

ISSN: 2583-8725

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Quarterly Online and Print Edition

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**LEX SCRIPTA MAGAZINE OF  
LAW AND POLICY (VOL-4, ISSUE-1)**

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ISSN-2583-8725

Vol - IV, Issue - I

Published by INTEGRITY EDUCATION INDIA

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Printed in India @ New Delhi

ISSN: 2583-8725

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## **Corporate Governance Failures and Their Consequences for Shareholder Protection in India: A Case Based Analysis of Major Stock Market Scandals and Regulatory Responses**

Author

Darpan Gupta



# Corporate Governance Failures and Their Consequences for Shareholder Protection in India: A Case-Based Analysis of Major Stock Market Scandals and Regulatory Responses

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## Abstract

*The Indian corporate landscape has witnessed a series of devastating stock market scandals over the past two decades, each exposing profound governance failures and causing massive losses to shareholders. This research paper undertakes a critical, case-based analysis of five major corporate scandals in India—Satyam (2009), NSEL (2013), IL&FS (2018), DHFL (2019), and Yes Bank (2020)—to examine the structural and behavioural failures underlying governance collapses and to evaluate the adequacy of regulatory responses. Employing a doctrinal and analytical methodology, the study traces the evolution of corporate governance norms in India from the voluntary codes of the late 1990s to the mandatory framework under the Companies Act, 2013 and the SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015.*

*The research findings reveal striking common patterns across all five cases: promoter dominance that neutralises board independence, systematic failure of external gatekeepers including auditors and credit rating agencies, opaque financial structures enabling related-party transactions, and a regulatory enforcement architecture that is reactive, delayed, and inadequately deterrent. The study demonstrates that while India has built a comprehensive legislative framework for corporate governance, the enforcement machinery remains understaffed, underfunded, and procedurally encumbered, resulting in a persistent chasm between regulatory intent and ground reality.*

*The paper concludes by proposing a multi-pronged reform agenda encompassing legislative amendments to strengthen independent director accountability and audit quality, institutional reforms to create a unified financial sector oversight mechanism and empower the Serious Fraud Investigation Office (SFIO), procedural reforms to streamline class actions and enhance whistleblower protection, and cultural reforms to promote shareholder activism and financial literacy.*

## Keywords

*Corporate Governance; Shareholder Protection; Stock Market Scandals; Satyam Fraud; IL&FS Crisis; DHFL Scandal; Yes Bank Crisis; SEBI Enforcement; Companies Act 2013; Independent Directors; Related-Party Transactions; Gatekeeper Failure.*

## Introduction

### 1.1 Concept

Economic activities functioned under a licence-permit raj, wherein promoter families controlled the organizational hierarchy of firms and shareholder democracy was just an idealized concept. The liberalization of the economy in 1991 marked the first step towards change. With India opening up to foreign investment and domestic firms integrating themselves into the global financial market, the requirement for high-quality corporate governance guidelines became critical. The Confederation of Indian Industries (CII) released the first voluntary code on corporate governance in 1998, creating the basis for a systematic

discussion. Following this was the release of the Kumar Mangalam Birla Committee Report (1999), initiated by the Securities and Exchange Board of India (SEBI), that culminated in the implementation of Clause 49 of the Listing Agreement, which contained provisions on mandatory guidelines for listed firms, including board structure and audit committee requirements and disclosure standards.<sup>1</sup>

Nevertheless, the measures taken before this period were limited to a reactionary and incremental approach. The Satyam scandal of 2009 brought out the inadequacies in the regulatory system, leading to a series of policy changes. The government's solution was the passage of the Companies Act, 2013, marking the complete revision of the Companies Act, 1956. The Act contained several revolutionary clauses, such as mandatory appointment of independent directors (minimum one-third of board members), creation of Statutory Audit Committee, more stringent standards for Related Party Transactions, Whistleblowers, even class action lawsuits, establishment of National Company Law Tribunal (NCLT), and Serious Fraud Investigation Office (SFIO).<sup>2</sup>

However, post-2013, there were still several scandals such as IL&FS, DHFL, Yes Bank, which showed that merely having the legislative framework would not necessarily ensure good governance. The journey continued further through SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015, and the Companies Act. This trend highlights the fact that each scandal forces the government to enhance regulations, however, the regulatory enhancements always fall behind the level of innovation by the companies. Understanding the evolution of the above is crucial to understand the governance 2016\*\*.

From the legal point of view, the shareholder rights include voting in fundamental issues (election of directors, mergers, liquidation), receiving timely information (annual report, other disclosures). The legal system, in general, has been weaker in providing sufficient investor protection compared to others.

From an ethical standpoint, shareholder protection is much more than just legality. Ethical principles require that all shareholders, regardless of their status in the corporate structure, should be treated fairly. The Satyam scandal highlighted this need in the promoter, Mr. Ramalinga Raju. The anatomy of these scandals is a vital part of understanding why such governance failures happen and what kind of devastating consequences result for shareholders.<sup>3</sup>

Promoter control is the first and most pervasive factor. In most Indian corporations, the promoter controls at least 50% of stock and thus has undue influence on board members. This results in a compromised independence of the board members as well. Often, even if independent directors are employed in a company, they are recruited personally by the promoter. This leads to a situation that some experts have termed 'crony independence.' As the case of IL&FS showed, the board consisted of prominent figures, yet they were unable to see through the convoluted structure of the group and the associated transactions.

The second problem pertains to opaque accounting practices. There have been examples where companies, like Satyam and DHFL, deliberately inflated their income, concealed their

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<sup>1</sup> Khatib, Saleh FA. "An assessment of methods to deal with endogeneity in corporate governance and reporting research." *Corporate Governance: The International Journal of Business in Society* 25.3 (2025): 606-630.

<sup>2</sup> Almashhadani, Hasan Ahmed, and Mohammed Almashhadani. "An overview of recent developments in corporate governance." *International Journal of Business and Management Invention* 11.5 (2022): 39-44.

<sup>3</sup> Kavadis, Nikolaos, and Steen Thomsen. "Sustainable corporate governance: A review of research on long-term corporate ownership and sustainability." *Corporate Governance: An International Review* 31.1 (2023): 198-226.

obligations, and showed non-existent assets. In these cases, the gatekeeping role of auditors has not been exercised. The Institute of Chartered Accountants of India (ICAI) has been frequently censured due to delays in punishment of erring auditors.

Related Party Transactions (RPTs), thirdly, are used extensively to divert cash from firms into the pockets of their promoters and associates. For example, there have been instances where RPTs have led to loans to shell companies owned by promoters. The Companies Act, 2013, lays down that all RPTs should have prior approval of the audit committee and disclosure thereof. However, enforcement of the law is lax and RPTs are manipulated in order to stay below legal requirements.<sup>4</sup>

Finally, the failure to act as gatekeepers on part of auditors, rating agencies, and analysts is a recurring theme. During the IL&FS fiasco, investment-grade credit ratings were accorded to the firm by the rating agency despite a conflict of interest because rating agencies get paid by the entities which they rate.

Fifthly, regulatory capture and delayed response contribute to the issue. Regulatory bodies such as SEBI and the MCA are generally understaffed, under-funded, and reactively inclined. It takes years for cases to be investigated and the penalties that come about after are usually nominal as compared to the huge sums that can be made from the fraudulent practices. For example, the SEBI order in the case of Satyam was nominal in comparison to the millions of rupees that were lost by the stakeholders.

**The aforementioned practices combine to create a "perfect storm" for corporate failures.**

## **1.2. Major Stock Market Scandals in India: An Overview of Satyam, NSEL, IL&FS, DHFL, and Yes Bank**

There have been several high-profile corporate scandals in India during the last twenty years, highlighting various aspects of governance failure and resulting in substantial financial losses to investors. Below is a concise description of most important of them which form the basis of this study.

### **1. Satyam Computer Services Limited (2009)**

This is one of the major accounting scandals of India which is also known as "India's Enron." The founder and chairman of the company, B. Ramalinga Raju, admitted to having overstated revenues, manipulated cash balance accounts, and issued fake invoices over a period of many years. Due to the scam, the stock price fell from Rs 544 to just Rs 6 and the loss incurred by the investors amounted to Rs 10,000 crore.<sup>5</sup>

### **2. Infrastructure Leasing & Financial Services (IL&FS) (2018)**

IL&FS was an NBFC with systemically important status, as its assets exceeded ₹1 lakh crore. In September 2018, it defaulted on a number of loans, creating the problem of liquidity in the entire NBFC sector. It came to light that MCA found huge governance lapses: the board members were nominees of institutional shareholders (Life Insurance Corporation, State Bank of India), which failed to monitor the activities of the management; related party

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<sup>4</sup> Abigail, Anita, and Christiana Dharmastuti. "The impact of related party transactions on firm value in Indonesia: moderating role of good corporate governance." *Cogent Business & Management* 9.1 (2022): 2135208.

<sup>5</sup> MISHRA, ANISHA, and DR RESHMA UMAIR. "A Case Study Of Satyam Scam And Corporate Governance Issues." *Indian Journal Of Legal Review* 5.6 (2025): 340-344.

transactions were present; finally, credit rating agencies had not issued any warnings regarding worsening financial position. The board of IL&FS was superseded, while a criminal complaint against the company was submitted to the SFIO. Investors in bonds issued by the company, including mutual funds and pension funds, faced heavy losses.<sup>6</sup>

### **3. Dewan Housing Finance Corporation Ltd. (DHFL) (2019).**

The bank had been financing risky borrowers, namely DHFL group companies, at a high degree of leverage. The central bank of India imposed a moratorium on it, put restrictions on withdrawals, and arranged for the restructuring of the bank together with State Bank of India and other parties. The shares of the bank declined from over ₹400 to less than ₹5.<sup>7</sup>

### **1.3. The Regulatory Architecture: Role of SEBI, Ministry of Corporate Affairs (MCA), Reserve Bank of India (RBI), and NCLT**

The regulatory framework for corporate governance in India has multiple layers and overlaps among jurisdictions. An understanding of this structure will help comprehend reasons for its failure to enforce rules.

Securities and Exchange Board of India (SEBI) Created in 1992 as a market regulator, SEBI ensures the protection of investors, regulates stock markets, and enforces listing requirements. The scope of power granted to SEBI is investigative, judicial, and includes the capacity to impose financial penalties. Over time, SEBI has undertaken numerous corporate governance reform initiatives such as Clause 49 of the Listing Agreement, LODR regulations, and stringent regulation of RPT and insider trading. Nevertheless, it faces certain problems: lack of sufficient resources, prolonged litigation process, and lack of deterrent effects of penalties (usually no more than a few crores). It took years for SEBI's order for disgorgement in the Satyam case.

Ministry of Corporate Affairs (MCA) This body administers the Companies Act. It controls the Registrar of Companies (RoC) and the SFIO. The MCA's role includes registration of companies, enforcement of compliance, and investigation into serious fraud. The SFIO, established in 2003 and given statutory status. According to Companies Act, 2013, NCLT passes judgment on issues relating to oppression and mismanagement, bankruptcy, and mergers. As per Insolvency and Bankruptcy Code, 2016, the NCLT has become vested with the power to deal with insolvency proceedings of companies. In cases such as DHFL and IL&FS, the NCLT has played a crucial role in resolving these cases. But it has been criticized for judicial delay and infrastructure.<sup>8</sup>

### **Other Key Players**

- **Stock Exchanges (BSE, NSE):** Mandated to enforce listing norms, but their surveillance mechanisms have been reactive.
- **Auditors and Audit Firms:** Regulated by ICAI, but the profession faces a credibility crisis.
- **Credit Rating Agencies (CRAs):** Regulated by SEBI, but their failure in the *IL&FS* case led to a review of the regulatory framework.

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<sup>6</sup> Gupta, Ambuj. "Infrastructure financing at crossroads: the case of Infrastructure Leasing and Financial Services Ltd.(India)." *International Journal of Business and Globalisation* 31.4 (2022): 446-460.

<sup>7</sup> Vanjari, Sandip. "A Study of Housing Finance Companies (HSP's): Performance Analysis in Indian Economy." (2022).

<sup>8</sup> Kumar, Kishore, et al. "Do ownership structures and governance attributes matter for corporate sustainability reporting? An examination in the Indian context." *Management of Environmental Quality: An International Journal* 33.5 (2022): 1077-1096.

#### 1.4. The Persistent Gap Between Regulatory Intent and Enforcement Reality

Though there is a detailed legislative system and many regulatory authorities, the protection of shareholders in India is seriously flawed. The divergence between the purpose behind the enactment of the law and its implementation on the ground is evident.

First, there are delays in investigation and prosecution. It took the CBI nearly two years to file the charge sheet in the Satyam fraud, despite the incident being known since January 2009. The same applies to the NSEL, IL&FS, and Yes Bank scandals as well. Often by the time penal measures are taken, it may be too late because by then the damage will be done already.<sup>9</sup>

Second, the penalties imposed are not strong enough to serve as a deterrent. For instance, SEBI's maximum penalty in the Satyam scandal was ₹3,000 crore disgorgement (including interest) from the promoters, which turned out to be negligible as assets are distributed among different regulators and private parties due to possible conflicts of interest.

Finally, the corporate culture continues to be promoter-friendly. In spite of the statutory provision for an independent director, the empirical evidence proves that most of them are chosen by the promoters and not truly independent. The idea of stewardship, where directors do their job to serve all stakeholders, including the minorities, needs to be institutionally enshrined.<sup>10</sup>

The existence of this huge gap is the key issue this paper will address. Just having a law is no good, there should be something that deters any deviation from the law.

#### Literature Review

Books on corporate governance in India contribute to developing the theoretical framework on which to understand the topic. For instance, books by Umakanth Varottil<sup>11</sup> and Vikramaditya Khanna<sup>12</sup> explore how the concept of corporate governance developed in India and how it was shaped by conflicts between established laws and regulations on one hand and the existing corporate structure dominated by promoters on the other hand. These publications suggest that although Indian corporations follow international standards of corporate governance (e.g., corporate independence and transparency), these principles are weakened by poor regulation and promoter dominance. Books like *Corporate Governance in India: Change and Continuity* illustrate how failures of corporate governance in India are not simply occasional events, but a result of structural problems, including lack of corporate accountability and ineffective minority shareholder rights protection.<sup>13</sup>

Journal literature expands on this analysis by examining individual scandals and their institutional consequences. Numerous journal articles have been written about major scandals such as the Harshad Mehta Scam and the Satyam Scandal in journals including the *Journal of Corporate Law Studies*, *Economic and Political Weekly*, and *Company Law Journal*. The scholarly analysis of the Harshad Mehta Scandal highlights how it revealed the basic flaws within the regulatory structure of India, especially in its lack of coordination between banks and stock markets. It is widely acknowledged that the impact of the market crash was felt

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<sup>9</sup> Abdullah, Hariem, and Turgut Tursoy. "The effect of corporate governance on financial performance: evidence from a shareholder-oriented system." *Interdisciplinary Journal of Management Studies* 16.1 (2023): 79-95.

<sup>10</sup> Malik, Garima. *Governance and management of higher education institutions in India*. Taylor & Francis, 2026.

<sup>11</sup> Umakanth Varottil, *Corporate Governance in India* (Oxford University Press, 2018).

<sup>12</sup> Vikramaditya Khanna, "Corporate Governance in India: Historical and Comparative Perspectives," 25 *Berkeley Journal of International Law* 1 (2007).

<sup>13</sup> Umakanth Varottil (ed.), *Corporate Governance in India: Change and Continuity* (Cambridge University Press, 2020).

primarily by individual investors, indicating how vulnerable shareholders were during that period.<sup>14</sup> The Satyam Scandal, which has been widely analyzed in corporate governance literature, can be considered India's version of the Enron Scandal. The articles highlight that the Satyam Scandal had multiple dimensions, which included fraud, mismanagement, and auditor complicity. Notably, scholars including C. A. Reddy believe that Satyam Scandal shows that independent directors cannot be relied upon to check managerial abuses since they lack access to crucial information and lack the motivation to do so. Moreover, the inefficacy of the auditing process has been heavily criticized.<sup>15</sup>

However, the more recent journal contributions analyze modern-day financial crisis cases like IL&FS Crisis, Yes Bank Crisis, and DHFL Scam. They indicate certain patterns in corporate governance weaknesses such as non-transparent financial statements, high-risk business operations, and regulatory forbearance. Most importantly, however, they show that despite the continuous efforts at regulatory reforms, there remain the same problems with the protection of the rights of shareholders, especially minority ones.<sup>16</sup>

Legal scholars also analyze statutory legislation and regulatory practices extensively. Articles in this area discuss how legislative changes were implemented, including new regulations concerning disclosure of information, class action claims by way of Section 245 of the Companies Act, 2013, and stricter rules for independent directors. Still, according to some researchers, such changes have not been successful enough because of enforcement problems and the slow process of judiciary decision-making. Legal journals often mention that the legal solutions offered to protect the rights of shareholders are seldom used effectively.

Judicial decision-making is yet another vital element of the literature, which offers valuable insights into the manner in which courts have enforced or interpreted corporate governance principles. Cases like Sahara India Real Estate Corp Ltd v SEBI<sup>17</sup> are frequently discussed as examples of how the Indian judiciary has helped enforce accountability in corporate affairs and safeguard investors' rights. For instance, the Supreme Court's ruling requiring Sahara to repay the investors is widely considered one of the most important judicial landmarks in this respect. Moreover, the Satyam fraud scandal gave rise to a number of lawsuits filed by shareholders, thus demonstrating the necessity of effective corporate governance. Yet, it should be noted that judicial inefficiencies and complexities can sometimes reduce the effectiveness of such enforcement.

Another prominent trend identified within the literature is the issue of minority shareholder vulnerability within the corporate system in India. As mentioned previously, academics generally agree that the system of concentrated ownership and promoter dominance inevitably results in inequality and enables control group members to undertake such activities as related party transactions and fund misappropriation. This issue is backed by the empirical data presented in numerous finance and legal journals.

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<sup>14</sup> Sucheta Dalal & Debashis Basu, *The Scam: From Harshad Mehta to Ketan Parekh* (2001).

<sup>15</sup> Bala G. Dharan & William R. Bufkins, "Red Flags in the Satyam Scandal," 14 *Journal of Corporate Accounting & Finance* 1 (2009).

<sup>16</sup> N. Balasubramanian, "Corporate Governance and the Role of Auditors," (2011) *Economic and Political Weekly*.

<sup>17</sup> *Sahara India Real Estate Corp Ltd v SEBI*, (2013) 1 SCC 1.

Another angle provided by comparative literature in understanding this phenomenon in India includes the comparison of corporate scandals in India with those in developed countries, which have faced similar crises, but due to their nature, have taken steps such as implementing the Sarbanes-Oxley Act. Scholars have stated that in India, despite many corporate scandals, there has been a lack of effective regulations and responses compared to other developing countries.

While there have been several papers published on this topic, there are some areas that require further research. First, most of the research in this area tends to focus on individual instances, and does not take into consideration other corporate scandals in other parts of the world. In addition, there has been no empirical data regarding the effectiveness of regulations implemented after these scandals.

## **Research Gap**

The extant body of literature regarding corporate governance failures in India is replete with strong theoretical foundation and detailed case studies of such episodes as Satyam, IL&FS, DHFL, and Yes Bank among others. The major drawback of the current body of literature on corporate governance in India is the lack of a cross-case study that seeks to establish connections between governance failures and actual shareholder damage suffered. While a majority of scholars tend to analyze each of the scandals separately, few studies seek to conduct a comparative analysis to identify common issues that lead to corporate governance failure. There is limited research done on the question of whether the post-scandal regulatory measures implemented to address corporate failures were able to create a more protective environment for shareholders and actually reduce the risk of such incidents in the future. In particular, it remains largely unknown whether the current regulatory mechanisms for deterring shareholder fraud include effective enforcement actions aimed at promoting deterrence. Thus, the research is designed to address the identified gaps by conducting a systematic analysis of major stock market scandals and the process of shareholder damage incurred and regulatory measures taken.

## **Research Objectives**

The main objective of the present study is to conduct an assessment of the phenomenon of corporate governance lapses in India and their repercussions on shareholders' rights and protections based on case studies of prominent stock market scandals. For this purpose, the research will be driven by the following objectives:

1. To review the history and evolution of corporate governance and shareholder protection in India, including the move from voluntary to mandatory corporate governance rules stipulated by the Companies Act, 2013, and SEBI LODR regulations, 2015.
2. To conduct a critical analysis of the root causes of five most prominent scandals in the Indian stock markets—Satyam scandal of 2009, NSEL scandal of 2013, IL&FS scandal of 2018, DHFL scandal of 2019, and the Yes Bank scandal of 2020—by analyzing common elements like promoter power, board manipulation, gatekeeper failures, and complex financial structuring.
3. To analyze the adequacy and effectiveness of regulatory interventions in addressing these corporate scandals, including investigations conducted by SEBI, MCA, SFIO, and RBI.
4. To identify systemic gaps in enforcement, deterrence, and shareholder remediation, analysing the limitations of penalties, disgorgement orders, class actions, and insolvency proceedings under the Insolvency and Bankruptcy Code, 2016.

5. To propose targeted reforms for strengthening corporate governance, enhancing regulatory enforcement, and ensuring meaningful protection and compensation for shareholders affected by governance failures.

## **Research Methodology**

In this study, a doctrinal and analytical approach will be used in order to conduct a critical analysis of both the legal and scientific aspects. Secondary data sources include respected legal treatises, peer-reviewed articles from academic journals in Indian and international law, books on corporate governance and securities laws, and committee reports such as the Kumar Mangalam Birla Committee Report (1999), J.J. Irani Committee Report (2005), and Uday Kotak Committee Report (2017). The analytical approach makes use of root cause analysis in order to establish similarities between different cases of governance failure as well as a regulatory impact assessment in order to determine the success of post-scandal reforms.

## **Research Findings**

An examination of the major scandals in India's stock market through a case-based approach identifies the consistent themes of governance failures. In each of the five cases, there is one recurring factor that stands out as being particularly prevalent. Promoters dominate each of these cases, either directly or indirectly. The power dynamics between promoters or controlling parties and the corporate boards are manipulated by the former, allowing for financial statement manipulation and diversion of funds through related-party transactions. Despite being mandatory, independent directors are usually unable to exercise their roles independently due to selection by promoters and lack of institutional backing. Gatekeeper failure is also a consistent feature in these cases. Auditors fail to detect or report fraudulent activities. Credit rating agencies provide investment-grade ratings despite the imminent risk of default. Stock exchanges lack preemptive monitoring procedures. Satyam's case features fraudulent account statements. IL&FS enjoyed a AAA rating until shortly before its bankruptcy. DHFL used shell corporations to channel funds as loans.

In all five cases, the regulatory responses show a common trend of a reactionary approach to investigation, imposition of low deterrence fines, and ongoing investigations with the majority of criminal charges yet to be brought to court. In the case of SEBI's disgorgement orders, even though they were significant in the Satyam case, they only accounted for a tiny percentage of investors' losses. The intervention by the MCA in the IL&FS scandal via board supersession proved to be successful in restoring stability, but the regulatory agencies still lack enough personnel and funding and are plagued with procedural inefficiencies. The presence of numerous regulators such as the SEBI, MCA, Reserve Bank of India (RBI), and stock exchanges creates overlapping jurisdictions and procedural inefficiencies, thus enabling governance breaches to occur. Shareholder compensation remedies, which include class actions under the Companies Act, 2013, and investor protection funds, have not been fully utilized due to their complexity. In conclusion, the study reveals that whereas India's legislative framework concerning corporate governance has improved immensely, its enforcement mechanisms have failed to keep up.

## **Conclusion**

The findings of this study clearly indicate that corporate governance failure in India is not an anomaly but a symptom of systematic risks that have caused substantial erosion in shareholder value. The case studies of Satyam, NSEL, IL&FS, DHFL, and Yes Bank exhibit a worrisome pattern of corporate governance failure. Promoter domination leading to capture of the board, independent directors lacking independence, gatekeepers including auditors, credit rating agencies, and stock market analysts failing in their fiduciary obligations, and reactive regulatory framework that does not act until after losses have occurred are common themes in each of the scandals. Despite the individual differences in the operations of the firms involved, each case follows a familiar pattern of financial opacity, unbridled related party transactions, and delayed response from regulators to punish offenders. Overall, the outcome is that despite legislation such as the Companies Act, 2013, SEBI LODR Regulations, and the Insolvency and Bankruptcy Code, 2016, providing comprehensive protections to shareholders, shareholder rights remain more aspirational than practical for small retail and minority shareholders.

The gap between the law and its implementation forms the core issue that continues to persist. India has developed an intricate system of corporate governance laws that ranks up to international standards, but the under-resourced and poorly funded implementation mechanism has been incapable of ensuring that these laws act as a deterrent. The punishments are inadequate relative to the benefits derived from committing fraud; the lengthy litigation process involved makes prosecution difficult; and the procedures for protecting investors through class action lawsuits are complicated and under-utilized.

## **Recommendations**

Based on the critical findings of this research, the following structured recommendations are proposed to strengthen corporate governance, enhance regulatory enforcement, and ensure meaningful shareholder protection in India:

### **1. Legislative and Regulatory Reforms**

The Companies Act, 2013 needs to be amended to improve the functioning of the independent directors. There should be an Independent Director Database maintained by MCA, where they will be assigned randomly to the companies in order to ensure that there is no promotional bias while appointing them. It is necessary that the definition of the "independent director" be changed in such a way that there is no association of the person with the promoter group at any point in time; directors must take the responsibility individually in case of failure to detect fraud under their jurisdiction. The framework for audit quality needs immediate changes. Firstly, NFRA must be vested with the power of suo-motu investigations, imposition of severe penalties, and mandatory rotation of audit firm after every five years for all the listed companies. Secondly, there is a need for amendment of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to introduce real-time disclosure of transactions between the company and other persons with whom they have related party dealings, which exceed certain amount, and prior approval of board is required before execution.

### **2. Institutional Reforms**

There is need for a Financial Sector Oversight Authority to bring together regulatory efforts by SEBI, RBI, IRDAI, and PFRDA to overcome the issue of lack of coordination that led to IL&FS and DHFL cases going unnoticed for too long. SFIO must be made strong through

appointment of forensic accountants, data analytics, and lawyers, and the time taken to complete investigations be statutorily limited to one year. NCLT needs specialized benches for hearing matters relating to corporate governance and securities law issues, and a statutory timeframe of six months for ruling on oppression and mismanagement cases. It is necessary to have a "rating liability" regime under which rating agencies will be made civilly liable for their negligence in misleading investors through wrong ratings.

### **3. Procedural Reforms**

Class action procedures provided for under Sections 245 and 246 of the Companies Act, 2013 must be made easier through the lowering of the threshold percentage requirement of at least 5% of shareholders to just 1%. This can be done by simplifying the process of filing for class action and making sure that all legal fees would be paid by the corporation if the petition was legitimate. The whistleblower system provided for under Section 177 of the Companies Act needs to be fortified by establishing a statutory body that will handle complaints made, while guaranteeing confidentiality and freedom from any form of harassment or victimisation.

### **4. Culture and Capacity Building**

Compulsory corporate governance training needs to be made mandatory for all the directors and top management of listed firms, with yearly certification for compliance. The process of shareholder activism needs to be encouraged through proxy votes that can be easily executed along with tax benefits for all such institutions that take an active interest in governance-related activities within the firms of their investment portfolios. In terms of investor education programs, there is a need for educating the retail investors about the proper way of reading the annual report, disclosures relating to related party transactions, and also the exercise of voting rights. Lastly, there needs to be an active surveillance system adopted by SEBI with the help of Artificial Intelligence and data analytics.

### **Scope for future research**

The current doctrinal and case law based study has opened up a number of areas that can be explored in future research. One important area of research would be the development of a quantitative empirical study that would measure the true economic impact of governance failings on both retail and institutional investors by analysing the stock price of these firms and also the recovery rate in cases of corporate insolvency and the amount disgorged. Another important aspect is that of a comparative study between enforcement trends in India as compared to other emerging nations such as Brazil, South Africa and China and identifying any lessons that India might take from other jurisdictions regarding enforcement trends and designing of regulations that could act as effective deterrence for malpractice. Another possible line of research could be that of behaviour studies in which interviews could be conducted to examine the decision making process of independent directors and auditors. Lastly, longitudinal research could also be performed wherein the governance record of surviving firms post scandal such as Satyam (now Tech Mahindra) and Yes Bank is studied.

### **Limitations**

The present study faces some of the inherent limitations that come along with its methodological approach. The analysis is based largely on publicly available documents, such as court decisions, SEBI orders, NCLT rulings, reports from committees, and scholarly secondary literature, which might not give a full account of factual scenarios and deliberations behind each scandal. The lack of any empirical evidence in the form of interviews conducted with regulators, independent directors, or shareholders does not allow

getting a full picture of the psychological, organizational, and political dynamics at play in relation to the identified problems. Moreover, even though the choice of five corporate scandals is quite representative, there can still exist cases of poor corporate governance in India that were not investigated or publicized due to the fact that companies are unlisted or small enough to evade oversight. At the same time, journalistic accounts used to fill in gaps in information concerning some scandals might be somewhat biased. Finally, owing to a rapid development of corporate law and regulatory policy, there is a chance that later changes in the area will not be covered by this study, and therefore should be taken into consideration in future work.

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