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CORPORATE GOVERNANCE IN INDIA

~ *Sumeghna Paul*

INTRODUCTION

Have you ever wondered why some companies collapse despite reporting impressive profits? Or why investor protection is not merely a financial concern, but a legal one too? The answer to both questions lies in the concept of corporate governance.

If we consider a real-world example, the collapse of 'IL&FS (Infrastructure Leasing and Financial Services Ltd) illustrates the consequences of weak corporate governance. Once regarded as a major infrastructure financing company, IL&FS collapsed in 2018 following serious failures in board oversight, risk management and financial transparency. Subsequent investigations revealed governance lapses and financial reporting practices that failed to present a true and fair view of the company's position, ultimately misleading investors and other stakeholders.

UNDERSTANDING CORPORATE GOVERNANCE

²Corporate governance is the network of processes, principles and policies, through which a company is directed and controlled. It extends beyond day-to-day management and determines how decisions are made, risks are monitored, and how the interests of the shareholders and other stakeholders are prioritised. The collapse of several seemingly successful corporations has been a widely recorded phenomenon, and even if incredibly profitable on paper, profitability alone cannot guarantee corporate stability. Internal controls may fail due to an ineffective audit committee or board of directors who might be overly

¹ Press Information Bureau, Ministry of Corporate Affairs, Government of India, *Government in Public Interest Moved NCLT to Supersede Management of IL&FS on Grounds of Mismanagement* (Oct. 1, 2018).

² David W. Duffy, *What Is Corporate Governance?*, Corp. Governance Inst.

compliant, and refrain from questioning risky or rather unprofitable business decisions, and thus gradually eroding a company's foundation.

This raises the second question, why is investor protection, also a legal concern. As also previously stated, this too is due to the existence of corporate governance. Imposing duties on directors, mandating transparency, and establishing oversight mechanisms ensure that those entrusted with corporate decision making remain accountable to their shareholders.

LEGAL FRAMEWORK OF CORPORATE GOVERNANCE IN INDIA

While corporate governance is founded on ethical principles like accountability and transparency, these principles are given legal force through statutory and regulatory frameworks. The Companies Act, 2013 through its provisions and the Securities Exchange Board of India, with the help of LODR regulations together establish a comprehensive framework governing the conduct of listed companies.

HOW DO THESE LEGAL FRAMEWORKS STRENGTHEN CORPORATE GOVERNANCE?

Corporate Governance is not governed by a single law, it is primarily enforced through the ³Companies Act, 2013 and the SEBI LODR (Listing obligations and disclosure requirements) regulations, each regulating different aspects of corporate accountability.

Companies Act 2013, establishes the internal structure of corporate governance. It defines the duties of directors, mandates the constitution of an audit committee for eligible companies, and imposes fiduciary responsibilities on those entrusted with managing corporate affairs. Its main purpose is to ensure that companies function with transparency, accountability and due diligence.

For listed companies, SEBI contributes to this framework with the help of LODR Regulations 2015. These regulations require timely disclosure of material information, strengthen the independence of boards, and enhance shareholder protection by ensuring that investors receive accurate and transparent information before making an investment.

³ *Companies Act, 2013*, No. 18 of 2013, §§ 134, 149, 177–178 (India); *Securities & Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015*, regs. 17–27 (India).

Together, these legal frameworks transform corporate governance from an ethical principle to a legally enforceable system of accountability, by imposing duties and disclosure obligations upon corporate decision makers.

Although the legal framework is designed to promote transparency and accountability, its effectiveness is best understood by examining instances where safeguards failed in practice. The Satyam Scandal remains one of India's most important cases of failure in corporate governance.

THE SATYAM SCANDAL- A TURNING POINT FOR CORPORATE GOVERNANCE IN INDIA

1. ⁴THE SATYAM SCANDAL-WHAT HAPPENED?

In January 2009, India witnessed one such case which changed the way corporate governance was viewed in the country. Satyam Computer Services Ltd. was the fourth-largest IT exporter in the country and was considered to be a successful corporate giant. However, this image changed when its chairman, B. Ramalinga Raju, confessed to large scale financial irregularities amounting to approximately ₹7000 crores. The company's books overstated assets and understated liabilities, presenting a position that was far from reality. The revelation came as a shock to investors and stakeholders and raised serious questions about how such discrepancies could continue for so long despite the presence of a board of directors, auditors and other corporate governance mechanisms.

2. WHERE DID CORPORATE GOVERNANCE FAIL?

The Satyam Scandal was not merely a case of financial manipulation. It also exposed serious weaknesses in the company's corporate governance. The board of directors, who were entrusted with overseeing the management and protecting the interests of the shareholders, failed to effectively question or identify the irregularities in the company's financial statements. The senior partners of the international audit firm, ⁵PriceWaterhouseCoopers also faced dire legal consequences as the falsified financial position continued to be reflected in the company's accounts.

⁴ Rajanikanta Khuntia, *Companies Act, 2013—A New Wave of Effective Regulation and Corporate Governance in India*, 3 Int'l J. Advancement in Rsch. & Tech. 148 (2014)

⁵ Securities and Exchange Board of India, Annual Report 2008–09: Investigation in the Matter of Satyam Computer Services Ltd. (2009)

Another major failure was the lack of effective internal controls and transparency. The existence of a board, audit committee and external auditors could not prevent the massively concealed manipulation continuing for years. This raised an important issue in corporate governance: whether formal compliance with governance was enough if the mechanisms themselves are not functioning effectively. The Satyam scandal therefore demonstrated the importance of independent oversight and accountability in protecting investors, and maintaining confidence in the corporate sector.

3. REGULATORY AFTERMATH AND REFORM

The Satyam scandal led to immediate legal intervention, ⁶investigations were conducted by the CBI, Serious Fraud Investigation Office(SFIO), SEBI and other authorities. ⁷The board was reconstituted by the government and supervision of its governance practices was increased. More importantly, the scandal highlighted the need for stronger mechanisms to ensure transparency, independent oversight and accountability within the companies. Companies Act, 2013 subsequently introduced and strengthened several provisions relating to independent directors and audit committees as well as the responsibility of the directors. While the Act was not introduced solely as a response to Satyam, the scandal became an important example of the consequences that could arise when corporate governance mechanisms failed to operate.

CONCLUSION

At the end of the day, corporate governance is not about how impressive a company looks on paper. It is about what happens behind those numbers: who questions the decisions being made, who protects the interests of the investors and who is held accountable if things go wrong. The examples of IL&FS and Satyam show that even successful companies can fall when safeguards fail. India has strengthened its legal framework considerably, but laws can only go so far. Corporate governance ultimately works when accountability exists not just in rule, but also in practice.

⁶ Press Information Bureau, Ministry of Corporate Affairs, Government of India, *Findings of Investigations into the Satyam Fraud* (Feb. 24, 2009)

⁷ Press Information Bureau, Ministry of Corporate Affairs, Government of India, *3 New Directors Nominated on the Satyam Board* (Jan. 15, 2009)