corporate Governance system

An effective way to deliver a good corporate governance structure requires careful consideration and a strategic process to align practices in accordance with legal, ethical, and strategic imperatives. The starting point in this regard begins with setting corporate governance objectives. In this case, determination of what an organization aims to achieve in relation to corporate governance will include, but not be limited to, accountability, transparency, safeguarding stakeholders, risk management, and embedding ESG principles into the boardroom process.

Knowing the relevant laws and regulations is also paramount. An effective framework of governance should incorporate compliance with corporate laws, securities regulation, listing agreement, and industry-specific regulations that prevail in the country of operations. This knowledge about relevant laws not only ensures compliance but also mitigates risks against an organization that may emerge due to non-adherence. In addition, there should also be an analysis by organizations of their present state of governance. This analysis enable an organization to focus on what it does best, what it does not do, or what it should not do.

After such a foundation has been established, the organization can then identify its appropriate structure for the governance framework. This has to do with the proper partitioning of powers and responsibilities between the Board of Directors, Board committees, Management, and Shareholders. Having such a structure in place eliminates any possibility of duplication, conflicting ideas, and inefficiency in the decision-making processes. To complement such a structure, the organization has to establish its policies and procedures on matters such as conduct, risk management, disclosure requirements, Management accountability, ESG factors, and Green practices such as Sustainable Supply Chains.

The composition of boards is an important part of successful governance practices. It is important that companies take measures to strike a right mix of expertise, experience, independence, and diversity to be achieved on the board. The transparent procedures of appointment, performance, and succession planning are effective measures to improve board independence and integrity. It is also essential to set up effective risk management systems to counter risks associated with finance, business, and the environment. Also, there is a need to include ESG and climate-related risks within the risk management framework.

Effective internal controls and open disclosure policies also enhance the value of governance. Good financial disclosures, independent auditing, and open disclosure of both financial and non-financial information enhance the confidence of investors. It is significant that the transparency also permeates the realms of sustainability and ESG. This means that the organization is committed to good business practices. Another significant aspect of good governance is the involvement of stakeholders. Stakeholder interactions are critical in tapping different perspectives for organizational decision-making.

Corporate governance is an ongoing process that calls for continuous monitoring and assessment. Board evaluations, audits, both internal and external, and third-party assessments can pinpoint areas that need improvement. Behind each process mentioned above is the encouragement of good ethics and good corporate culture. This is made possible by an ethical code that an organization lives by. Essentially, the implementation of corporate governance remains a dynamic and continuous process. Through periodic review of corporate governance practices and the infusion of green and ESG values, the challenges resulting from the three types of governance can be effectively met.

1.6 Conclusion

Ethics is basically about doing the right thing — the values and principles that shape how people and companies behave. In business, it means being honest, fair, and treating everyone with respect. It's not just about following the law; it's about building trust and a good reputation, which actually matters if you want your company to last. Corporate governance is how a company is run — the rules and systems that help keep things fair, open, and accountable. Good governance means a company treats its shareholders, employees, customers, and everyone else it deals with in a transparent and responsible way. That's what keeps investors confident, keeps management on track, and helps avoid scandals or fraud.

It can be said that there exists a huge relation between the corporate governance and ethics. Sometimes the ethics and governance principles occupy the same field. The most important thing is the need for induction of both in business practices. A lot like scams, unethical money laundering etc. can be avoided. Corporate Governance ensures transparency which ensures strong and balanced economic development.

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