



INDIAN JOURNAL OF
LEGAL REVIEW

VOLUME 6 AND ISSUE 6 OF 2026

INSTITUTE OF LEGAL EDUCATION



INDIAN JOURNAL OF LEGAL REVIEW

APIS – 3920 – 0001 | ISSN – 2583-2344

(Open Access Journal)

Journal's Home Page – <https://ijlr.iledu.in/>

Journal's Editorial Page – <https://ijlr.iledu.in/editorial-board/>

Volume 6 and Issue 6 of 2026 (Access Full Issue on – <https://ijlr.iledu.in/volume-6-and-issue-6-of-2026/>)

Publisher

Prasanna S,

Chairman of Institute of Legal Education

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 73059 14348 – info@iledu.in / Chairman@iledu.in



© Institute of Legal Education

Copyright Disclaimer: All rights are reserve with Institute of Legal Education. No part of the material published on this website (Articles or Research Papers including those published in this journal) may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher. For more details refer <https://ijlr.iledu.in/terms-and-condition/>

CORPORATE GOVERNANCE FAILURES AND THEIR IMPACT ON SUSTAINABLE DEVELOPMENT: LESSONS FROM INDIAN CORPORATE SCANDAL

AUTHOR – JUMANA HUSSAIN, LL.M (BUSINESS LAW) AT AMITY UNIVERSITY, NOIDA

BEST CITATION – JUMANA HUSSAIN, CORPORATE GOVERNANCE FAILURES AND THEIR IMPACT ON SUSTAINABLE DEVELOPMENT: LESSONS FROM INDIAN CORPORATE SCANDAL, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR)*, 6 (6) OF 2026, PG. 595-606, APIS – 3920 – 0001 & ISSN – 2583-2344. DOI – <https://doi.org/10.65393/IJLRV6I6462>

ABSTRACT

Corporate governance is the set of rules that modern businesses follow to make sure they are accountable, open, fair, and make decisions that are moral. In a world where economies are becoming more interconnected and globalised, good corporate governance is no longer only about how a company runs its own business. It is now a key factor in economic stability and long-term growth. Corporate governance in India has changed a lot in the last few decades, especially after the economy opened up in the 1990s. The Companies Act of 2013 and the Securities and Exchange Board of India (SEBI) are two examples of laws and regulations that have tried to improve governance standards and bring them in line with best practices around the world. Even with these improvements, ongoing corporate scandals have shown that governance systems still have problems, which makes people worry about how well they work in real life.

Failures in corporate governance in India have shown time and time again how systemic problems such as a lack of transparency, poor board monitoring, regulatory failures, and unethical behaviour may cause big financial problems and institutional breakdowns. These mistakes go beyond just losing money right away; they also have a big effect on long-term development. When businesses do things that are dishonest or irresponsible, it hurts sustainable development, which is the balanced combination of economic growth, environmental protection, and social fairness. Corporate scandals undermine investor confidence, disrupt financial markets, diminish public faith in institutions, and frequently lead to detrimental societal outcomes, including unemployment, loss of public funds, and economic instability.

This article conducts an extensive socio-legal examination of corporate governance problems in India, emphasising their effects on sustainable development. It critically analyses significant corporate scandals, such as the Satyam Computer Services fraud, the Infrastructure Leasing & Financial Services (IL&FS) crisis, and the Punjab National Bank (PNB) fraud, using them as case studies to expose structural and regulatory deficiencies. The report delineates persistent patterns of governance failure, encompassing the manipulation of financial statements, inadequate internal controls, regulatory arbitrage, and the collapse of independent oversight systems.

The research employs a doctrinal methodology, depending on a comprehensive examination of statutory provisions, regulatory frameworks, court decisions, and policy documents. It also uses secondary sources like academic papers, committee reports, and expert analyses to put the concerns in a bigger conversation about governance and sustainability. The paper aims to connect corporate governance theory with its real-world effects by combining legal analysis with socio-economic factors.

The study finds that India's legal and regulatory framework for corporate governance is rather strong, but these systems don't always perform well because of inadequate enforcement, a lack of accountability, and a culture of unethical behaviour in businesses. The ongoing failures in governance show how important it is to take a more proactive and integrated strategy that goes beyond just following the rules. In this regard, the paper stresses the need to improve institutional monitoring, give boards and auditors more power and independence, and create a culture of ethical responsibility in businesses. It also stresses the importance of including Environmental, Social, and Governance (ESG) principles in corporate decision-making so that business practices help long-term sustainable development in a meaningful way.

KEYWORDS: Corporate Governance; Sustainable Development; Corporate Fraud; Accountability; Transparency; India; CSR; ESG; Regulatory Framework; Corporate Ethics.

INTRODUCTION AND RESEARCH

PROBLEM

Corporate governance is the set of rules and institutions that guide, manage, and control businesses. It includes a complicated web of connections between a company's management, board of directors, owners, creditors, employees, and other important people. Corporate governance is all about making sure that businesses use their authority in a responsible, open, and accountable way. It gives the tools for setting and working toward business goals, keeping an eye on performance, and handling risks. Business governance is more than just a legal or procedural necessity; it is also a key part of business integrity and long-term survival. Corporate governance became more important in India as the country opened up its economy in the early 1990s. When India opened its economy to the rest of the world, it saw more foreign investment, more competition, and more attention from international interests. To make sure that investors trust the market and that the market is credible, this change required the use of globally acknowledged standards of governance. India, therefore, saw a few changes to its institutions and laws that were meant to improve how businesses are run. Regulatory authorities like the Securities and Exchange Board of India (SEBI) took the lead in setting governance standards. At the same

time, comprehensive laws like the Companies Act, 2013, tried to set down rules for openness, responsibility, and protecting stakeholders. Several committees, such as those led by Kumar Mangalam Birla and Narayana Murthy, helped set standards for governance by suggesting best practices for board composition, disclosure requirements, and audit processes.

At the same time, the idea of sustainable development has become a key idea in both national and global policy discussions. Sustainable development, as often defined, entails the pursuit of economic growth without undermining environmental integrity or social equality. To make sure that the requirements of the current generation are addressed without putting the needs of future generations at risk, it is important to carefully balance economic, environmental, and social factors. Within this structure, corporations hold a central role. Their activities have an effect on not only the economy (like jobs and investments) but also the environment (like pollution and resource use) and society (like community welfare and working conditions). As a result, corporate governance goes beyond just making money to include other duties that are in line with sustainability goals.

Even though India has a governance system that is getting better and stronger with time, the country's business world has been rocked by a

few big corporate scandals. These events have shown that governance mechanisms don't work as well as they should, and they have raised doubts about how well they work in practice. High-profile instances have shown that there are patterns of financial misrepresentation, regulatory evasion, insider collaboration, and unethical behaviour among corporate managers at different levels. These kinds of failures are often the result of bigger problems, such as laws not being enforced well, board members not being independent, regulatory bodies not keeping an eye on things well enough, and a corporate culture that values short-term gains above long-term accountability. These governance flaws have effects that transcend well beyond just one company. Financial irregularities and corporate fraud can make markets unstable, make investors lose faith, and cost the economy a lot of money. In addition, they have big effects on society, like job loss, loss of public savings, and growing inequality. In some cases, corporate wrongdoing also harms the environment, which goes against the ecological aspect of sustainable growth. Governance failures that happen repeatedly may be the most important thing that hurts public trust in institutions, which is necessary for a healthy economic and social system to work. In this context, the primary research issue of this study is to investigate the ongoing prevalence of corporate governance failures in India, despite the presence of comprehensive legal frameworks and policy measures. It poses essential inquiries concerning the disparity between the normative principles of corporate governance and their actual application. The study aims to comprehend the fundamental causes of these failures, whether they arise from inadequacies in legal provisions, flaws in enforcement methods, or more profound concerns pertaining to business ethics and institutional culture.

Also, the study challenge includes looking at how these kinds of governance failures affect long-term growth. Corporate governance and sustainability are sometimes regarded as

complementary ideas; yet the persistent occurrences of corporate malfeasance indicate a disjunction between the two. This study seeks to investigate the ways in which governance failures impede the attainment of sustainability objectives and to identify strategies that might be implemented to harmonise company practices with overarching societal and environmental goals.

This research seeks to reconcile theory and practice by rigorously assessing the efficacy of corporate governance in India and its contribution to sustainable development. It aims to enhance the current conversation by emphasising the necessity for a more cohesive, ethical, and enforcement-focused framework for corporate governance that transcends mere formal compliance and tackles the substantive realities of corporate behaviour.

RESEARCH OBJECTIVES

The primary objectives of this study are:

1. To examine the concept and evolution of corporate governance in India.
2. To analyse the relationship between corporate governance and sustainable development.
3. To evaluate the legal and regulatory framework governing corporate governance.
4. To critically analyse major corporate scandals in India and identify governance failures.
5. To assess the impact of these failures on economic, social, and environmental dimensions.
6. To evaluate the role of judicial intervention in addressing governance issues.
7. To suggest reforms for strengthening governance mechanisms and promoting sustainability.

RESEARCH QUESTIONS

The study addresses the following key questions:

1. What is the significance of corporate governance in achieving sustainable development?
2. What are the major causes of corporate governance failures in India?
3. How have corporate scandals exposed weaknesses in governance structures?
4. What is the impact of governance failures on economic stability and social welfare?
5. How effective is the Indian legal framework in preventing corporate misconduct?
6. What reforms are necessary to align corporate governance with sustainability goals?

RESEARCH METHODOLOGY

This research adopts a doctrinal and analytical methodology, relying on secondary sources such as:

- Statutory provisions (Companies Act, 2013)
- SEBI regulations
- Judicial precedents
- Government reports and committee recommendations
- Academic literature

The study involves critical analysis and interpretation of legal texts and case laws to evaluate governance failures and their implications.

LITERATURE REVIEW

The concept of corporate governance has been widely examined in academic literature, with scholars consistently emphasising its central role in ensuring corporate accountability, transparency, and the protection of stakeholder interests. Early theoretical contributions to corporate governance were largely influenced by agency theory, particularly the work of Michael C. Jensen and William H. Meckling, who conceptualised the firm as a nexus of contracts and highlighted conflicts of interest between management (agents) and shareholders

(principals).¹¹¹⁸ Their work underscored the necessity of governance mechanisms to mitigate agency costs and align managerial actions with shareholder interests. Over time, this narrow shareholder-centric view has been expanded by stakeholder theory, advanced by scholars such as R. Edward Freeman, who argued that corporations have obligations not only to shareholders but also to a broader set of stakeholders, including employees, customers, communities, and the environment.

In the context of global governance standards, international organisations have played a significant role in shaping the discourse. The Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance provide a comprehensive framework for ensuring transparency, accountability, and fairness in corporate operations.¹¹¹⁹ Similarly, the World Bank has emphasised the importance of good governance in fostering economic development and reducing financial vulnerabilities. These frameworks increasingly recognize the interlinkages between governance practices and sustainable development, particularly in terms of long-term value creation and responsible resource management.

Within the Indian context, the literature reflects a gradual evolution of corporate governance from a compliance-based approach to a more principles-driven framework. Scholars such as N. R. Narayana Murthy have emphasised the importance of ethical leadership and transparency in corporate functioning, particularly in the wake of globalisation. The recommendations of committees like the Kumar Mangalam Birla Committee and the Narayana Murthy Committee have been widely discussed in academic and policy literature, highlighting the need for independent directors, improved disclosure standards, and stronger

¹¹¹⁸ Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure*, 3 J. Fin. Econ. 305 (1976).

¹¹¹⁹ Organisation for Economic Co-operation and Development (OECD), *G20/OECD Principles of Corporate Governance* (2015).

audit practices.¹¹²⁰ Legal scholars have also analysed the transformative impact of the Companies Act, 2013, in codifying governance norms and enhancing accountability.

A growing body of literature has explored the relationship between corporate governance and sustainable development. Researchers argue that effective governance mechanisms can promote sustainability by encouraging responsible business practices, reducing environmental harm, and ensuring social accountability. The emergence of Environmental, Social, and Governance (ESG) frameworks has further strengthened this linkage, positioning governance as a critical pillar of sustainability.¹¹²¹ Studies suggest that firms with robust governance structures are more likely to adopt sustainable practices, maintain long-term profitability, and build stakeholder trust.

However, despite the extensive literature on governance mechanisms and sustainability frameworks, there remains a noticeable gap in the analysis of corporate governance failures and their broader implications. Much of the existing scholarship focuses on normative frameworks, best practices, and regulatory developments, often assuming that the presence of such mechanisms is sufficient to ensure effective governance. There is comparatively limited critical engagement with instances where these mechanisms fail in practice, particularly in emerging economies like India.

The examination of corporate scandals has been addressed in some studies, especially in relation to high-profile cases such as the Satyam scandal. Scholars have identified issues such as weak internal controls, lack of board independence, auditor complicity, and regulatory shortcomings as key factors contributing to governance breakdowns. However, these analyses are often confined to

case-specific observations and do not adequately connect governance failures with their impact on sustainable development. The broader consequences of such failures—such as erosion of investor confidence, disruption of financial systems, social inequality, and environmental degradation—are frequently underexplored.

Furthermore, there is limited interdisciplinary research that integrates legal, economic, and social perspectives to provide a holistic understanding of governance failures. While legal studies focus on statutory provisions and judicial responses, and economic analyses examine market impacts, there is a need for a socio-legal approach that captures the complex interactions between corporate conduct, regulatory frameworks, and societal outcomes.

In light of these gaps, the present study seeks to contribute to the existing body of literature by offering a comprehensive and critical analysis of corporate governance failures in India and their impact on sustainable development. By moving beyond a purely theoretical or compliance-oriented approach, the study aims to examine the practical realities of governance breakdowns and their far-reaching implications. It integrates doctrinal legal analysis with socio-economic considerations, thereby providing a more nuanced understanding of how governance failures undermine sustainability objectives.¹¹²²

Thus, the literature review reveals that while significant progress has been made in developing governance frameworks and sustainability models, there remains an urgent need to critically examine their effectiveness in practice. This study attempts to bridge that gap by focusing on the intersection of governance failures and sustainable development, particularly in the context of Indian corporate scandals.

¹¹²⁰ SEBI, *Kumar Mangalam Birla Committee Report* (2000); SEBI, *Narayana Murthy Committee Report* (2003).

¹¹²¹ United Nations, *2030 Agenda for Sustainable Development* (2015).

¹¹²² Amartya Sen, *Development as Freedom* (1999).

CORPORATE GOVERNANCE FRAMEWORK IN INDIA

India's corporate governance framework is made up of a mix of laws, rules, and checks and balances from institutions. This framework has changed a lot over the years because of globalisation, economic liberalization, and the need to make sure that domestic procedures are in line with international standards. India has a complete set of laws and rules that govern how businesses should act, but how well these rules operate relies a lot on how they are put into practice and enforced.

The Companies Act of 2013 is the most important law in India for corporate governance¹¹²³. It is a major change from past laws because it includes modern governance ideas and makes accountability systems stronger. The Act makes a number of important changes that are meant to make things more open, protect the interests of stakeholders, and make businesses more responsible.

Section 149 of the Act's mandate for independent directors is one of the most important parts.¹¹²⁴ Adding independent directors is meant to make sure that board choices are fair and that promoters or executive management don't have too much power over them. These directors are supposed to protect the interests of minority shareholders and keep an eye on business matters without bias. But in practice, there have been worries about how independent these directors really are, especially in companies run by promoters where controlling shareholders may have a say in who gets hired and fired.

The Act also brought about the idea of Corporate Social Responsibility (CSR) under Section 135, which is another key change.¹¹²⁵ This rule requires some types of businesses to provide a specific amount of their profits to initiatives that benefit society. The incorporation of CSR into the legal system shows that

corporate governance is moving away from a focus on making money and toward a focus on social and environmental responsibility. This has made businesses more involved in social programs, but there are still doubts about how well CSR operations work, how they are monitored, and how much of an influence they have.

The Act also stresses how important audit committees and internal control systems are for keeping finances honest and combating fraud.¹¹²⁶ Audit committees, which are generally made up of independent directors, oversee making sure that financial reports are accurate, that internal audit processes are followed, and that the company follows all laws and regulations. Strengthening internal controls is essential for the early detection of abnormalities; nonetheless, numerous corporate scandals have illustrated that these processes may falter owing to collaboration, negligence, or insufficient competence.

Regulatory monitoring is just as important as legislative provisions in defining how businesses in India are run. The Securities and Exchange Board of India (SEBI) has set clear rules for transparency, board composition, risk management, and shareholder protection through documents like the SEBI (Listing Obligations and Transparency Requirements) Regulations, 2015.¹¹²⁷ These rules are especially important for companies that are listed on the stock exchange. They are meant to make sure that financial reports and decisions are clear. The focus on timely and accurate disclosure is meant to make sure that everyone has the same amount of information and boost investor trust. However, it is still hard to make sure that everyone follows the rules, especially when disclosures are changed or delayed.

In India, corporate governance is supported by an institutional framework made up of several different groups that each have their own duties

¹¹²³ Companies Act, No. 18 of 2013, India.

¹¹²⁴ Companies Act, 2013, s 149 (India).

¹¹²⁵ Companies Act, 2013, § 135 (India).

¹¹²⁶ Companies Act, 2013, § 177 (India).

¹¹²⁷ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

that operate together. The Securities and Exchange Board of India is the main regulator of capital markets. Its job is to make sure that listed companies follow the rules and defend the interests of investors. The National Business Law Tribunal (NCLT) is a quasi-judicial authority that settles disputes about business law, including as cases of oppression and mismanagement, insolvency, and corporate restructuring. The Ministry of Corporate Affairs (MCA) is in charge of enforcing corporate law and is an important part of setting rules and policies.

Even though there is this multi-layered governance system in place, it is still very hard to enforce it properly. One of the biggest problems is that regulatory scrutiny is not consistent and it takes a long time to find and punish corporate wrongdoing. Regulatory agencies often have problems with resources, coordination, and jurisdiction, which can make it hard for them to act quickly. It is also hard to spot problems early on because of how complicated company structures and financial transactions are.

The difference between formal compliance and substantive governance is another important issue. A lot of businesses follow the letter of the law but not the spirit of it, which goes against the goals of governance changes. This is especially clear when board independence is lost, disclosures are made selectively, and executive influence weakens internal controls. Also, the deterrent effect of laws is sometimes lessened by delays in court cases and fines that aren't very harsh.¹¹²⁸

In conclusion, India's corporate governance structure is broad and well-developed in terms of legislative and institutional design. However, it only works if there is strong enforcement, ethical behaviour by businesses, and active participation by all stakeholders. Governance failures continue to happen even with these steps, which shows that reforms need to keep

happening to make accountability stronger, regulatory capacity better, and a culture of openness and responsibility in businesses.

ANALYSIS OF MAJOR CORPORATE SCANDALS

Corporate scandals in India have been very important in showing how bad governance systems are. These incidents are not isolated occurrences; they indicate systemic deficiencies in business regulation, oversight, and ethical standards. Looking at major scandals can help us understand how governance failures happen repeatedly and what they mean for long-term economic stability and growth.

1. The Satyam Scam: Many people think that the Satyam Scam is one of the biggest business frauds in Indian history.¹¹²⁹ In 2009, B. Ramalinga Raju, the chairman of Satyam Computer Services, admitted to lying about the company's finances for years¹¹³⁰. The scam made the company's finances look better than they really were by making its revenues, profits, and cash balances look higher than they really were. The size of the fraud, which was thought to be worth thousands of crores, startled investors, regulators, and the corporate world.
2. Problems with Governance: The Satyam affair showed that corporate governance systems were completely broken. One of the main problems was that board members weren't truly independent, and many of them didn't challenge or look closely at management decisions. People were also quite critical of the auditors' participation because they didn't find or report obvious mistakes in the financial statements, which raised worries about professional carelessness and possible complicity. Also, internal control measures either didn't work or were purposely ignored, which let people keep changing accounts without anybody noticing for years.

¹¹²⁸ Umakanth Varottil, *Evolution and Effectiveness of Independent Directors in India*, 6 Hastings Bus. L.J. 281 (2010).

¹¹²⁹ Serious Fraud Investigation Office (SFIO), *Satyam Scam Investigation Report* (2010).

¹¹³⁰ Securities and Exchange Board of India (SEBI), *Order in the matter of Satyam Computer Services Ltd.* (2018).

3. Effect: The scandal's immediate effect was a huge drop in investor confidence, both in the US and around the world. Shareholders lost a lot of money, and people started to doubt the reliability of Indian corporate governance systems. In response, the government and regulatory bodies made big changes to make transparency rules stronger, give independent directors more power, and make audits more accountable.¹¹³¹The crisis also showed how important it is for companies to have strong internal controls and ethical executives to stop bad behaviour.
4. The IL&FS Crisis: The IL&FS Crisis, which involved Infrastructure Leasing & Financial Services (IL&FS), started in 2018 and was a huge financial disaster that had effects on India's financial system.¹¹³²IL&FS, a non-banking financial firm (NBFC) that is very essential to the system, defaulted on several debts. This caused a liquidity crisis and made people worry about the soundness of the whole financial sector. The crisis showed how dangerous it is to borrow too much, not manage your money well, and not have enough regulatory control.
5. Problems with Governance: One of the main problems with governance in the IL&FS case was that there were no good ways to identify and manage risk. The corporation kept getting money even though its debts were piling up and its financial situation was getting worse, and it didn't fully reveal its genuine financial situation. Transparency was greatly harmed because the financial statements did not show the full level of liabilities and risks. Additionally, regulatory agencies failed to notice early warning indications and act in a timely manner, which was a big mistake. The board of directors also didn't do their job and let bad management go on for a long time.
6. Effect: The IL&FS crisis had a domino effect on the Indian financial system, with the NBFC sector being hit the worst. It caused a lack of cash, made credit markets tighter, and made investors less sure about debt products. Infrastructure projects that needed money from IL&FS were put on hold, which hurt the economy and jobs. The crisis showed that we need better risk management systems, more regulatory oversight, and more openness in financial reporting. It also stressed how important it is for corporate governance policies to be in line with long-term financial stability.
7. Punjab National Bank Scam: The Punjab National Bank Fraud is one of the biggest banking frauds in India, with fake transactions worth billions of dollars.¹¹³³Businessman Nirav Modi was the main person behind the fraud. He and his friends took advantage of flaws in the banking system to get unauthorized credit through fake Letters of Undertaking (LoUs). The swindle went unnoticed for years, which shows that banking governance and internal controls are quite weak.
8. Problems with governance: The PNB theft showed that the bank's operating and auditing procedures, which are supposed to keep things in order, were not working properly. Employees were able to go around established rules and change the SWIFT messaging system without permission or supervision.¹¹³⁴Senior management did not do a good job of supervising and monitoring, and there was not enough communication between departments. Moreover, the lack of real-time interaction between internal systems and external communication platforms enabled fraudulent transactions to remain undetected. These mistakes show that there are problems with the way the financial sector is run.
9. Effect: The scam had far-reaching effects, not just on the bank's finances but also on the banking industry.¹¹³⁵It caused big

¹¹³¹ Ministry of Corporate Affairs, *Report on Corporate Governance Reforms in India* (2010).

¹¹³² Ministry of Corporate Affairs, *Report of the IL&FS Inquiry Committee* (2019).

¹¹³³ Reserve Bank of India, *Report on Frauds in the Banking Sector* (2019).

¹¹³⁴ Reserve Bank of India, *Report on Frauds in the Banking Sector* (2019).

¹¹³⁵ Central Bureau of Investigation, *PNB Fraud Case Report* (2018).

financial losses, made people less trusting of banks, and made people pay more attention to how banks lend money. After the incident, regulators created rules on how banks should work, made monitoring systems better, and made accountability systems better. It also made people worry about how well current safeguards work to stop financial fraud and keep public cash safe.

10. A General Look: A comparative examination of these events uncovers persistent patterns of governance failure across several sectors. Some common problems are not being open, not having strong board monitoring, not having good internal controls, not following the rules, and not acting ethically. These failures show that having legal and regulatory frameworks is not enough; they need to be put into action and enforced. Additionally, the effects of these scandals go beyond just losing money; they also affect other areas of sustainable development. They hurt the economy, make investors less confident, and make institutions less trustworthy. In some circumstances, they also have indirect effects on society, such as employment losses and less public welfare. These results show how important it is to improve corporate governance systems in a way that fits with long-term goals for sustainability.

IMPACT ON SUSTAINABLE DEVELOPMENT

Failures in corporate governance have effects that go beyond the company itself and directly go against the goals of sustainable development.¹¹³⁶ These effects are multifaceted, influencing economic stability, social equality, and environmental sustainability.

1. Effect on the economy: Corporate scandals have a big effect on the economy and people's faith in the market. One of the most immediate

effects is that the market becomes unstable. When fraud or mismanagement is revealed, stock values often drop sharply and financial markets become unstable. Investors, both in the US and abroad, prefer to pull out of their investments because they are unsure and see risks, which means less money comes into the economy. Another important effect is the loss of investments. Shareholders lose money directly, while institutional investors like banks, mutual funds, and pension funds incur big losses. When big companies or banks are involved, these losses can have a rippling impact on the whole financial system.¹¹³⁷ Repeated failures in governance lead to a downturn in the economy over time. If people think there is more danger, credit markets may tighten, which will make lending and investing less likely. Plans to expand a business may be put on hold or even cancelled, and infrastructure projects may be put on hold or even cancelled. Also, the cost of doing company goes up as regulatory scrutiny gets stricter and compliance requirements get tougher. So, bad behaviour by businesses hurts not only individual companies but also the whole economy.

2. Effect on society: The societal effects of bad corporate governance are just as bad and sometimes worse. Job loss is one of the most obvious effects. When a company goes bankrupt or has to restructure because of a scandal, the employees are usually the first to feel the effects. When a lot of people lose their jobs, it hurts not only their own lives but also the lives of their families and communities.

The loss of trust is another important effect. Scandals in the corporate world make people less trusting of businesses, government agencies, and even the

¹¹³⁶ United Nations, *Transforming Our World: The 2030 Agenda for Sustainable Development* (2015).

¹¹³⁷ International Monetary Fund (IMF), *Global Financial Stability Report* (2018).

legal system. Trust is a key part of social and economic interactions and losing it can have long-lasting effects on government and growth. When stakeholders don't trust a company's honesty, it's hard to keep investors and the public working together. Failures in corporate governance also make inequity worse.¹¹³⁸ Fraudulent operations may help top executives or promoters in the short term, but the consequences are mostly absorbed by small investors, employees, and the public. This imbalance exacerbates socio-economic disparities and undermines the principle of inclusive growth, which is central to sustainable development.

3. Effects on the environment: Corporate scandals are generally linked to financial wrongdoing, but they can also have big effects on the environment. Companies that do unethical things often ignore environmental rules to make quick money. This could mean breaking pollution control rules, not properly handle waste, or using natural resources in a way that isn't sustainable. Weak governance systems often lead to poor monitoring of environmental norms, which lets hazardous practices go on without any checks. Over time, these kinds of acts hurt the environment, use up resources, and throw off the balance of ecosystems. These outcomes not only impact current communities but also threaten future generations, directly opposing the tenets of sustainable development.¹¹³⁹ Corporate governance failures upset the delicate balance between economic growth, social justice, and environmental protection. To fix these problems, we need to strengthen governance systems.

JUDICIAL APPROACH

The Indian judiciary has done a lot to strengthen the concepts of corporate governance by stressing accountability, justice, and openness. Courts have tried to explain and improve governance rules through a number of important decisions, especially in cases of oppression, mismanagement, and shareholder rights.

The Supreme Court looked at problems of corporate control, minority shareholder rights, and the authority of the board of directors in the case of *Tata Consultancy Services Ltd. v. Cyrus Investments Pvt. Ltd.* The case showed how important it is to safeguard minorities while yet following the rules of governance. The ruling maintained the choices of the majority shareholders, but it also made it clear how important it is for businesses to be fair and follow the rules.

In *Needle Industries (India) Ltd. v. Needle Industries Newey (India) Holding Ltd.*, the Court also looked into claims of persecution and bad management. It set essential rules for how majority shareholders should act and stressed that business decisions must be fair, open, and good for the corporation. The ruling strengthened the premise that just following the law isn't enough if the behaviour is unfair or oppressive.

These court decisions show that courts take an active role in fixing problems with governance and defending the interests of stakeholders. But delays in litigation and problems with enforcement might make court involvement less effective, which can lessen its deterrent effect.

FINDINGS AND ANALYSIS

The analysis conducted in this study provides several critical insights into the persistence and nature of corporate governance failures in India.

To begin with, governance failures are predominantly systemic rather than incidental. The recurrence of comparable issues across various sectors suggests that corporate

¹¹³⁸ World Bank, *World Development Report: Governance and the Law* (2017).

¹¹³⁹ World Commission on Environment and Development, *Our Common Future* (1987).

governance frameworks have profound structural weaknesses. These consist of the concentration of power in the hands of promoters, the absence of genuine board independence, and the use of inadequate risk management practices.

Subsequently, enforcement mechanisms continue to be inconsistent and inadequate. Although India has a comprehensive legal framework, its efficacy is compromised by the delays in the detection, investigation, and prosecution of corporate misconduct. Regulatory bodies frequently encounter constraints in terms of coordination, authority, and resources, which impede their capacity to act decisively and promptly.

Thirdly, there is a discernible absence of ethical standards within the corporate culture. Many organisations prioritise short-term financial gains over long-term sustainability and ethical responsibility. The effectiveness of formal governance mechanisms is weakened by this cultural deficit, as compliance is frequently regarded as a procedural requirement rather than a substantive commitment.

In general, the results indicate that the resolution of corporate governance deficiencies necessitates not only legal reforms but also a fundamental transformation in corporate values and institutional practices.

RECOMMENDATIONS AND SUGGESTIONS

Several measures can be suggested to enhance corporate governance and align it with sustainable development objectives, considering the findings. Initially, regulatory enforcement must be fortified by the implementation of more stringent penalties for noncompliance, the prompt investigation of irregularities, and the improvement of coordination among regulatory bodies. It is imperative to guarantee accountability at all levels to prevent corporate misconduct.

The second step is to guarantee genuine board independence by implementing transparent

procedures for the appointment and termination of independent directors. Their role should be fortified by providing them with sufficient training, establishing defined responsibilities, and safeguarding them from undue influence.

Third, in order to guarantee the dependability of financial reporting, auditor accountability must be improved. This encompasses more stringent supervision of audit firms, the periodic rotation of auditors, and severe repercussions for professional negligence or misconduct. Fourth, corporations should be encouraged to incorporate Environmental, Social, and Governance (ESG) principles into their core strategies. This would foster responsible business practices and guarantee that corporate activities have a beneficial impact on sustainable development.

Ultimately, it is imperative to cultivate ethical leadership. Corporate leaders must prioritise long-term value creation, transparency, and integrity over short-term gains. The probability of governance failures can be substantially diminished by establishing an ethical organisational culture.

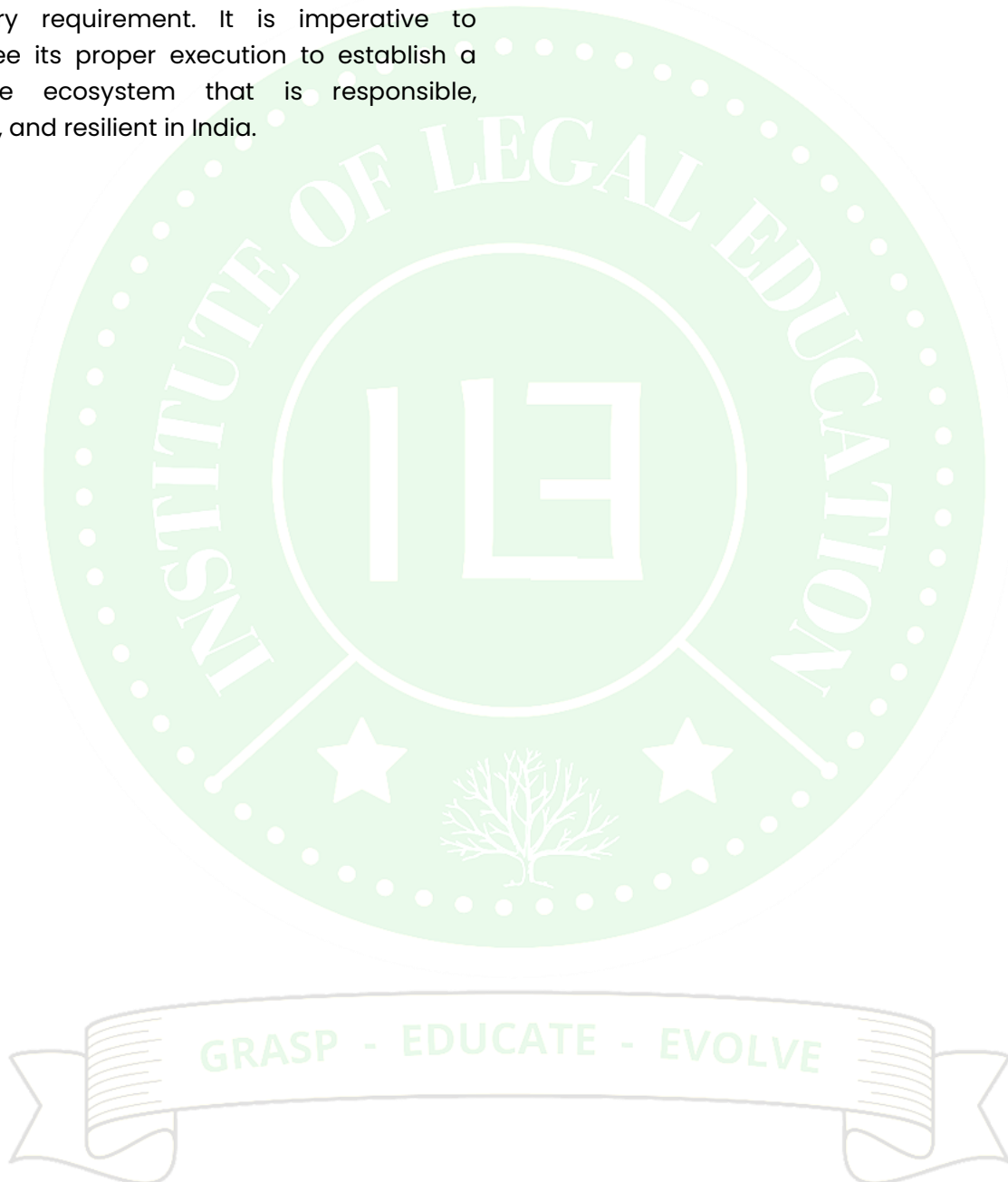
CONCLUSION

The failures of corporate governance in India underscore a substantial disparity between the existence of legal frameworks and their effective implementation. Formal compliance alone is insufficient to guarantee responsible corporate conduct, as evidenced by consistent corporate scandals, despite the existence of exhaustive laws and regulatory mechanisms. These failings have significant implications for sustainable development, as they contribute to environmental degradation, undermine social trust, and disrupt economic stability. The repercussions are not limited to individual corporations; they also affect the broader economy and society.

Resolving these obstacles necessitates an integrated strategy that integrates institutional accountability, ethical corporate practices, and



robust legal enforcement. In order to achieve long-term economic and social stability, it is imperative to enhance governance mechanisms, promote transparency, and incorporate sustainability principles into corporate decision-making. In summary, sustainable development necessitates effective corporate governance, which is not solely a regulatory requirement. It is imperative to guarantee its proper execution to establish a corporate ecosystem that is responsible, inclusive, and resilient in India.





GRASP - EDUCATE - EVOLVE



INSTITUTE OF LEGAL EDUCATION

(Managed by L TO J LAW ASSOCIATES)

NO. 08, ARUL NAGAR, SEERA THOPPU,
MARUDHAANDA KURICHI, SRIRANGAM - 620102,
TAMILNADU, INDIA.

ISSN 2583-2344



9 772583 234004