

Regulatory Framework of Corporate Governance in India: An Analysis

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ABSTRACT

In the current global business scenario, corporate governance has gained widespread importance and has become a critical requirement for organizations of all types. The core foundation of corporate governance is built upon the principles of fairness and accountability. Effective governance practices play a vital role in ensuring the long-term sustainability and success of companies, whereas weak governance structures often result in serious organizational and financial difficulties. Over the past few years, the scope of corporate governance in India has expanded significantly. Indian companies are now adopting governance practices in line with both mandatory and voluntary guidelines issued by the Securities and Exchange Board of India (SEBI), particularly those prescribed under Clause 49 of the Listing Agreement. However, despite the introduction of various reforms, several fundamental issues remain inadequately addressed. These include concerns related to the relationship between majority and minority shareholders, the influence of promoters, limited shareholder participation—especially by institutional investors—and challenges surrounding the independence of directors. This paper aims to assess the current state of corporate governance in India and explore its future potential. It also seeks to highlight the key policies and regulatory frameworks governing corporate governance in the country. Additionally, the study endeavors to evaluate the levels of accountability, transparency, and ethical standards practiced across different sectors in India. An analysis of both the advancements and shortcomings of corporate governance in India will be undertaken, followed by the presentation of meaningful recommendations to strengthen its future development.

Keywords: Accountability, Ethics, Prospect, Reforms, Transparency.

Introduction

In simple terms, corporate governance refers to the degree to which companies are managed in a transparent and ethical manner. It encompasses a wide range of mechanisms, including processes, practices, policies, legal provisions, and institutional arrangements that influence how a company is directed, managed, and controlled. Corporate governance also involves the relationships among various stakeholders and the objectives for which an organization is governed.

Effective corporate governance goes beyond merely following rigid rules or adopting prescribed organizational structures. It requires a broad guiding philosophy supported by core principles that can be

applied with flexibility and sound judgment, depending on the unique circumstances of each organization. The fundamental purpose of corporate governance lies in ensuring transparency, accountability, and fairness while meeting the legitimate expectations of all stakeholders and providing them with equitable benefits. In this sense, corporate governance serves as an important mechanism for protecting stakeholder interests.

The importance of corporate governance has grown significantly in recent years due to several high-profile corporate failures and scandals, such as those involving Enron, WorldCom, and Satyam, which exposed serious ethical lapses in business conduct. For governance systems to be truly effective, corporate policies must

ensure that company directors do not misuse their authority. Instead, directors should clearly understand their roles and responsibilities and act in the overall best interests of the company and its stakeholders.

In India, the concept of corporate governance emerged after the second half of 1996 due to economic liberalization and deregulation of industry and business. With the changing times, there was also need for greater accountability of companies to their shareholders and customers. However, the Indian Companies Act of 2013 introduced some progressive and transparent processes which benefit stakeholders, directors as well as the management of companies. Investment advisory services and proxy firms provide concise information to the shareholders about these newly introduced processes and regulations, which aim to improve the corporate governance in India .

Review of Literature

A larger number of studies have been carried out to procure knowledge of corporate governance in India. In this context, efforts have been made to examine the scope, key challenges, and regulatory structure associated with corporate governance in the Indian corporate sector. The relevant literature on this subject is summarized below.

Varma (1997) explains that the nature of corporate governance in India differs significantly from the Anglo-Saxon model. In India, the primary governance challenge lies in regulating the power of dominant shareholders, who typically hold substantial ownership stakes, while simultaneously safeguarding the interests of minority shareholders. However, despite structural differences across countries, the fundamental objectives of corporate governance remain largely similar worldwide.

Mukherjee and Ghosh (2004) present a concerning picture and conclude that corporate governance in India is still at a nascent stage of development. They observe that investment decisions made by Indian investors tend to be unstable and are not strongly influenced by firms' governance practices. The authors further emphasize that in the era of globalization, corporations must adopt governance standards that meet international benchmarks.

Nadkarni et al. (2008) highlight that adopting an integrated approach to implementing sustainability strategies can enhance the link between corporate social responsibility and global competitiveness. Their study also reveals that only a limited number of Indian companies have developed a shared commitment to strengthening the alignment between organizational values and best-in-class business practices by creating mutually beneficial synergies rather than prioritizing one over the other.

Pande and Kaushik (2012) observed that corporate governance reforms in India have reached a critical stage, with the absence of clearly defined and consistent governance guidelines. They emphasized the continued need to strengthen corporate governance frameworks that are capable of effectively addressing challenges unique to the Indian business environment.

Kumar and Zattoni (2012) highlighted the growing importance of sound corporate governance in the context of rising corporate frauds. They noted that the role of the board of directors has evolved from a largely passive position to one focused on active oversight, evaluation, and monitoring of managerial performance. Furthermore, the collapse of several large corporations due to unethical practices has placed board members under intense scrutiny from regulators and investors alike.

Aggarwal (2013) examined the link between corporate governance practices and corporate financial performance, finding that the results were inconsistent and not definitive. The study underscored the importance of two critical governance components—the board of directors and executive compensation—in promoting long-term organizational sustainability.

Gowd et al. (2013) argued that weak corporate governance can erode market confidence in an organization's ability to manage its financial obligations and resources effectively. Such failures may trigger liquidity problems that can escalate into broader economic instability, ultimately affecting society as a whole.

Despite the growing body of literature, significant research gaps remain in relation to the issues, challenges, regulatory mechanisms, and policy frameworks governing corporate governance in India. Corporate governance practices also vary widely across different sectors. Therefore, there is a clear need for a comprehensive study that integrates governance issues, concerns, and regulatory structures. In this context, the present study proposes to examine the regulatory environment, ethical standards, challenges, and policy dimensions of corporate governance in India.

Methodology

The study on corporate governance of India is based on secondary data. In the course of analyzing the issues, a number of text and references books, different publications, press release and other published and unpublished documents relating to the study have been considered. The data has been collected from various websites also. Many books on corporate governance have studied and adequate number of information have been selected and then carefully analyzed.

To know the present status of Corporate Governance of India with respect to Asian Governance Regimes, Eight Asian countries have been selected. These countries are China, Hong-Kong, Indonesia, India, Korea, Malaysia, Singapore, and Thailand. While selecting the Eight Asian countries, due considerations have given on location, geography, size of the markets, etc. The data regarding to Asian Governance has collected from CLSA Asia-Pacific Markets: Asian Corporate Governance Association, available at www.acgs.asia.org.

Present Status of Corporate Governance in India

Corporate governance in India has undergone significant transformation over the past two decades, reflecting the country's efforts to align corporate practices with global standards while addressing domestic business realities. The present governance framework is shaped by a combination of statutory provisions, regulatory guidelines, and evolving market expectations. Although substantial progress has been made, several challenges continue to affect the effectiveness of corporate governance practices in India.

At present, corporate governance in India is primarily governed by the Companies Act, 2013 and regulations issued by the Securities and Exchange Board of India (SEBI), particularly the Listing Obligations and Disclosure Requirements (LODR). These legal and regulatory mechanisms have strengthened board accountability, enhanced disclosure standards, and improved shareholder protection. Mandatory requirements relating to independent directors, audit committees, internal controls, and financial reporting have increased transparency and corporate discipline.

Indian companies, especially listed entities, have shown greater compliance with governance norms compared to earlier periods. Improved financial disclosures, timely reporting, and increased attention to risk management indicate a growing recognition of governance as a critical business function. Many corporations have also adopted codes of conduct, whistle-blower policies, and internal governance frameworks that go beyond minimum legal requirements.

Despite these advancements, corporate governance in India continues to face structural and operational challenges. Promoter-driven ownership remains a defining feature of Indian corporations, often leading to an imbalance of power between controlling shareholders and minority investors. While regulations seek to protect minority interests, their practical enforcement remains inconsistent. Instances of related-party transactions, inadequate board independence, and limited shareholder activism continue to raise governance concerns.

The effectiveness of boards of directors is another area of concern. Although regulations mandate the presence of independent directors, questions persist regarding their true independence, competence, and influence in decision-making processes. In some cases, boards function more as compliance bodies rather than as active monitors of management performance and strategic direction.

Regulatory enforcement also presents challenges. While India has established a comprehensive governance framework, gaps in monitoring, delayed penalties, and procedural complexities weaken deterrence against governance failures. Corporate scandals and financial irregularities reported in recent years highlight the need for stronger enforcement and proactive regulatory intervention.

In recent times, the scope of corporate governance in India has expanded to include sustainability and ethical considerations. Environmental, Social, and Governance (ESG) principles are increasingly being integrated into corporate strategies, driven by investor expectations and regulatory initiatives such as Business Responsibility and Sustainability Reporting (BRSR). This reflects a shift from compliance-based governance towards value-based and stakeholder-oriented governance.

Overall, the present status of corporate governance in India reflects a system in transition. While regulatory reforms have significantly improved transparency, accountability, and disclosure practices, persistent challenges related to ownership structure, board effectiveness, and enforcement remain. Strengthening institutional mechanisms, promoting ethical corporate culture, and encouraging active stakeholder participation are essential for enhancing the quality and effectiveness of corporate governance in India.

Issues, Policies and Regulatory Framework of Indian Corporate Governance

Corporate governance in India has evolved significantly in response to economic liberalization, globalization, and increasing integration with global financial markets. It refers to the system by which companies are directed, controlled, and held accountable, ensuring a balance between economic objectives and social responsibility. While India has developed a comprehensive regulatory framework for corporate governance, various structural, institutional, and ethical issues continue to challenge its effectiveness.

Issues in Indian Corporate Governance

Despite regulatory advancements, several critical issues persist in the Indian corporate governance landscape.

One of the most prominent concerns is **promoter**

dominance. A large number of Indian companies are family-owned or promoter-driven, which often leads to concentration of power. This dominance can result in decisions that favor controlling shareholders at the expense of minority shareholders, thereby undermining fairness and equity.

Another major issue relates to the **protection of minority shareholders.** Although legal provisions exist to safeguard minority interests, enforcement remains weak. Practices such as related-party transactions, preferential allotments, and inadequate disclosures often dilute minority shareholder rights.

Board independence and effectiveness also remain areas of concern. While regulations mandate the appointment of independent directors, their actual independence is frequently questioned due to personal, professional, or financial links with promoters. In many cases, boards function more as formal compliance bodies rather than as effective oversight mechanisms.

Lack of shareholder activism further weakens governance practices in India. Compared to developed economies, Indian shareholders—particularly institutional investors—have been relatively passive in influencing corporate decisions, reducing external pressure on management and boards.

Additionally, **regulatory enforcement and compliance issues** persist. Delays in investigations, limited penalties, and procedural inefficiencies often reduce the deterrent effect of governance regulations. Corporate frauds and financial misreporting highlight gaps between regulation and implementation.

Policies Governing Corporate Governance in India

Indian corporate governance policies aim to promote transparency, accountability, and ethical business conduct. These policies are designed to strengthen investor confidence and ensure responsible management of corporate affairs.

A key policy focus has been on **enhancing transparency and disclosure standards.** Companies are required to disclose financial information, related-party transactions, risk management practices, and governance structures to ensure informed decision-making by stakeholders.

Another important policy objective is **strengthening board governance.** Policies emphasize balanced board composition, separation of ownership and management roles, and the inclusion of independent and women directors to improve decision-making and oversight.

Policies also encourage **stakeholder-oriented governance,** moving beyond shareholder primacy.

This approach recognizes the interests of employees, customers, creditors, communities, and the environment, aligning corporate governance with sustainable development goals.

In recent years, governance policies have expanded to include **ethical conduct and sustainability,** with increasing emphasis on Environmental, Social, and Governance (ESG) standards. This reflects a shift towards long-term value creation rather than short-term profit maximization.

Regulatory Framework of Corporate Governance in India

The regulatory framework of corporate governance in India is primarily based on statutory laws and regulatory guidelines.

The **Companies Act, 2013** serves as the cornerstone of corporate governance regulation. It introduced several reforms, including provisions for independent directors, audit committees, internal financial controls, corporate social responsibility, and enhanced disclosure requirements. The Act seeks to strengthen accountability and improve governance standards across companies.

The **Securities and Exchange Board of India (SEBI)** plays a crucial role in regulating corporate governance of listed companies. SEBI's Listing Obligations and Disclosure Requirements (LODR) mandate detailed governance norms relating to board composition, disclosure practices, shareholder rights, and compliance mechanisms.

In addition, **accounting and auditing standards,** enforced through regulatory bodies, contribute to governance by ensuring accurate financial reporting and transparency. The role of statutory auditors and audit committees is central to maintaining financial integrity.

Judicial and quasi-judicial institutions also support the governance framework by resolving disputes, enforcing compliance, and interpreting governance-related provisions. Together, these mechanisms form a multi-layered regulatory structure aimed at improving corporate conduct.

Progress, Failure and Future Scope of Indian Corporate Governance

Corporate governance in India has evolved steadily in response to economic reforms, market expansion, and growing stakeholder expectations. Over the years, India has introduced several legal and regulatory measures to improve transparency, accountability, and ethical conduct in corporate functioning. While notable progress has been achieved, governance failures

continue to surface, highlighting structural weaknesses and implementation gaps. Understanding the progress made, the failures experienced, and the future direction of corporate governance is essential for strengthening India's corporate ecosystem.

Progress of Corporate Governance in India

One of the most significant achievements in Indian corporate governance has been the development of a **comprehensive legal and regulatory framework**. The Companies Act, 2013 marked a major shift from a compliance-based regime to a governance-oriented approach. Provisions related to independent directors, audit committees, internal financial controls, and enhanced disclosures have strengthened board accountability and corporate oversight.

The role of **SEBI** has also expanded considerably. Through listing regulations and disclosure norms, SEBI has improved transparency in listed companies and enhanced protection for investors. Mandatory disclosures, timely reporting, and stricter norms for related-party transactions have reduced information asymmetry in capital markets.

Another area of progress is the **improvement in board structures**. Companies are increasingly appointing independent and women directors, which has contributed to diversity in decision-making. Codes of conduct, whistle-blower mechanisms, and risk management frameworks have become common governance practices among Indian corporations.

In recent years, corporate governance has further progressed with the integration of **sustainability and ESG considerations**. Requirements such as Business Responsibility and Sustainability Reporting (BRSR) indicate a shift toward stakeholder-oriented governance and long-term value creation.

Failures and Challenges in Indian Corporate Governance

Despite regulatory improvements, Indian corporate governance continues to face several failures and persistent challenges.

A major concern remains **promoter dominance**. Many Indian companies are controlled by promoters or family groups, leading to concentration of power. This often results in decisions that prioritize controlling shareholders over minority interests, weakening fairness and equity.

Another significant failure is the **limited effectiveness of independent directors**. Although regulations mandate their presence, their independence is sometimes

compromised due to close associations with promoters or management. In practice, boards often function as approval bodies rather than active monitors of corporate strategy and performance.

Weak enforcement of regulations is another critical issue. While India has strong governance laws, delays in investigations, lenient penalties, and procedural inefficiencies reduce their deterrent effect. Repeated corporate scandals and financial irregularities demonstrate gaps between regulation and implementation.

Additionally, **low shareholder activism** continues to affect governance quality. Institutional and retail investors in India have been relatively passive, limiting external pressure on companies to improve governance standards.

Future Scope of Indian Corporate Governance

The future of corporate governance in India lies in moving beyond formal compliance toward **substantive and value-based governance**. Strengthening enforcement mechanisms and ensuring timely regulatory action will be crucial for restoring investor confidence and preventing governance failures.

Greater emphasis on **board effectiveness and director accountability** is needed. Continuous training, stricter eligibility criteria, and performance evaluation of directors can enhance board independence and competence.

The scope of corporate governance is also expected to expand further with the growing importance of **ESG and sustainability governance**. Integrating environmental and social responsibilities into core business strategies will play a key role in long-term corporate success.

Another important future direction is **enhanced shareholder participation**. Encouraging active involvement of institutional investors and improving voting mechanisms can strengthen accountability and transparency.

Technological advancements such as digital disclosures, data analytics, and real-time compliance monitoring can also improve governance efficiency. A culture of ethical leadership and corporate integrity will be essential for ensuring that governance reforms translate into meaningful outcomes.

Conclusion

Indian Corporate Bodies having adopted good corporate governance will reach themselves to a benchmark for rest of the world. In this regard, The Indian Companies Act and SEBI Act introduced some innovative measures

to appropriately balance legislative and regulatory reforms for the growth of the enterprise and to increase foreign investment, keeping in mind international practices. On the otherhand, absence of detailed report, poor quality of consolidated accounting and segment reporting, inappropriate audit system etc make the legal enforcement mechanism ineffective. It is notable that failure to implement good governance procedures has a cost in terms of significant risk premium. For that reason, the corporate practices in India should emphasize the functions of audit and finances that have legal, moral and ethical implications for the business and its impact on the shareholders.

Corporate Governance in India has a broad scope in different aspects like as corporate, social and institutional aspects. Effectiveness of corporate governance system cannot merely be legislated by law neither can any system of corporate governance be static. Though noteworthy progress has been achieved in Indian Corporate Governance, clarity at policy making levels are needed to sustain the progress and to gather further momentum. In India, this time require the well functioning Board, greater disclosure, better management practices, and a more open, interactive and dynamic corporate governance environment. Above all, Corporate Governance should have approach of holistic view, value based governance, should be committed towards corporate social upliftment and social responsibility and environment protection.

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