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## UNDERSTANDING THE ROLES AND DUTIES OF DIRECTORS UNDER COMPANIES ACT 2013

~ *Mansi Shrivastava*

### Overview of the Companies Act, 2013

The Companies Act, 2013 arose from corporate scandals that shook India's business environment and fundamentally changed how directors behave in the boardrooms of Indian companies<sup>1</sup>. The legislation was a direct response to notable failures in corporate governance, like the Satyam Computer Services scandal of 2009, where promoters manipulated financial statements, leading to immense losses for shareholders, employees, and creditors<sup>2</sup>. The Act replaced the older Companies Act, 1956, aligning India's corporate governance framework with global standards while tackling the unique challenges of Indian businesses.<sup>3</sup>

With 29 chapters, 470 sections, and seven schedules, the Act is more than just a legislative change; it represents a cultural shift toward accountability, transparency, and protecting stakeholders<sup>4</sup>. The legislation applies across India and to all companies formed under it or previous laws, including specialized entities such as insurance and banking companies. This ensures that no corporate entity can avoid its regulatory scope.<sup>5</sup>

The Act's objectives are based on hard-learned lessons from past corporate failures. It supports business-friendly regulations while enhancing governance through mandatory independent directors, clear fiduciary duties, and stricter disclosure requirements.<sup>6</sup> The introduction of Corporate Social Responsibility provisions and specialized bodies like the National Company Law

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<sup>1</sup> The Companies Act, section 1, No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>2</sup> Arjun Aran, Understanding Breach of Fiduciary Duty Under the Indian Companies Act, 2013, ARAN LAW (Aug. 13, 2025)

<sup>3</sup> The Companies Act, section 465, No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>4</sup> Testbook, Companies Act 2013: Features, Objectives, Key Provisions (Apr. 30, 2025)

<sup>5</sup> The Companies Act, section 1, No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>6</sup> INST. OF COMPANY SECS. OF INDIA, REFORMS UNDER COMPANIES ACT, 2013 FOR EASE OF DOING BUSINESS 1-3 (2013)

Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT) highlights the legislature's dedication to creating a robust ecosystem of corporate accountability.<sup>7</sup>

### The Real Stakes: Why Director Duties Matter

Directors today work in an environment where their decisions face scrutiny not only from shareholders but also from regulators, courts, and the public. Governance failures have consequences that go beyond boardroom discussions. They can lead to criminal prosecution, heavy fines, harm to reputation, and personal liability that can follow directors long after they leave their positions.

For instance, consider the recent case of LEEL Electricals Ltd, where SEBI fined two independent directors ₹10 lakh each for failing to fulfill their statutory responsibilities as audit committee members.<sup>8</sup> The directors had joined the board expecting their roles to be routine and not requiring specific knowledge of law and finance; however, when financial misconduct became known.

SEBI held them accountable, making it clear that ignorance is not a valid excuse in today's corporate governance landscape.<sup>9</sup>

### Definition and Appointment: More Than Just Titles

Under Section 2(34) of the Act, a "director" is more than just a title holder; they are a fiduciary with significant legal responsibilities.<sup>10</sup> The Act mandates at least three directors for public companies, two for private companies, and one for One Person Companies. This ensures that effective governance includes collective decision-making, checks, and balances.<sup>11</sup>

The Director Identification Number (DIN) system, set up under Sections 153-155, enhances transparency in director appointments.<sup>12</sup> This identification system prevents individuals from hiding behind multiple identities across various companies and allows regulators to track directorship patterns that might reveal potential conflicts of interest or governance risks<sup>13</sup>. The DIN requirement has practical implications; directors cannot avoid accountability by claiming ignorance regarding their roles in multiple entities.

### Fiduciary Duties: The Heart of Directorial Responsibility

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<sup>7</sup> The Companies Act, section 245, 408-409, No. 18 of 2013, Acts of Parliament, 2013

<sup>8</sup> Nishith Desai & Associates, SEBI's Take on Independent Directors: On Paper or in Fact? (May 9, 2024)

<sup>9</sup> The Econ. Times, How SEBI is Tightening Norms for Independent Directors (May 20, 2024)

<sup>10</sup> The Companies Act, section 2(34), No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>11</sup> The Companies Act, section 149(1), No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>12</sup> The Companies Act, section 153-155, No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>13</sup> Credence Corp Solutions, Companies Act Section 153: Director Identification Number (Apr. 30, 2025)

Section 166 of the Act outlines fundamental fiduciary principles that courts had long acknowledged, but with added clarity and enforceability that reflects the realities of modern corporate life.<sup>14</sup>

Section 166(2) requires directors to act "in good faith to promote the objects of the company" and extends beyond just shareholder interests to include employees, communities, and environmental protection.<sup>15</sup> This provision has come into play in the wake of corporate scandals, with courts increasingly holding directors accountable for decisions that favor narrow interests at the cost of the company's long-term health.

The Satyam scandal serves as a clear example of the fallout from violating this duty. Chairperson Ramalinga Raju's confession letter revealed years of financial manipulation, creating false revenues and assets worth thousands of crores<sup>16</sup>. This case highlighted how breaches of fiduciary duty can harm not only the company but also its wider ecosystem, leading to job losses, destruction of investor wealth, and damage to India's corporate image internationally.<sup>17</sup>

Section 166(3) emphasizes "due and reasonable care, skill, and diligence," which has developed through judicial interpretation and regulatory enforcement<sup>18</sup>. Recent SEBI orders show that this standard is objective and specific to context. When financial misconduct occurs, regulators investigate whether directors had the necessary skills for their positions, attended meetings regularly, asked thoughtful questions, and sought independent advice when necessary.

The Infrastructure Leasing & Financial Services (IL&FS) crisis of 2018 highlighted how directors' failure to exercise due diligence can have extensive consequences.<sup>19</sup> Independent directors faced criticism for not questioning the company's risky lending practices, weak risk management systems, and complex corporate structures that concealed real financial health. This crisis led to over ₹90,000 crores in defaults, impacting the entire non-banking financial sector and triggering regulatory reforms.

### Conflicts of Interest and Related Party Transactions

Section 166(4) prohibits conflicts of interest alongside Section 184's disclosure requirements and Section 188's approval processes for related party transactions<sup>20</sup>. These sections create a system that mandates directors to identify, disclose, and refrain from decisions where they have personal interests.

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<sup>14</sup> The Companies Act, section 166, No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>15</sup> The Companies Act, section 166(2), No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>16</sup> CORPORATE ACCOUNTING FRAUD: A CASE STUDY OF SATYAM SCANDAL, 2 SCI. RES. PUBLISHING 217 (2013).

<sup>17</sup> Tax Guru, Reminiscences of Corporate Governance from Satyam Fraud

<sup>18</sup> The Companies Act, section 166(3), No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>19</sup> TIJER, Case Studies: Examining Notable Directors' Liability Cases 5-7 (2023).

<sup>20</sup> The Companies Act, section 166(4), 184, 188, No. 18 of 2013, Acts of Parliament, 2013 (India).

Recent SEBI enforcement actions show how these provisions are applied. Regulators examine not only direct conflicts but also subtle relationships that might compromise independent judgment. Directors must manage complicated situations involving family members, business associates, or investment interests that may create potential conflicts requiring careful management.

#### Powers and Their Limits: The Satyam Lesson

Section 179 outlines board powers informed by the lessons of past corporate failures.<sup>21</sup> Requiring board resolutions for critical actions like borrowing, investing, guaranteeing, acquiring, and diversifying acknowledgement that unchecked executive power can lead to serious problems.

The Satyam case illustrated how a lack of effective board oversight allowed management to create a complicated network of 356 subsidiary companies to misappropriate funds through fake transactions.<sup>22</sup> The board's failure to oversee related party transactions, investments, and financial reporting set the stage for significant fraud to occur unnoticed.

Section 179(3) discusses delegation, recognizing that while boards must maintain ultimate responsibility for key decisions, effective governance also requires appropriately delegating tasks to management<sup>23</sup>. However, recent court rulings stress that delegation does not free directors from their oversight duties. They must set up proper monitoring systems, receive regular updates, and act when warning signs appear.

#### Independent Directors: Guardians or Scapegoats?

The Act's focus on independent directors aligns with global best practices, but experiences in India have raised complex questions about their effectiveness and liability<sup>24</sup>. Section 149(6) outlines criteria for independence, while Schedule IV sets behavioral standards.<sup>25</sup>

The Madras High Court's ruling in *V. Selvaraj v. Reserve Bank of India* created important protections for independent directors.<sup>26</sup> The court decided that an independent director cannot be deemed a willful defaulter just because of their position, without specific evidence of knowledge, consent, or complicity in the company's defaults. This ruling clarifies the scope of independent directors' liability while emphasizing that they must engage actively in governance.

#### Recent SEBI Enforcement

SEBI's recent enforcement actions indicate shifting expectations for independent directors. The LEEL Electricals case shows that regulatory bodies will hold independent directors accountable

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<sup>21</sup> The Companies Act, section 179, No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>22</sup> iPleaders, Satyam Scam Case (Feb. 3, 2025)

<sup>23</sup> The Companies Act, section 179(3), proviso, No. 18 of 2013, Acts of Parliament, 2013

<sup>24</sup> The Companies Act, section 149(4), No. 18 of 2013, Acts of Parliament, 2013

<sup>25</sup> The Companies Act, section 149(6), Schedule IV, No. 18 of 2013, Acts of Parliament, 2013

<sup>26</sup> *V. Selvaraj v. Reserve Bank of India*, (2020) Mad. HC (India).

for governance failures, regardless of their claims of limited expertise<sup>27</sup>. This trend indicates that having an independent director position comes with real responsibilities that require active participation.

#### Board Meetings: Beyond Formalities

Sections 173-174 require regular board meetings and proper quorum, underscoring that governance needs active involvement, not just compliance with formal rules.<sup>28</sup> The law mandates at least four meetings a year with no more than 120 days between them to help keep directors connected to the company's activities and able to react quickly to any issues that arise.

Recent corporate failures illustrate how infrequent or superficial board meetings can allow misconduct to prosper. Effective boards meet more often than the minimum requirement, develop strong agenda-setting processes, and create spaces where directors can express concerns and challenge management.

#### Key Managerial Personnel: Professional Accountability

The Act recognizes Key Managerial Personnel under Sections 2(51) and 203, reflecting the reality of modern corporate management, where professional executives often hold more operational power than traditional directors.<sup>29</sup> The requirement for resolute Chief Financial Officers, Company Secretaries, and Chief Executive Officers establishes clear lines of accountability and professional standards.

Recent enforcement actions show that the KMP designation comes with heightened responsibilities and potential liabilities. These professionals are expected to adhere to higher standards of compliance and conduct, facing personal consequences for failures in their areas of expertise.

#### Disqualifications and Consequences: Real-World Impact

Section 164's disqualification rules have real consequences in today's enforcement climate<sup>30</sup>. The five-year disqualification for directors of companies that fail to file mandatory returns or repay deposits leads to personal repercussions that extend beyond the failures of individual companies.

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<sup>27</sup> Nishith Desai & Associates, supra note 8.

<sup>28</sup> The Companies Act, section 173-174, No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>29</sup> The Companies Act, section 2(51), 203, No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>30</sup> The Companies Act, section 164, No. 18 of 2013, Acts of Parliament, 2013 (India)

The Supreme Court's ruling in *M.K. Rajagopalan v. Periasamy Palani Gounder* clarified how disqualification provisions work in practice, affirming that directors cannot evade consequences through technical arguments and stressing the need for fairness in the enforcement process.<sup>31</sup>

#### Removal Procedures: Shareholder Protection

Section 169's removal rules balance management stability with shareholder rights. However, recent cases show how these mechanisms function.<sup>32</sup> The higher requirements for removing independent directors reflect their special role in governance and help protect them from arbitrary removal by controlling shareholders.

#### Emerging Trends and Future Challenges

Recent developments highlight the ever-changing nature of director liability. SEBI's increasingly assertive enforcement, NCLAT's evolving rulings on wrongful trading, and courts' willingness to pierce corporate veils all suggest that director liability is growing rather than shrinking.<sup>33</sup>

The shift toward personal accountability is evident in recent cases where directors have been found personally liable for corporate debts and required to contribute to liquidation processes. They may also face criminal charges for governance failures. Directors can no longer depend on corporate limited liability as a complete shield against the consequences of their actions.

Modern directors must navigate a complex landscape of legal requirements, regulatory expectations, and stakeholder demands. Effective governance demands:

--Directors need to stay informed about evolving legal demands, industry changes, and governance best practices. Ignorance is becoming a weaker excuse in regulatory enforcement.

--Sitting back in board meetings is not enough. Directors must ask questions, seek outside advice when necessary, and keep thorough records of their roles in key decisions.

Directors must ensure their companies have sufficient risk management processes, internal controls, and compliance systems. Personal liability increasingly applies to failures in these areas.

Keeping proper documentation of board discussions, decisions, and disagreements is crucial to show compliance with fiduciary duties and protect against personal liability.

#### Conclusion: The New Age of Directorial Accountability

The Companies Act, 2013 marks a watershed moment in India's corporate governance journey—a transition from a compliance-focused regime to an accountability-driven framework where directorial responsibilities carry genuine consequences. The legislative architecture, forged in the

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<sup>31</sup> *M.K. Rajagopalan v. Periasamy Palani Gounder*, (2023) 10 SCC 420 (India).

<sup>32</sup> The Companies Act, section 169, No. 18 of 2013, Acts of Parliament, 2013 (India).

<sup>33</sup> *Nalinesh Kumar Paurush v. Arvind Mittal*, (2025) NCLAT New Delhi (India).

crucible of corporate scandals from Satyam to IL&FS, represents a societal compact: those who wield corporate power must answer for how they exercise it.

The evidence is unambiguous. Directors can no longer view their positions as prestigious or networking opportunities. The fiction of the passive director, the individual who lends their name to a board while remaining disengaged from its affairs, has been shattered by regulatory enforcement and judicial decisions. SEBI's actions against independent directors in cases like LEEL Electricals, the Supreme Court's approach in M.K. Rajagopalan, and the NCLAT's expanding interpretation of wrongful trading liability collectively signal a fundamental truth: directorship is not an honor but a responsibility, not a title but a trust.

Yet the Act does more than impose obligations; it provides a roadmap for effective governance. The codification of fiduciary duties in Section 166 gives directors clear standards against which to measure their conduct. The enumeration of board powers in Section 179 establishes boundaries within which directors can act with confidence. The requirements for independent directors and Key Managerial Personnel create structural safeguards that, when functioning properly, protect both companies and directors themselves from governance failures.

The real test of the Act's success lies not in the penalties it imposes but in the culture it cultivates. A decade into its implementation, early signs are encouraging. Companies are professionalizing their boards, directors are demanding more information and independent advice, audit committees are exercising genuine oversight, and the era of rubber-stamp approvals is gradually giving way to substantive deliberation. The resignation of independent directors from companies showing red flags, a trend documented throughout 2024 and 2025, demonstrates growing awareness that association with governance failures carries reputational and legal costs that outweigh any benefits of board membership.

However, challenges remain. The line between business judgment and breach of duty remains contested terrain. The appropriate standard of care for independent directors with varying levels of expertise continues to evolve through case law. The balance between empowering directors to take reasonable business risks and holding them accountable for reckless decisions requires continued judicial and regulatory calibration. The question of how much protection directors should receive for good faith decisions that produce poor outcomes remains philosophically and practically complex.

Looking forward, directors must embrace a mindset shift. Effective governance in the post-2013 era requires moving beyond mere legal compliance to genuine engagement with corporate purpose and stakeholder impact. It demands the courage to ask uncomfortable questions, the wisdom to recognize warning signs, and the integrity to act even when action carries personal costs. It requires understanding that the director's chair comes with an obligation not just to today's shareholders, but to future generations of stakeholders who will inherit the consequences of today's decisions.

For those willing to meet these elevated standards, directorship under the Companies Act, 2013 offers the opportunity to shape India's corporate landscape for the better to build companies that create sustainable value, respect stakeholder interests, and contribute positively to society. For those unwilling or unable to meet these standards, the message is equally clear: the boardroom door should remain closed.

The Companies Act, 2013 reflects an optimistic vision that through proper legal frameworks, diligent enforcement, and cultural transformation, India can build a corporate sector characterized by ethical leadership, transparent governance, and accountability to all stakeholders. Whether this vision becomes reality depends not just on legislative text or regulatory action, but on the daily choices of thousands of directors sitting in boardrooms across the country. Their willingness to embrace the duties that accompany their powers will determine whether the Act achieves its transformative potential or remains merely an aspirational document. The early evidence suggests that transformation, while incomplete, is underway. The journey toward truly accountable corporate governance continues.