

# Corporate Governance and Legal Compliance in Indian Companies

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## **ABSTRACT**

*Corporate governance has emerged as a critical determinant of organizational success and stakeholder protection in India's evolving business landscape. This paper examines the comprehensive regulatory framework governing corporate governance and legal compliance in Indian companies, analyzing the effectiveness of current legislative provisions, particularly the Companies Act, 2013, and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. Through critical analysis of landmark corporate governance failures, including the Satyam Computer Services scandal, this study identifies key gaps in implementation and enforcement mechanisms. The research reveals that while India has established a robust regulatory architecture, challenges persist in ensuring effective compliance, particularly among smaller enterprises and emerging sectors. The paper concludes with recommendations for strengthening governance mechanisms through enhanced disclosure requirements, independent oversight, and leveraging technology for better compliance monitoring. This comprehensive analysis contributes to understanding the dynamic interplay between regulatory framework and corporate behavior in one of the world's fastest-growing economies.*

**Keywords:** *Corporate Governance, Legal Compliance, Companies Act 2013, SEBI LODR, Regulatory Framework*

## **1. Introduction**

Corporate governance represents the fundamental system of rules, practices, and processes by which companies are directed and controlled, ensuring accountability to stakeholders while promoting transparency and ethical business conduct. In the Indian context, corporate governance has evolved from a voluntary practice to a mandatory regulatory requirement, fundamentally transforming how businesses operate and interact with their stakeholders. The significance of robust corporate governance becomes evident when examining the economic impact of governance failures, as demonstrated by various corporate scandals that have plagued not only India but global markets. The transformation of India's corporate regulatory landscape began with the enactment of the Companies Act, 2013, which brought radical changes in corporate governance practices. The Act replaced the Companies Act, 1956, introducing stricter regimes for corporate oversight and severe consequences for non-compliance<sup>1</sup>. This evolution reflects India's commitment to aligning its corporate regulatory framework with global best practices while addressing unique domestic challenges. Contemporary corporate governance in India operates within a multi-layered regulatory ecosystem,

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<sup>1</sup> Companies Act, 2013, Preamble and Statement of Objects and Reasons

encompassing various statutes, regulations, and guidelines that collectively ensure corporate accountability and stakeholder protection.

## 2. Research Objectives

This research aims to analyze the current regulatory framework governing corporate governance in Indian companies and evaluate the implementation challenges in ensuring effective compliance. Additionally, the study seeks to assess the impact of recent regulatory amendments on corporate behavior and provide recommendations for strengthening governance mechanisms.

## 3. Evolution of Corporate Governance Framework in India

The development of corporate governance in India can be traced through several distinct phases, each marked by significant regulatory milestones and responses to corporate crises. The transition from the Companies Act, 1956, to the Companies Act, 2013, represents a fundamental shift in India's approach to corporate regulation. The earlier Act consisted of 658 sections organized into 13 parts, while the current Act contains 470 sections structured into 29 chapters, reflecting a move toward more focused and streamlined regulation<sup>2</sup>. This structural reorganization eliminated redundancies while strengthening core governance provisions and introducing new concepts such as corporate social responsibility and enhanced director accountability. The regulatory framework has continuously evolved to address emerging challenges

in the corporate sector. The Companies Act, 2013, has undergone significant amendments, particularly in 2019 and 2025, aimed at enhancing compliance, transparency, and corporate governance mechanisms<sup>3</sup>. These amendments demonstrate the dynamic nature of Indian corporate law and its responsiveness to changing business environments. The 2019 amendments particularly focused on decriminalizing compoundable offenses and enhancing the ease of doing business, while the 2025 amendments have introduced enhanced disclosure requirements and streamlined processes for startups<sup>4</sup>.

The role of the Securities and Exchange Board of India in shaping corporate governance standards cannot be understated. SEBI introduced the Listing Obligations and Disclosure Requirements (LODR) Regulations in 2015, which consolidated various governance requirements into a unified framework<sup>5</sup>. These regulations serve as a cornerstone for ensuring transparency, protecting investors' interests, and standardizing disclosures across various sectors. The LODR regulations have been continuously updated, with the most recent amendments in 2025 extending governance requirements to entities with non-convertible debt securities<sup>6</sup>.

## 4. Statutory Framework under the Companies Act, 2013

The Companies Act, 2013, introduced several revolutionary provisions that fundamentally transformed corporate governance in India. Section

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<sup>2</sup> Companies Act, 1956 vs Companies Act, 2013 -

Comparative Analysis, Ministry of Corporate Affairs

<sup>3</sup> Companies (Amendment) Act, 2019 and Companies (Amendment) Rules, 2025

<sup>4</sup> Companies (Amendment) Act, 2019, Section 7; Companies (Incorporation) Amendment Rules, 2025

<sup>5</sup> SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Preamble

<sup>6</sup> SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2025

149 of the Act mandates the appointment of independent directors, requiring listed companies to have at least one-third of their board composed of independent directors<sup>7</sup>. This provision aims to enhance board independence and reduce conflicts of interest by ensuring that a significant portion of the board consists of directors who are independent of management and controlling shareholders. The definition of independence under the Act is comprehensive, covering various relationships that could compromise a director's independence<sup>8</sup>. The Act's emphasis on committee structures represents another significant advancement in corporate governance. Section 177 requires the constitution of an Audit Committee for certain classes of companies, ensuring independent oversight of financial reporting and internal controls<sup>9</sup>. The committee must comprise at least three directors, with a majority being independent directors, and possesses specific powers related to financial oversight and audit functions. Similarly, the Nomination and Remuneration Committee, mandated under Section 178, plays a crucial role in formulating policies related to director appointments and remuneration<sup>10</sup>.

Corporate disclosure requirements have been significantly enhanced under the current framework. Section 134 mandates comprehensive disclosure in the Board's Report, including information about corporate governance, corporate social responsibility, risk management policies, and various other matters of

stakeholder interest<sup>11</sup>. The Act also introduced mandatory Corporate Social Responsibility under Section 135, requiring companies meeting specified criteria to spend at least two percent of their average net profits on CSR activities<sup>12</sup>. This provision reflects the growing emphasis on corporate accountability beyond mere profit maximization. The establishment of the National Company Law Tribunal under Section 408 of the Companies Act, 2013, represents a significant institutional reform in corporate governance enforcement<sup>13</sup>. The NCLT, which became operational on June 1, 2016, consolidates jurisdiction over various corporate matters previously handled by different forums, including the Company Law Board and the Board for Industrial and Financial Reconstruction<sup>14</sup>. The tribunal has comprehensive powers to adjudicate matters related to mergers and amalgamations, oppression and mismanagement cases, corporate insolvency proceedings, and various other corporate disputes<sup>15</sup>.

### **5. SEBI's Regulatory Framework for Listed Entities**

The Securities and Exchange Board of India has played a pivotal role in establishing and enforcing corporate governance standards for listed companies through the LODR Regulations, 2015. These regulations consolidated various requirements previously scattered across different documents, including listing agreements and various SEBI circulars<sup>16</sup>. The LODR framework draws heavily from

<sup>7</sup> Companies Act, 2013, Section 149(4)

<sup>8</sup> Companies Act, 2013, Section 149(6) and Schedule IV

<sup>9</sup> Companies Act, 2013, Section 177(1)

<sup>10</sup> Companies Act, 2013, Section 178(1)

<sup>11</sup> Companies Act, 2013, Section 134(3)

<sup>12</sup> Companies Act, 2013, Section 135

<sup>13</sup> Companies Act, 2013, Section 408

<sup>14</sup> National Company Law Tribunal (Establishment) Notification, 2016

<sup>15</sup> Companies Act, 2013, Sections 230-240, 241-246; Insolvency and Bankruptcy Code, 2016

<sup>16</sup> SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Regulation 3

the Companies Act of 2013 and incorporates guidelines from international regulatory practices, creating a comprehensive governance structure for listed entities<sup>17</sup>. Board composition requirements under the LODR regulations are stringent and detailed. Regulation 17 specifies that the board of directors of the top 1000 listed entities by market capitalization shall have an optimum combination of executive and non-executive directors with at least one woman director and not less than fifty percent of the board comprising non-executive directors<sup>18</sup>. The regulation also prescribes specific criteria for the appointment and tenure of independent directors, ensuring their actual independence from management and promoters<sup>19</sup>.

The committee structure mandated by SEBI includes several specialized committees with specific functions and composition requirements. The Audit Committee, governed by Regulation 18, must comprise at least three directors with independent directors forming a majority<sup>20</sup>. The committee has extensive powers and responsibilities, including oversight of financial reporting, internal controls, and audit functions. The Stakeholder Relationship Committee, established under Regulation 20, specifically addresses investor grievances and ensures effective stakeholder communication<sup>21</sup>. Disclosure obligations under the LODR regulations are comprehensive and time-sensitive. Regulation 30 requires listed companies to disclose material events and information that could

impact investor decisions within specified timeframes<sup>22</sup>. The regulation provides an exhaustive list of events that constitute material information, ranging from corporate actions to operational developments. These disclosure requirements ensure that investors have access to timely and relevant information for making informed investment decisions<sup>23</sup>.

Recent amendments to the LODR regulations in 2025 have further strengthened governance requirements, particularly for entities with listed debt securities. The Securities and Exchange Board of India notified amendments on March 27, 2025, introducing Chapter VA regarding Corporate Governance for Listed Entities with Non-Convertible Debt Securities<sup>24</sup>. These amendments extend governance requirements to entities with debt securities of outstanding value exceeding Rs. 1000 crores, demonstrating SEBI's commitment to comprehensive market regulation<sup>25</sup>.

## **6. The Satyam Scandal: A Case Study in Governance Failure**

The Satyam Computer Services scandal of 2009 remains one of the most significant corporate governance failures in Indian corporate history, providing valuable insights into the consequences of weak governance mechanisms and the importance of effective oversight. On January 7, 2009, Byrraju RamalingaRaju, the founder and chairman of Satyam Computer Services, shocked the corporate world by confessing to manipulating the company's accounts by

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<sup>17</sup> SEBI Circular on Corporate Governance, 2014

<sup>18</sup> SEBI (LODR) Regulations, 2015, Regulation 17(1)

<sup>19</sup> SEBI (LODR) Regulations, 2015, Regulation 16(1)(b)

<sup>20</sup> SEBI (LODR) Regulations, 2015, Regulation 18(1)

<sup>21</sup> SEBI (LODR) Regulations, 2015, Regulation 20

<sup>22</sup> SEBI (LODR) Regulations, 2015, Regulation 30

<sup>23</sup> SEBI Master Circular on Material Events, 2021

<sup>24</sup> SEBI (LODR) (Amendment) Regulations, 2025, Chapter VA

<sup>25</sup> SEBI Notification dated March 27, 2025

approximately Rs. 7,000 crores<sup>26</sup>. The scandal exposed fundamental weaknesses in corporate governance systems and highlighted the need for stronger regulatory oversight and enforcement mechanisms<sup>27</sup>. Satyam Computer Services was founded in 1987 and had grown to become one of India's leading IT services companies, with a significant global presence and listing on both Indian and international stock exchanges including NASDAQ<sup>28</sup>. The company had received various accolades for its governance practices, including the Golden Peacock Award for Corporate Governance in 2008, which was subsequently revoked following the scandal<sup>29</sup>. This irony underscores the limitations of award-based recognition systems and the need for continuous monitoring of governance practices rather than periodic assessments.

The scandal revealed multiple layers of governance failures that had persisted for several years. The manipulation involved inflating revenues, falsifying bank statements, creating fictitious customer accounts, and showing non-existent employees on the company's rolls<sup>30</sup>. Despite having independent directors on the board, the governance system failed to detect or prevent these fraudulent activities, raising questions about the effectiveness of independent director oversight in practice<sup>31</sup>. The audit committee, which should have provided independent oversight of

financial reporting, failed to identify the massive accounting irregularities that had been ongoing for years<sup>32</sup>. The role of external auditors in the Satyam scandal was particularly concerning, as Price water house Coopers, which served as the company's statutory auditor, failed to detect the fraud despite conducting regular audits<sup>33</sup>. The U.S. Securities and Exchange Commission subsequently fined PwC's Indian affiliate \$6 million for failing to follow proper auditing standards and code of conduct<sup>34</sup>. This failure highlighted the need for stronger auditing standards and greater accountability of auditing firms in ensuring the integrity of financial reporting.

The government's response to the Satyam scandal was swift and comprehensive, demonstrating the authorities' commitment to addressing corporate governance failures decisively. The Ministry of Corporate Affairs immediately dissolved the existing board of directors and appointed a new board comprising respected professionals with impeccable integrity<sup>35</sup>. The government nominated A.S. Murthy as the new CEO effective February 5, 2009, along with special advisors including Homi Khusrokhhan and T.N. Manoharan<sup>36</sup>. The company was eventually acquired by Tech Mahindra in 2009, marking the end of one of

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<sup>26</sup> Confession Letter of B. RamalingaRaju dated January 7, 2009

<sup>27</sup> CBI Chargesheet in Satyam Computer Services Case, 2010

<sup>28</sup> Satyam Computer Services Annual Report, 2008

<sup>29</sup> CII Golden Peacock Award Records, 2008-2009

<sup>30</sup> CBI Investigation Report, Satyam Computer Services, 2009

<sup>31</sup> Expert Committee Report on Corporate Governance, SEBI, 2017

<sup>32</sup> Audit Committee Report Analysis, Satyam Case Study, 2009

<sup>33</sup> PricewaterhouseCoopers Audit Reports, Satyam Computer Services, 2005-2008

<sup>34</sup> U.S. SEC Order against PricewaterhouseCoopers, 2011

<sup>35</sup> Ministry of Corporate Affairs Order dated January 10, 2009

<sup>36</sup> Government of India Notification regarding Satyam Board, February 2009

India's most prominent corporate governance scandals<sup>37</sup>.

### **7. Institutional Framework: National Company Law Tribunal**

The establishment of the National Company Law Tribunal represents a significant milestone in India's corporate governance infrastructure, providing a specialized forum for adjudicating corporate disputes and enforcing governance standards. The NCLT was constituted under Section 408 of the Companies Act, 2013, based on recommendations of the Justice Eradi Committee on law relating to insolvency and winding up of companies<sup>38</sup>. The tribunal became operational on June 1, 2016, with eleven benches initially established across major commercial centers in India<sup>39</sup>. The NCLT's jurisdiction encompasses a wide range of corporate matters, consolidating powers previously distributed among various forums including the Company Law Board, Board for Industrial and Financial Reconstruction, and High Courts in certain matters<sup>40</sup>. The tribunal has exclusive jurisdiction over proceedings related to compromises, arrangements, and amalgamations under Sections 230-240 of the Companies Act, 2013<sup>41</sup>. Additionally, the NCLT adjudicates cases involving oppression and mismanagement of companies under Sections 241-246 of the Act, providing an effective remedy for minority shareholders against majority abuse<sup>42</sup>.

The tribunal's role as the adjudicating authority under the Insolvency and Bankruptcy Code, 2016, has further enhanced its importance in corporate governance enforcement<sup>43</sup>. The NCLT initiates and oversees the Corporate Insolvency Resolution Process for companies, ensuring that insolvent companies are either resolved or liquidated in a time-bound manner<sup>44</sup>. This jurisdiction has proven crucial in addressing corporate distress and ensuring that failed governance systems do not perpetuate zombie companies that drain economic resources<sup>45</sup>. The NCLT's powers extend beyond adjudication to include investigative and enforcement capabilities. The tribunal can seek assistance from Chief Metropolitan Magistrates, order deregistration of companies, and declare the liability of members unlimited in cases where company registration was obtained through illegal or wrongful means<sup>46</sup>. These powers ensure that the tribunal can effectively address various forms of corporate misconduct and governance violations<sup>47</sup>. Appeals from NCLT orders lie with the National Company Law Appellate Tribunal (NCLAT), established under Section 410 of the Companies Act, 2013<sup>48</sup>. The NCLAT provides a two-tier appellate structure, with further appeals to the Supreme Court limited to

<sup>37</sup> Tech Mahindra Acquisition Agreement, 2009

<sup>38</sup> Justice Eradi Committee Report on Company Law, 2000

<sup>39</sup> Ministry of Corporate Affairs Notification establishing NCLT, 2016

<sup>40</sup> Companies Act, 2013, Section 408 and Schedule XII

<sup>41</sup> Companies Act, 2013, Sections 230-240

<sup>42</sup> Companies Act, 2013, Sections 241-246

<sup>43</sup> Insolvency and Bankruptcy Code, 2016, Section 5(1)

<sup>44</sup> Insolvency and Bankruptcy Code, 2016, Sections 7-14

<sup>45</sup> NCLT Annual Report, 2023-24

<sup>46</sup> Companies Act, 2013, Section 252; NCLT Rules, 2016

<sup>47</sup> National Company Law Tribunal Rules, 2016, Rule 11

<sup>48</sup> Companies Act, 2013, Section 410



questions of law<sup>49</sup>. This appellate framework ensures that NCLT decisions are subject to appropriate judicial review while maintaining the specialized nature of corporate adjudication<sup>50</sup>.

### **8. Contemporary Compliance Challenges and Implementation Issues**

Despite the comprehensive regulatory framework established under the Companies Act, 2013, and various SEBI regulations, significant challenges persist in ensuring effective implementation and compliance across different categories of companies. Small and medium enterprises often struggle with the compliance burden imposed by various governance requirements, which can be disproportionately expensive and complex relative to their size and resources<sup>51</sup>. The challenge is particularly acute for companies that have recently crossed the threshold for various compliance requirements, as they must rapidly develop governance infrastructure and expertise. The effectiveness of independent directors remains a subject of ongoing concern and debate within the corporate governance community. While the law mandates the appointment of independent directors and prescribes criteria for independence, questions persist about their actual independence and effectiveness in practice<sup>52</sup>. The limitation on the number of directorships that a person can hold - maximum seven listed entity directorships with restrictions on combinations of executive and

independent roles - aims to ensure focused attention but may also limit the pool of qualified candidates<sup>53</sup>.

Technology adoption in governance and compliance represents both an opportunity and a challenge for Indian companies. The Ministry of Corporate Affairs has initiated significant digitization efforts, including the migration of e-forms from Version 2 to Version 3 portal and the introduction of various digital compliance tools<sup>54</sup>. Enhanced disclosure requirements introduced in 2025 mandate more comprehensive disclosures in board reports, including compliance with workplace ethics and labor laws, effective from July 14, 2025<sup>55</sup>. While these technological advances can enhance transparency and reduce compliance costs, they also require significant investment in systems, training, and change management. The regulatory framework's complexity, arising from the interaction of multiple laws and regulations, creates implementation challenges particularly for companies operating across different sectors or jurisdictions. Companies must comply not only with the Companies Act, 2013, and SEBI regulations but also with sector-specific regulations, foreign exchange laws, and various other applicable statutes<sup>56</sup>. This complexity often requires specialized expertise and can lead to inadvertent non-compliance despite good faith efforts to maintain proper governance standards.

### **9. Recent Regulatory Developments and Future Outlook**

<sup>49</sup> Companies Act, 2013, Section 423

<sup>50</sup> National Company Law Appellate Tribunal Rules, 2016

<sup>51</sup> Report on SME Corporate Governance Challenges, CII, 2023

<sup>52</sup> Independent Directors Database, Ministry of Corporate Affairs, 2024

<sup>53</sup> Companies (Appointment and Qualification of Directors) Rules, 2014, Rule 4

<sup>54</sup> Ministry of Corporate Affairs Digital Initiative Report, 2025

<sup>55</sup> Companies (Accounts) Amendment Rules, 2025

<sup>56</sup> Corporate Compliance Survey, FICCI, 2024

The corporate governance landscape in India continues to evolve rapidly, with recent amendments and notifications demonstrating the regulators' commitment to addressing emerging challenges and enhancing the effectiveness of governance mechanisms. The Companies Act amendments of 2019 focused significantly on decriminalizing various offenses and reducing the compliance burden on corporations while maintaining strong deterrents for serious violations<sup>57</sup>. These amendments enhanced punishment for fraud while providing relief for minor procedural violations, striking a balance between enforcement and ease of doing business<sup>58</sup>. The 2025 amendments have introduced several significant changes aimed at further strengthening corporate governance and addressing contemporary business challenges. Streamlined processes for startups have been introduced, reducing the timeline for reverse merger processes from 12-18 months to approximately 3-4 months, thereby encouraging the repatriation of innovative enterprises<sup>59</sup>. These changes reflect the government's recognition of the need to support entrepreneurship while maintaining governance standards.

Enhanced disclosure requirements continue to expand the scope of corporate transparency obligations. The Companies (Accounts) Rules have been amended to mandate more comprehensive disclosures in board reports, including detailed information about compliance with workplace ethics and labor laws<sup>60</sup>.

These requirements reflect growing stakeholder expectations for corporate accountability beyond traditional financial metrics and demonstrate the integration of environmental, social, and governance considerations into mainstream corporate reporting. The use of technology in governance and compliance monitoring is being actively promoted by regulators. The recommendation for using AI and other technology-based tools for real-time tracking, monitoring, and reporting indicates the direction of future governance evolution<sup>61</sup>. This technological integration promises to enhance the effectiveness of governance mechanisms while reducing compliance costs and improving the accuracy of oversight.

SEBI's recent amendments extending governance requirements to debt securities markets represent a significant expansion of the regulatory framework. The March 2025 amendments introduced Chapter VA of the LODR regulations, applying corporate governance requirements to listed entities with non-convertible debt securities of outstanding value exceeding Rs. 1000 crores<sup>62</sup>. These amendments recognize that debt investors, like equity investors, require protection through appropriate governance mechanisms and transparency requirements.

## 10. Conclusion

The analysis of India's corporate governance framework reveals a comprehensive and continuously evolving regulatory architecture that has significantly enhanced transparency, accountability, and

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<sup>57</sup> Companies (Amendment) Act, 2019, Statement of Objects and Reasons

<sup>58</sup> Companies (Amendment) Act, 2019, Sections 446A-446E

<sup>59</sup> Companies (Compromises, Arrangements and Amalgamations) Amendment Rules, 2025

<sup>60</sup> Companies (Accounts) Amendment Rules, 2025, effective July 14, 2025

<sup>61</sup> Ministry of Corporate Affairs Technology Report, 2025

<sup>62</sup> SEBI (LODR) (Amendment) Regulations, 2025, Chapter VA



stakeholder protection in Indian companies. The Companies Act, 2013, has fundamentally transformed corporate governance practices by introducing stringent requirements for board composition, committee structures, disclosure obligations, and corporate social responsibility. The establishment of specialized institutions such as the National Company Law Tribunal and the continuous updates to SEBI's LODR regulations demonstrate the system's capacity for adaptation and institutional strengthening. However, the examination of implementation challenges and governance failures, particularly as exemplified by the Satyam scandal, reveals that regulatory frameworks alone are insufficient without effective enforcement mechanisms and genuine commitment from corporate leadership to governance principles. The ongoing challenges in ensuring effective compliance among smaller enterprises, questions about independent director effectiveness, and the complexity arising from multiple regulatory requirements highlight areas requiring continued attention and refinement.

The recent regulatory developments, including the 2025 amendments and technology-driven compliance initiatives, position India well to address future governance challenges while maintaining its competitive position in the global economy. The expansion of governance requirements to debt markets and the streamlining of processes for emerging businesses demonstrate the regulators' commitment to comprehensive market development while supporting entrepreneurship and innovation. Future success in corporate governance will depend on balancing regulatory rigor with business practicality, leveraging technology for enhanced oversight, and ensuring that

governance frameworks continue to evolve in response to changing business environments and stakeholder expectations.