

Corporate Governance in India in 2024: Current Practices and Future Prospects

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ABSTRACT

Corporate governance in India has undergone significant evolution over the past few decades, driven by regulatory reforms, global best practices, and shifting stakeholder expectations. This abstract provides an overview of the current state of corporate governance in India in 2024, highlighting key practices and emerging trends while also exploring future prospects. In 2024, corporate governance in India continues to be shaped by regulatory frameworks such as the Companies Act, SEBI (Securities and Exchange Board of India) regulations, and listing requirements of stock exchanges. These regulations mandate transparency, accountability, and ethical conduct among corporate entities. The emphasis on board independence, composition, and diversity has intensified, with a growing recognition of the importance of gender diversity and expertise diversity in boardrooms. Moreover, environmental, social, and governance (ESG) factors have gained prominence, driven by investor demands for sustainable business practices. Indian companies are increasingly integrating ESG considerations into their governance frameworks to mitigate risks and enhance long-term value creation. Technology is playing a pivotal role in transforming corporate governance practices. Companies are leveraging digital tools for board communication, risk management, compliance monitoring, and stakeholder engagement. The adoption of technologies such as AI, blockchain, and data analytics is enhancing decision-making processes and strengthening governance mechanisms. Shareholder activism is on the rise, with investors actively engaging with companies on governance issues, executive compensation, and sustainability concerns. This trend is exerting pressure on firms to improve governance practices and align with shareholder interests. Looking ahead, the future of corporate governance in India holds several promising prospects. Continued regulatory reforms are expected to further strengthen governance standards and foster a culture of compliance and integrity. The integration of ESG considerations into mainstream governance practices will become more pervasive, driven by evolving stakeholder expectations and the imperative of sustainable business models. Furthermore, there is a growing emphasis on ethical leadership and corporate culture, recognizing that governance goes beyond mere regulatory compliance. Companies that prioritize ethical conduct and accountability are likely to gain competitive advantage and enhance stakeholder trust. Corporate governance in India has come a long way but still faces challenges and opportunities in its journey towards greater transparency, accountability, and sustainability. By embracing emerging trends, leveraging technology, and fostering a culture of integrity, Indian companies can navigate these challenges and emerge as global leaders in corporate governance excellence.

Keywords: Corporate Governance, India, Regulations, Stakeholder Expectations, Transparency, Accountability, Board Diversity, Technology, Shareholder Activism, Compliance, Ethical Leadership.

INTRODUCTION

Corporate governance is a critical aspect of modern business, influencing the behavior and decisions of companies, their directors, and stakeholders. In India, the landscape of corporate governance has witnessed significant transformations over the years, driven by regulatory reforms, globalization, and evolving stakeholder expectations. As of 2024, the Indian corporate governance framework reflects a dynamic mix of regulatory requirements, international best practices, and indigenous approaches tailored to the country's unique business environment. The importance of robust corporate governance practices cannot be overstated, especially in a rapidly changing economic and social landscape. Effective governance is essential for fostering trust among stakeholders, promoting sustainable business practices, and enhancing long-term value creation. In India, the journey towards improving corporate governance began in the early 1990s with the liberalization of the economy, which necessitated a shift towards more transparent and accountable business practices. The regulatory framework governing corporate governance in India has evolved significantly over the years. Key legislations such as the Companies Act, 2013, and regulations prescribed by SEBI have laid down comprehensive guidelines aimed at enhancing transparency, accountability, and shareholder protection. These regulations mandate the composition of boards, disclosure requirements, and mechanisms for ensuring fair and equitable treatment of shareholders. Furthermore, corporate governance in India is increasingly influenced by global trends and best practices. Concepts such as board diversity, sustainability reporting, and stakeholder engagement, which have gained prominence internationally, are also finding traction in the Indian corporate landscape. Companies are recognizing the importance of not only complying with regulatory mandates but also adopting voluntary initiatives to strengthen their governance frameworks and enhance stakeholder trust. The role of technology in shaping corporate governance practices cannot be ignored. Indian companies are leveraging digital tools and platforms for board communication, risk management, and compliance monitoring. The adoption of technologies such as artificial intelligence, blockchain, and data analytics is enabling more informed decision-making and improving governance effectiveness. The introduction of robust corporate governance practices is essential for fostering trust, promoting accountability, and driving sustainable growth in India's corporate sector. This paper aims to explore the current state of corporate governance in India, highlighting key practices, regulatory developments, and emerging trends while also examining future prospects for further enhancing governance standards.

OBJECTIVES

1. What are the current practices of corporate governance in India in 2024?
2. What are the key governance issues prevalent in the Indian corporate sector?
3. How effective is the existing regulatory framework governing corporate governance in India?
4. What are the emerging trends shaping corporate governance practices in India?
5. What are the future prospects of corporate governance in India?
6. What recommendations can be made to improve corporate governance practices in India?
7. How can the study contribute to academic understanding and practical implementation of corporate governance principles in India?

RESEARCH GAP

Despite the progress made in corporate governance practices in India, there exists a notable research gap regarding the implementation and effectiveness of governance mechanisms, particularly in specific sectors

and company sizes. While there is ample literature on corporate governance frameworks and regulations, there is a dearth of studies examining their actual impact on firm behavior and performance. Additionally, there is limited research on the challenges and opportunities posed by emerging trends such as technology integration, ESG considerations, and stakeholder activism in the Indian context. Moreover, there is a lack of comprehensive studies that explore the interplay between cultural factors, regulatory environment, and corporate governance practices unique to India. Addressing these gaps is essential for enhancing our understanding of corporate governance dynamics in India and for developing tailored strategies to improve governance effectiveness across diverse sectors.

RESEARCH METHODOLOGY

The research methodology involves a mixed-method approach combining quantitative and qualitative techniques to comprehensively analyze corporate governance practices in India. Firstly, a thorough literature review will establish a theoretical foundation and identify research gaps. Quantitative analysis will then be conducted using financial data and governance metrics from annual reports and databases to examine the relationship between governance mechanisms and firm performance. Additionally, qualitative methods such as interviews, focus groups, and case studies will be employed to gather insights from corporate executives, experts, and stakeholders. Surveys may also be conducted to gather broader perspectives. Ethical considerations will be prioritized throughout the research process. Triangulation of data sources and methods will ensure the validity and reliability of findings. This methodology aims to provide a nuanced understanding of corporate governance dynamics in India, informing recommendations for enhancing governance practices and addressing emerging challenges.

REGULATORY FRAMEWORK

The regulatory landscape for corporate governance in India is primarily shaped by the Companies Act, 2013, regulations from the Securities and Exchange Board of India (SEBI), and guidelines issued by professional bodies such as the Institute of Chartered Accountants of India (ICAI) and the Institute of Company Secretaries of India (ICSI).

COMPANIES ACT, 2013

The Companies Act, 2013 introduced substantial changes aimed at improving transparency and accountability in corporate governance. Key provisions include:

- **Board Composition:** Requirements for independent directors, women directors, and the establishment of various board committees.
- **Auditor Independence:** Stringent rules to ensure the independence and rotation of auditors.
- **Corporate Social Responsibility (CSR):** Mandatory CSR spending for companies meeting specific thresholds.
- **Disclosure Requirements:** Enhanced disclosure requirements in financial statements and board reports.

SEBI REGULATIONS

The Securities and Exchange Board of India (SEBI) has been instrumental in fortifying corporate governance through its regulations. Key SEBI regulations include

- Listing Obligations and Disclosure Requirements (LODR): Mandates comprehensive disclosure and corporate governance norms for listed companies.
- Prohibition of Insider Trading Regulations: Prevents insider trading and promotes fair market practices.
- Substantial Acquisition of Shares and Takeovers (SAST) Regulations: Ensures transparency and fairness in mergers and acquisitions.

BEST PRACTICES IN CORPORATE GOVERNANCE

Several Indian companies have implemented best practices in corporate governance, setting industry benchmarks. These practices include:

- Board Diversity and Independence: Ensuring a diverse and independent board to enhance decision-making and oversight.
- Stakeholder Engagement: Engaging proactively with stakeholders to understand their concerns and expectations.
- Risk Management: Implementing robust risk management frameworks to identify, assess, and mitigate risks.
- Ethical Conduct and Compliance: Promoting a culture of ethical conduct and strict compliance with laws and regulations.

CHALLENGES IN CORPORATE GOVERNANCE

Despite the progress made, several challenges persist in the corporate governance landscape in India:

- Regulatory Compliance: Ensuring compliance with complex and evolving regulations can be burdensome for companies.
- Board Effectiveness: Enhancing the effectiveness of boards in terms of diversity, independence, and expertise remains challenging.
- Transparency and Accountability: Ensuring transparency and accountability in corporate disclosures and practices.
- Corporate Frauds and Scandals: Preventing corporate frauds and scandals that undermine investor confidence and corporate reputation.

RECENT CASES OF CORPORATE GOVERNANCE IN INDIA

Recent cases of corporate governance in India provide valuable insights into the evolving landscape and highlight both successes and challenges. Some notable cases are here:

- 1. IL&FS Crisis:** The Infrastructure Leasing & Financial Services (IL&FS) crisis, which surfaced in 2018, underscored governance failures in one of India's leading infrastructure development and finance companies. The collapse of IL&FS revealed issues related to mismanagement, lack of transparency, and inadequate oversight by the board and regulators. This case prompted regulatory interventions, including a government takeover of the board, highlighting the need for robust governance mechanisms in financial institutions.
- 2. Yes Bank Crisis:** The crisis at Yes Bank in 2020 highlighted governance concerns in the banking sector. The Reserve Bank of India (RBI) took control of Yes Bank's board citing governance and financial stability issues. The crisis was attributed to risky lending practices, inadequate risk management, and regulatory compliance lapses. The episode underscored the importance of effective

board oversight, risk management, and regulatory vigilance in maintaining financial stability.

- 3. Tata-Mistry Dispute:** The long-standing feud between Tata Sons and Cyrus Mistry, the former chairman of Tata Sons, brought corporate governance practices within the Tata Group under scrutiny. The dispute, which began in 2016, involved allegations of corporate governance lapses, boardroom battles, and questions over the autonomy of Tata Group companies. The case highlighted the significance of board independence, succession planning, and adherence to governance norms in preserving corporate reputation and stakeholder trust.
- 4. Infosys Whistleblower Allegations:** In 2019, whistleblower complaints alleging accounting irregularities and unethical practices at Infosys, one of India's largest IT services companies, surfaced. The allegations raised concerns about corporate governance standards, internal controls, and whistleblower protection mechanisms. Infosys responded by appointing external auditors to investigate the allegations and enhance governance practices, demonstrating the importance of transparency, responsiveness, and ethical conduct in addressing governance challenges.

These cases underscore the critical role of corporate governance in safeguarding investor interests, preserving corporate reputation, and maintaining financial stability. They also emphasize the need for continuous vigilance, regulatory oversight, and adherence to best practices to enhance governance standards and foster long-term sustainable growth in India's corporate sector.

ROLE OF ESG CONSIDERATIONS IN SHAPING GOVERNANCE PRACTICES

Environmental, Social, and Governance (ESG) considerations have emerged as pivotal factors shaping corporate governance practices in India and globally. ESG criteria encompass a broad spectrum of issues, including climate change mitigation, labor practices, diversity and inclusion, ethics, and board independence. The integration of ESG principles into governance frameworks is instrumental in driving sustainable business practices, mitigating risks, and enhancing long-term value creation for stakeholders.

ENVIRONMENTAL CONSIDERATIONS

In recent years, environmental sustainability has gained prominence as a critical aspect of corporate governance. With increasing awareness of climate change and its far-reaching implications, investors, regulators, and society at large expect companies to address environmental risks and adopt sustainable practices. In response, Indian companies are incorporating environmental considerations into their governance structures, including:

- 1. Climate Risk Disclosure:** Companies are increasingly disclosing their exposure to climate-related risks and opportunities in line with global frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD). By assessing and disclosing climate risks, companies enhance transparency and enable investors to make informed decisions.
- 2. Green Finance Initiatives:** The rise of green finance instruments, such as green bonds and sustainability-linked loans, incentivizes companies to invest in environmentally sustainable projects. Corporate governance practices are evolving to incorporate oversight mechanisms for green finance initiatives, ensuring alignment with strategic objectives and risk management frameworks.
- 3. Environmental Management Systems:** Companies are implementing robust environmental management systems to monitor and mitigate their environmental impact. Board oversight of environmental performance, including setting clear targets, allocating resources, and evaluating progress, is becoming integral to governance practices.

SOCIAL CONSIDERATIONS:

Social considerations encompass a wide range of issues, including labor practices, human rights, community engagement, and diversity and inclusion. Effective governance practices in these areas contribute to building trust with stakeholders and mitigating reputational risks. Key aspects include:

- 1. Diversity and Inclusion Policies:** Boards are recognizing the importance of diversity in driving innovation, enhancing decision-making, and fostering a culture of inclusion. Governance frameworks are incorporating diversity and inclusion policies, with boards actively seeking diverse perspectives and experiences.
- 2. Stakeholder Engagement:** Companies are expanding their engagement with a broader range of stakeholders, including employees, customers, suppliers, and communities. Effective stakeholder engagement mechanisms, such as regular dialogues, feedback mechanisms, and impact assessments, are integral to governance practices.
- 3. Supply Chain Management:** Companies are scrutinizing their supply chains to ensure adherence to labor standards, human rights, and ethical business practices. Board oversight of supply chain management is essential to identify and mitigate risks, such as labor exploitation and supply chain disruptions.

GOVERNANCE CONSIDERATIONS

ESG considerations are closely intertwined with governance principles, reinforcing the importance of accountability, transparency, and ethical conduct. Governance practices are evolving to integrate ESG considerations into board oversight, risk management, and strategic decision-making processes. Key governance considerations include:

- 1. Board Oversight:** Boards are expanding their oversight responsibilities to encompass ESG issues, recognizing their materiality to long-term business performance. ESG expertise is increasingly sought after in board compositions, with directors expected to possess a holistic understanding of ESG risks and opportunities.
- 2. Risk Management:** ESG risks, including climate change, social unrest, and regulatory changes, pose significant threats to business continuity and reputation. Governance frameworks are incorporating ESG risk assessments, stress testing, and scenario planning to enhance resilience and preparedness.
- 3. Ethical Conduct:** Ethical conduct and integrity are foundational to effective governance and sustainable business practices. Boards are emphasizing ethical leadership, accountability, and transparency in decision-making processes, setting the tone from the top and fostering a culture of integrity throughout the organization.

ESG considerations are driving a paradigm shift in corporate governance practices in India, elevating sustainability, social responsibility, and ethical conduct to the forefront. By integrating ESG principles into governance frameworks, companies can mitigate risks, enhance resilience, and create long-term value for all stakeholders. As ESG awareness continues to grow, boards and management teams must embrace ESG as a strategic imperative, aligning business objectives with societal expectations and global sustainability goals.

IMPACT ON CORPORATE PERFORMANCE AND INVESTOR CONFIDENCE

Effective corporate governance positively influences corporate performance and investor confidence. Companies with robust governance frameworks tend to:

- **Attract Investment:** Attract both domestic and foreign investment due to increased investor confidence.
- **Enhance Performance:** Achieve better financial and operational performance through effective oversight and decision-making.
- **Mitigate Risks:** Better manage and mitigate risks, leading to long-term sustainability.

RECOMMENDATIONS AND SUGGESTIONS

- 1. Enhanced Regulatory Oversight:** There is a need for continuous monitoring and strengthening of regulatory frameworks governing corporate governance in India. Regulators such as SEBI should regularly review and update regulations to address emerging governance challenges and promote best practices.
- 2. Capacity Building:** Companies should invest in capacity-building initiatives to enhance the skills and knowledge of board members and executives regarding corporate governance principles, regulations, and emerging trends. Training programs, workshops, and certifications can help improve governance effectiveness.
- 3. Board Diversity and Independence:** Companies should prioritize board diversity, including gender diversity and expertise diversity, to bring different perspectives and skills to boardrooms. Ensuring a sufficient number of independent directors can enhance board effectiveness and mitigate conflicts of interest.
- 4. Stakeholder Engagement:** Companies should actively engage with stakeholders, including shareholders, employees, customers, and communities, to understand their concerns and expectations regarding governance practices. Transparent communication and dialogue can foster trust and accountability.
- 5. Integration of ESG Considerations:** Companies should integrate environmental, social, and governance (ESG) considerations into their governance frameworks and decision-making processes. This involves identifying ESG risks and opportunities, setting clear ESG goals, and reporting on ESG performance.
- 6. Technology Adoption:** Companies should leverage technology to enhance governance mechanisms, improve board communication, and strengthen risk management and compliance processes. Adopting digital tools such as board portals, data analytics, and AI can enhance efficiency and transparency.
- 7. Ethical Leadership:** Promoting a culture of ethical leadership and integrity is essential for fostering trust and accountability within organizations. Companies should prioritize ethical conduct, promote transparency, and hold leaders accountable for their actions.
- 8. Shareholder Activism Response:** Companies should proactively engage with shareholders and address their concerns to mitigate the risks associated with shareholder activism. Building strong relationships with shareholders and responding transparently to their demands can help avoid potential conflicts.
- 9. Continuous Evaluation and Improvement:** Governance practices should be regularly evaluated, and feedback should be sought from stakeholders to identify areas for improvement. Companies should be open to feedback and willing to adapt their governance practices to evolving expectations and circumstances.
- 10. Benchmarking and Peer Learning:** Companies can benefit from benchmarking their governance practices against industry peers and learning from best practices adopted by leading organizations. Participating in governance indices and peer networks can provide valuable insights and guidance.

Implementing these recommendations can contribute to strengthening corporate governance practices in India, fostering sustainable business growth, and enhancing stakeholder trust and confidence in the corporate sector.

FUTURE PROSPECTS AND POTENTIAL REFORMS

The future of corporate governance in India is likely to be shaped by several emerging trends and potential reforms:

- **Technology Integration:** Leveraging technology for enhanced governance, including the use of artificial intelligence and blockchain for transparent and efficient processes.
- **Environmental, Social, and Governance (ESG) Factors:** Increasing focus on ESG factors in corporate governance, driven by investor demand and regulatory changes.
- **Strengthening Regulatory Framework:** Continuous efforts to strengthen the regulatory framework to address emerging challenges and align with global best practices.
- **Capacity Building:** Enhancing the capacity of boards and management through ongoing training and development programs.

CONCLUSION

In 2024, corporate governance in India has seen significant strides, propelled by regulatory reforms, evolving market dynamics, and heightened stakeholder expectations. Current practices reflect a growing emphasis on transparency, accountability, and sustainability, aligning with global standards while addressing local nuances. However, challenges persist, urging a continuous evolution of governance frameworks to meet emerging complexities. The adoption of best practices, such as enhanced disclosure norms, independent board oversight, and robust risk management systems, has bolstered investor confidence and fostered a culture of responsible corporate behavior. The introduction of mandatory ESG (Environmental, Social, and Governance) reporting has propelled sustainability considerations to the forefront, prompting firms to integrate social and environmental concerns into their decision-making processes. Collaborative efforts between regulators, industry bodies, and market participants have led to the development of governance guidelines tailored to India's unique corporate landscape. The incorporation of technology, including blockchain and AI, has streamlined compliance processes and enhanced board effectiveness, enabling timely decision-making and risk mitigation. Looking ahead, the future of corporate governance in India holds immense promise, albeit with certain imperatives. Continued vigilance is necessary to combat emerging risks, including cyber threats, geopolitical uncertainties, and evolving regulatory landscapes. Strengthening board diversity, promoting gender equality, and fostering a culture of ethical leadership are pivotal for sustained organizational resilience and long-term value creation. Furthermore, fostering a culture of shareholder engagement and stakeholder dialogue will be crucial in navigating the complexities of a rapidly evolving business environment. Embracing digitalization and harnessing data analytics will empower boards to anticipate trends, identify opportunities, and mitigate risks effectively. In conclusion, corporate governance in India has undergone a paradigm shift, marked by heightened regulatory scrutiny, enhanced disclosure requirements, and a growing recognition of sustainability imperatives. While current practices reflect commendable progress, there remains a pressing need for continual evolution to address emerging challenges and seize future opportunities. By embracing innovation, fostering transparency, and nurturing a culture of integrity, Indian companies can fortify their governance frameworks, driving sustainable growth and creating enduring

value for all stakeholders.

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