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EVOLUTION AND EMERGING TRENDS IN CORPORATE GOVERNANCE IN INDIA

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ABSTRACT

The Corporate governance in India has undergone a remarkable transformation, evolving from traditional trade practices and colonial legacies to a sophisticated framework defined by modern regulations. Grounded in principles of accountability, transparency, and ethical leadership, corporate governance serves as the foundation for building resilient and dynamic corporate ecosystems.

Several key milestones have shaped this evolution, including the establishment of the Securities and Exchange Board of India (SEBI) in 1992, the introduction of Clause 49, and the enactment of the Companies Act, 2013. These developments have significantly strengthened governance norms, promoting greater independence, inclusivity, and transparency within corporate structures.

Historically, India's corporate governance landscape was largely compliance-driven and focused on a rule-based model. The initial phase was characterized by stringent regulations, such as the Companies Act and SEBI's mandatory guidelines. However, over time, the landscape has shifted toward a more principles-based approach, with the introduction of reforms like Clause 49, the Kotak Committee recommendations, and the establishment of voluntary guidelines. These reforms have broadened the scope of governance practices, moving beyond regulatory compliance to emphasize ethical leadership, accountability, and stakeholder inclusiveness. The blending of regulatory compliance with principles-based frameworks ensures a more comprehensive and sustainable approach to corporate governance. Some of the key trends are emerging in corporate governance like ESG, Cyber Security, shareholders activism and many more.

This article explores the evolution of corporate governance in India and the emerging trends that are reshaping the governance landscape. It also examines the intersection of global standards with local nuances, recognizing that corporate governance is a dynamic field, continuously evolving to address new challenges and opportunities.

As corporate governance in India continues to mature, professionals in the field must stay attuned to these evolving trends and best practices to ensure effective, ethical, and inclusive governance across organizations.

Keywords: *Corporate Governance, Emerging Trends, Independent Directors, Diversity, Composition, Culture, Databank.*

1. INTRODUCTION

Corporate governance refers to the systems, processes, and principles that ensure companies are directed and controlled ethically, transparently, and in the best interests of all stakeholders. Rooted in fairness, accountability, and risk management, it shapes how decisions are made, performance is monitored, and value is created for shareholders, employees, customers, and society.

At its core, corporate governance balances the relationships between a company's management, board, shareholders, and stakeholders. As the OECD defines it, this framework determines how corporate objectives are set, achieved, and monitored. When implemented effectively, it fosters trust, attracts investment, and safeguards against mismanagement. For example, studies show that firms with strong governance practices achieve 20% higher market valuations on average (McKinsey, 2023).

"Good corporate governance is about intellectual honesty—not just sticking to rules," emphasized Mervyn King, chair of the King Committee on Governance. This philosophy underscores why principles like transparency and accountability matter:

- Fairness: Equitable treatment of minority shareholders and stakeholders.
- Transparency: Clear disclosure of financial performance, risks, and decision- making.
- Risk Management: Proactive identification of operational, financial, and ethical risks.
- Accountability: Boards taking responsibility for strategic outcomes.

Gabrielle O'Donovan, a governance expert, expands this further: it's an "internal system" reliant on policies, people, and external legislation to align management actions with stakeholder needs. In practice, this means bedding governance into a company's culture—for instance, Tata Group's "Code of Conduct" mandates ethical behavior across its 150+ subsidiaries, demonstrating governance as a strategic priority.

CORPORATE GOVERNANCE JOURNEY IN INDIA

India's corporate governance evolution reflects a dynamic interplay of regulatory reforms, economic shifts, and lessons from corporate scandals. From colonial-era investor protection to today's tech-driven frameworks, this journey can be divided into distinct eras:

1. Pre-1991: Foundational Frameworks

The roots of Indian corporate governance trace back to British colonial rule, where the primary focus was safeguarding foreign investors. Post-independence, the Companies Act of 1956 established basic regulations for corporate operations but lacked emphasis on transparency. For instance, financial disclosures were minimal, and boards often operated as figureheads for promoter families.

2. 1991–2000: Liberalization and Early Reforms

In 1992, GOI set up Securities Exchange Board of India for bringing transparency and fairness in the 5+e Indian financial market and made mandatory for companies to disclose relevant information available to investors and to prescribe conditions for listing. SEBI issued a set of guidelines to be adhered to by these corporates to ensure the protection of the investors. However, there were many loopholes in these guidelines, which were exploited by some brokers led by Harshad Mehta and the country witnessed the biggest stock market scam including that of the UTI scam.

The economic liberalization of 1991 marked a turning point for Indian corporate governance. With the opening of the economy, there was an influx of foreign investment, necessitating stronger corporate governance norms. **the Confederation of Indian Industry (CII)** drafted the country's first *Code for Desirable Corporate Governance* in 1998. It aims to promote effective governance practices in Indian companies. It stresses the importance of transparency, investor protection, and enhancing corporate practices, especially as India integrates into global markets. It recommends fostering accountability through independent, professional boards, particularly for listed companies. The report code outlines guidelines for governance structures, emphasizing the need for skilled non- executive directors. Ultimately, the goal is to improve long-term shareholder value while maintaining corporate transparency and responsibility.

Kumar Mangalam Birla Committee

On May 7, 1999, the Securities and Exchange Board of India (SEBI) established the Kumar Mangalam Birla Committee to formulate a comprehensive code of corporate governance for Indian companies. The committee's recommendations focused on key aspects such as board composition, the establishment of audit committees, and enhanced disclosure requirements. Based on the recommendations of this Committee, a new **Clause 49 of the Listing Agreement** was incorporated.

Clause 49 was a pivotal step in improving corporate governance in India, aligning it with global standards and boosting investor confidence.

Key Highlights:

- Board of Directors composition
- Audit Committee composition and functioning
- Shareholders / Investors Grievances Committee
- Remuneration of Directors
- Board Procedures
- Management
- Corporate Governance Report in the Annual Report
- Certification of compliance with Clause 49 provision

Clause 49 elevated corporate governance by promoting transparency, accountability, and stakeholder protection. It also laid the foundation for reforms like the Companies Act, 2013, and SEBI’s LODR Regulations, further strengthening governance in India.

3. 2000–2013: Mandatory Governance & Post-Satyam Reforms

The Naresh Chandra Committee, established by India's Department of Company Affairs in 2002, aimed to enhance corporate governance. Key recommendations included disqualifying auditors with conflicts of interest, prohibiting auditors from offering certain non-audit services to clients, implementing compulsory rotation of audit partners every five years, and empowering audit committees to appoint auditors. These measures sought to strengthen auditor independence and improve corporate governance standards in India.

The Narayana Murthy committee further refined the rules, and Clause 49 was amended in 2004 and 2008. The revised clause aims to protect investors' interests through improved governance practices and disclosures. The Committee recommended several key changes, including ensuring most independent directors on boards, forming independent audit and remuneration committees, establishing robust risk management systems, and promoting transparency in financial disclosures. The committee also emphasized shareholders' rights, internal audits, whistleblower protection, a code of conduct for ethical behaviour, and regular training for directors and employees. These reforms aim to improve accountability and transparency in corporate governance.

The Satyam case in 2009 exposed serious governance flaws, prompting the Ministry of Corporate Affairs (MCA) to introduce the **"Corporate Governance Voluntary Guidelines 2009."** These guidelines aimed to improve corporate governance through voluntary adoption by companies.

Key recommendations include separating the roles of Chairman and CEO to ensure balanced power, appointing independent directors for objective decision-making, and forming audit committees mainly composed of independents to oversee financial reporting. The guidelines also advocate for rotating audit partners every three years to maintain audit integrity and suggest a whistleblower mechanism for reporting unethical practices without fear of retaliation.

By setting a benchmark for voluntary adoption, these guidelines promote transparency, accountability, and ethical business practices.

In 2012, a committee led by Adi Godrej made several key recommendations, including the separate meetings of independent directors, the establishment of a whistleblower mechanism, and the formation of a risk management committee. SEBI swiftly integrated these recommendations into Clause 49.

In 2013, the Companies Act underwent a significant revision, bringing about a more robust regulatory framework for corporate governance in India. This updated version of the Act sought to modernize the corporate landscape by enhancing the role of key professional bodies such as the Institute of Chartered Accountants of India (ICAI) and the Institute of Company Secretaries of India (ICSI). The Act now accords greater authority to the accounting standards and corporate governance guidelines issued by these bodies, making adherence to these standards mandatory.

Non-compliance with these provisions, especially in the areas of business conduct, financial reporting, and disclosures, is not only considered a violation of corporate governance principles but is also subject to stringent legal penalties. This strengthens accountability and ensures that companies operate with greater transparency and integrity.

4. 2015–Present: SEBI LODR and Digital Governance

Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 [Last amended on May 17, 2024]. It talks about the changes to governance, compliance requirements, and disclosure practices for listed companies.

It highlights the increased focus on transparency, accountability, and stakeholder engagement. The amendments aim to improve corporate governance, particularly by enhancing board-level responsibilities, financial disclosures, and the role of independent directors.

Independent Directors Databank, 2019, MCA, GOI launched a national-level initiative aimed at enhancing the quality of corporate governance in India. This initiative mandated that Independent Directors register on the designated portal, complete a series of learning modules, and successfully pass a self-assessment proficiency test. The objective of this initiative is to ensure that only qualified Independent Directors, with a deeper understanding of Board Governance, are appointed to Boards. This, in turn, promotes better governance practices, which are essential for fostering transparency and accountability within organizations.

It The Government of India remains committed to continually raising the standards of corporate governance, striving to create a framework where transparency, accountability, and ethical management practices prevail. Through such initiatives, the interests of stakeholders are safeguarded, and corporations are steered toward a more responsible and sustainable future.

The evolution of corporate governance codes across different countries has been shaped by various events and reforms:

- 1998 – United Kingdom: The UK introduced its corporate governance code after extensive review and building on the work of the Cadbury Report. This code set the foundation for others, pioneering essential principles such as the “comply or explain” approach.
- 2000 – India: India adopted its corporate governance code following the recommendations of the Birla Committee, which was established to improve corporate governance standards. The Indian code was strongly influenced by the UK model.
- 2002 – United States: The U.S. introduced its corporate governance code in response to the high-profile bankruptcies of telecom giant WorldCom and energy firm Enron, marking a significant reform in corporate governance practices.

- 2002 – Australia: Australia introduced its code and has updated it several times, particularly following financial scandals, to strengthen governance standards.
- 2003 – Canada: Canada's corporate governance law was introduced to complement the U.S. version, drawing heavily from it.
- 2015 – Japan: The Tokyo Stock Exchange established Japan's corporate governance code, aimed at improving corporate practices and investor confidence. In the European Union, there is no unified corporate governance code embedded in legislation. Instead, it relies on directives, which outline requirements but leave the responsibility of enforcing them to individual member states. Notable European examples include:
- 2002 – Germany: After the bankruptcy of the nation's second-largest construction company, Philipp Holzmann, in a major corporate scandal, Germany introduced its corporate governance code.
- 2010 – Spain: Spain implemented its governance code to address corporate malpractices.
- 2014 – Ireland: Following the enactment of the Companies Act, Ireland established its corporate governance guidelines.

Recent Trends in Corporate Governance:

Here are some recent trends in Corporate Governance:

- **Environment, Social & Governance (ESG)** – In recent few years focus is increased on how companies are framing their polices and setting standards for a company's operations that force companies to follow better governance, ethical practices, environment-friendly measures and social responsibility. Investor and consumers are more watchful on how companies are reporting on ESG aspects and ensuring accurate / truthful data in disclosures.
- **Board Diversity & Inclusions** - Companies are recognizing the value of diverse perspectives in decision-making and governance. This includes Appointing Diversity Professionals, evolving remote workplace, Diverse Gender Identity & Gender Expression, eliminating unconscious biasness in the workplace, Diversity, Equity & Inclusion (DEI), Preparing for Systemic Organizational Transformation and Moving Beyond Tokenism in Diversity Initiatives.

- **Shareholder's activism** - Shareholder activism has gained significant momentum in India, with investors becoming more informed about their rights and investments. Shareholders are increasingly exercising their influence through voting rights, discussion forums, resolutions, and meetings, impacting corporate decisions. They are actively participating in limiting remuneration hikes, scrutinizing executive appointments, and blocking related-party transactions.

A notable example occurred in **2017 when Raymond Ltd.** proposed a related-party transaction involving the sale of business assets at a discount to its controlling owners. Since promoters and controlling shareholders are excluded from voting on related-party transactions, the proposal was defeated despite opposition from only a small portion of the overall shareholder base.

In **2021, Eicher Motors Ltd.** faced a similar challenge. The company failed to secure the necessary votes for a special resolution that would have allowed their managing director to receive a salary increment.

- AI in the Board Room – Artificial Intelligence has become omnipresent in boardrooms, playing a crucial role in decision-making, strategic planning, and risk management. By offering innovative solutions, AI amplifies efficiency, enhances effectiveness, and fosters sustainable growth. It plays a pivotal role in streamlining compliance processes by automating tasks such as risk assessments, legal document reviews, and ensuring data privacy compliance. This is especially important in an environment where cloud technology plays a significant role.
- SEBI recommendations on disclosures in Annual report – SEBI has introduced enhanced corporate governance measures to promote greater transparency and accountability in companies' annual reports. These measures include mandating the disclosure of directors' minimum attendance at Board meetings over the past two financial years to ensure accountability, requiring companies to articulate the skill set and expertise of their directors to align Board composition with organizational needs, and redefining Independent Directors by excluding individuals with promoter group affiliations and addressing Board interlocks to strengthen independence in decision-making. Additionally, SEBI has introduced specific age- related criteria for Independent Directors to promote a balanced and effective Board composition. The regulator has also emphasized enhanced disclosures in critical areas such as Board evaluation processes, related-party transactions, and the composition and functioning of Board committees. These initiatives reflect SEBI's commitment to fostering robust corporate governance practices and ensuring

that companies remain accountable to stakeholders while adhering to global best practices.

- The Growing Importance of Stakeholder Engagement - Stakeholder engagement has become a cornerstone of corporate governance in India. Companies are addressing the interests of diverse stakeholders, including shareholders, employees, customers, suppliers, communities, and regulators, amidst a dynamic economic and regulatory environment.

This shift is fueled by growing demands for transparency, accountability, and inclusivity from institutional investors, policymakers, and civil society. The rise of ESG frameworks has further integrated stakeholder engagement into sustainable business strategies.

Regulatory developments like the Companies Act, 2013, and SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework are reinforcing this focus. Companies are adopting innovative methods, including consultations, grievance mechanisms, and digital platforms, to foster dialogue and build trust.

- **Enhancing Transparency in Financial Disclosures: A Key Element of Corporate**

Transparency in financial disclosures is increasingly vital in corporate governance. The Government of India (GOI) has empowered the National Financial Reporting Authority (NFRA) to ensure that companies uphold the highest standards of financial reporting and audit practices. This ensures companies provide accurate and transparent financial statements, complying with Indian Accounting Standards (Ind AS) to present a true and fair view of their financial health.

Auditors must remain independent, free from management influence, and follow rigorous procedures for documenting, verifying, and submitting financial statements and audit reports. Failure to comply with these standards can lead to regulatory penalties and damage stakeholder trust.

Moreover, companies must provide comprehensive disclosures on related party transactions, contingent liabilities, and key risks. Combined with robust internal controls, these practices are crucial for preventing fraud.

High-quality audits and financial reporting not only fulfil regulatory requirements but also build trust with investors, creditors, and regulators. By prioritizing audit quality, Indian companies can enhance their corporate governance framework, strengthen their financial integrity, and align with global best practices.

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Conclusion

India's corporate governance journey—reflects a nation learning from its past while racing toward global relevance. The Satyam scandal's $1.5 billion accounting fraud and the 2023 shareholder revolts against excessive CEO pay are stark reminders: governance is not a checkbox exercise but a strategic lever for trust and longevity.

The Companies Act, 2013 and SEBI's LODR Regulations have transformed India's governance landscape, shifting the focus from promoter-centric control to stakeholder accountability. Yet, challenges persist:

- Balancing promoter influence with independent board oversight.
- Bridging the gap between voluntary ESG adoption and mandatory compliance.
- Harnessing AI tools without compromising human judgment in decision- making.

The rise of ESG investing ($1.3 billion inflows in 2023), SEBI's gender diversity mandates (45% of Nifty 500 boards now have 2+ women directors), and the NFRA's crackdown on audit lapses (₹2,200 crore flagged in 2023) signal a new era of accountability. These trends are not just regulatory demands but opportunities to build resilient, future-ready organizations.

For India to lead in the global economy, governance must evolve from a compliance burden to a competitive advantage. This requires:

- Agile Boards: Upskilling directors in AI, cybersecurity, and ESG analytics.
- Stakeholder-Centricity: Embedding community and employee voices into strategy.
- Ethical Tech Adoption: Using AI to enhance—not replace—human oversight.

As Mervyn King aptly stated, **"Governance is about doing the right thing, not just doing things right."** India's corporations now stand at a crossroads: embrace governance as a catalyst for innovation and inclusivity, or risk obsolescence in an era where transparency defines success.

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