ISSN: 3048-8702(O)

LLRJ

LEX LUMEN RESEARCH JOURNAL

VOLUME 2 - ISSUE 1

2025

Editor-in-Chief: Dr. Razit Sharma,
Publisher: Mrs. Rachana

LEX LUMEN RESEARCH JOURNAL-ISSN:3048-8702
Open Access-Peer Reviewed Law Journal, Licensed by-CC BY-NC-SA- © 2025
Editor-in-Chief: Prof. (Dr). Razit Sharma, Publisher: Mrs. Rachana

Volume-2, Issue-1 ***Pages:1-22***

STRENGTHENING CORPORATE GOVERNANCE IN INDIA: THE ROLE OF SEBI IN THE POST-SATYAM ERA

By- **Avesh Raturi [1] & Anuja Chauhan[2]**

ABSTRACT

This paper examines how corporate governance standards have changed in India. The last ten years have seen rapid changes in corporate governance in India. If this positive trend continues, India will be able to achieve strong corporate governance standards, which are essential for sustaining its impressive development rates. It starts by going over the management structure that was in place before independence and the changes that came about afterwards, the reforms that were started after the 1991 economic changes, recommendations from various committees, clause 49 of the listing agreements, the Satyam scandal, and the changes that were made after the Satyam fiasco. A careful examination of the 2013 Companies Act is also emphasized. The Securities and Exchange Board of India (SEBI) plays a crucial role in enhancing the integrity and transparency of the securities market by setting and maintaining corporate governance standards in India. SEBI was established in 1988 and granted legislative power in 1992. Its primary objectives are to protect investor interest, enhance market confidence, and promote ethical conduct in the financial industry.

The Satyam scandal represents the most significant incident in the annals of India's corporate sector. Satyam ranks as the fourth largest IT firm in India. The company's CEO orchestrated a fraud amounting to malpractice is a growing concern, both in terms of its occurrence and its

[1]Advocate.
[2] Advocate

Volume-2, Issue-1 *Pages:1-22*

severity. The repercussions of the Satyam scandal reverberated throughout the entire auditing framework of the Indian corporate landscape.

KEY WORDS: Corporate Governance, SEBI, Satyam Scandal, Scam, Regulation, India.

INTRODUCTION

Corporate governance can be generally defined as the system by which business entities are monitored, managed, and controlled. Corporate governance relates to the private and public institutions, including rules and regulations and business practices, which together govern the relationship in the market economy between corporate managers and entrepreneurs. Corporate governance refers to the system by which companies are directed and controlled. It balances the interests of various stakeholders, including shareholders, customers, management, suppliers, the government, financiers, and ultimately the community.[3]. Good governance fosters accountability, transparency, and fairness in a company's relationships with all stakeholders.[4] In India nowadays, corporate governance is essential. It is a collection of guidelines, policies, and procedures that a business adheres to, ensuring it is run in the best interest of its stakeholders and shareholders. It ensures that the rights, interests, and expectations of shareholders and other stakeholders are upheld and that the business's operations are carried out ethically and responsibly. Additionally, corporate governance supports long-term sustainable growth and guarantees openness in business activities.

Without appropriate corporate governance standards, it is impossible to imagine good business practices and a favorable business environment. Waste Management Scandal

[3] Report of Narayana Murthy Committee on Corporate Governance, 2003
[4] http://www.law.cornell.edu/cfr/text/48/2.101 (Visited on June,2025)

Volume-2, Issue-1 *Pages:1-22*

(1998), Enron Scandal (2001), WorldCom Scandal (2002), Tyco Scandal (2002), Health South Scandal (2003), Freddie Mac Scandal (2003), American Insurance Group Scandal (2005), Lehman Brothers Scandal (2008), Bernie Madoff Scandal (2008), and Satyam Scandal (2009) are just a few of the numerous corporate scandals that have occurred in various nations over the past few decades. All ten of these scandals rank among the worst corporate scandals in the world. In the Indian corporate world, there are some notable scandals- Telgi scam (2002), 2G Spectrum (2009), Harshad Mehta Scam (1992), Satyam Scandal (2009). These scandals are the loopholes in the companies' board structure and weak transparency policy and incomplete disclosures and the lack of corporate governance.

FOUR PILLARS OF CORPORATE GOVERNANCE

- **Accountability-** It involves the management body (Board of Directors) keeping an eye on managerial performance and using honest and equitable methods to generate a sufficient return for the shareholders. Implementing the mechanism intended to guarantee that the collaboration complies with the law is another duty. It acts with integrity, thoughtfulness, and care, benefiting the business and its stakeholders.
- **Fairness-** It describes how the company is run without considering the interests of the owner's employees, stakeholders, or the public at large. Since corporate ethics are crucial in this situation, they must be comparable to the moral standards of the community in which they operate.
- **Transparency-** Disclosure is one of the corporate governance tools. All significant matters are disclosed in a timely and precise manner by the corporate governance. In compliance with financial, accounting, and auditing requirements, high-quality disclosure about the ownership, governance, and performance of the company is required. Transparency is access to the information by the shareholders way of disclosure, like: the company's objective, members of the board.

Volume-2, Issue-1 *Pages:1-22*

- **Responsibility-** Accountability is closely related to responsibility. Businesses are supposed to act responsibly as citizens and promote the well-being of society and its stakeholders. Corporate governance reflects society's broader ethical norms. Businesses are expected to play a more active role in altering beliefs and behaviors that are thought to be detrimental to groups outside of their organization.

BACKGROUND OF CORPORATE GOVERNANCE

A system of rules, ethics, values, principles, laws, and processes is all part of corporate governance. Corporate Governance establishes a framework in which directors are given tasks and obligations regarding the course of business affairs.[5] Its policies must be such that the directors of the company comprehend their duties and obligations to the company, act in the best interests of the company in the broadest sense, and refrain from abusing their authority for corporate governance to be effective.

In the United States, the Watergate crisis most likely planted the roots for contemporary corporate governance. The ensuing investigation enabled US legislative and regulatory agencies to identify control flaws that had allowed several large firms to bribe government officials and make unlawful political contributions. As a result, the United States created the Foreign and Corrupt Practices Act of 1977, which included particulars on the creation, upkeep, and evaluation of an internal control system.[6] The United States Securities and Exchange Commission then proposed obligatory reporting on internal financial control in 1979. The 1987 publication of the Treadway Report, National Commission on Fraudulent Financial Reporting,

[5] Barry Dunphy, "Corporate governance – liability issues arising out of directors responsibilities" http://business.tafe.vu.edu.au/dsweb/Get/Document156601/Issues+arsing+out+of+directors+responsibility.pdf (Visited on June 13, 2025).
[6] Deenbandhu Chaudhary Company Law Basic Elements and Dynamics 48-50 [Cyber Tech Publications, New Delhi.

Volume-2, Issue-1 *Pages:1-22*

emphasized the necessity of an appropriate control environment, independent audit committees, and an impartial internal audit role.

Corporate governance has gained a lot of attention, especially following events in the United States that sparked discussion in the United Kingdom. A series of scandals and bank failures in the United Kingdom in the late 1980s and early 1990s caused investors and banks to become concerned about their capital. The Cadbury Committee was set up by the London Stock Exchange.

Exchange in May 1991, and in December 1992 Cadbury Committee submitted its report "Code of Best Practices," where it clearly stated that the method of governance needs to strike a balance between the Board of Directors' fundamental authority and appropriate accountability.

In its 1992 study, "Financial Aspect of Corporate Governance," the renowned Cadbury Committee defined Corporate Governance as the structure within which organizations are managed and coordinated.

EVOLUTION OF CORPORATE GOVERNANCE IN INDIA

In India, it is generally accepted that corporate governance started in the British era (1850–1955) and progressed to the modern era (2000 onward). Over time, corporate governance in India has experienced a substantial change. Indian companies were often family-run, with the promoter's interests playing a major role in governance. But things started to shift in the early 1990s when economic liberalization took place. [7]Increased competition, foreign investment, and the need for better corporate governance procedures to draw in international investors were all consequences of the economy's opening up.

[7] Neetu Jain, -Towards Indian Perspective of Corporate Governance: Need for Spiritual Regeneration| 4 FJIM 69(2007)

Volume-2, Issue-1 *Pages:1-22*

The Kumar Mangalam Birla Committee also released a code of corporate administration for Indian organizations, in compliance with the Cadbury Council. Directors oversee the management of their organizations as part of the corporate culture that is common around the world. In administration, it is the investor's responsibility to select the directors and administrators and to ensure that an appropriate administrative framework is established. The agency dilemma, also known as the separation of ownership and control, first appeared in India in the latter half of the 1800s when the agency system was determined to be the best approach for running a joint stock business. The management agency system appoints companies with business management experience and skill in United Stock Cooley to oversee the company for an extended period. In the past, one company oversaw several businesses. India has a long history of commerce and has been a significant supplier of many of the most sought-after goods in the world.[8] Thus, it makes sense that corporate governance systems in India have a lengthy history. There are three categories under which the corporate governance approaches that were popular at various times might be examined.

(1)- The Managing Agency System

(2)- The Promoter System

(3)- The Anglo-American System

INITIAL STAGE (BEFORE 1991)

The British administration in 1947 had regulations on settlements and trade. Great Britain abandoned its capitalist heritage and adopted socialism instead. The 1951 Industries Act, which mandated that all industrial entities seek licenses from the central government, was a step in this direction. The public sector would control the

[8] Dr. Sunil Deshta, Vikram Singh Jaswal - Corporate Governance: A Legal Realism‖ 47 CMLJ 7 (2011).

Volume-2, Issue-1 *Pages:1-22*

economy, according to the 1956 Industrial Policy Resolution. To put into action this goal, the Indian government established massive state-owned businesses, and the country gradually shifted toward a culture of "corruption, nepotism, and inefficiency. "The problem was made worse by the lack of a corporate governance framework. The government seldom took disciplinary measures, even for breaking basic governance standards, and the few private enterprises that remained in India's corporate environment had complete freedom regarding the majority of legislation. India had very poor corporate governance before economic liberalization in 1991. The corporate sector was dominated by family-owned enterprises, and minority shareholders' rights were frequently disregarded. The legal foundation for corporate governance was established by the Companies Act of 1956, but accountability and openness were not given enough attention, and enforcement was lax.

FIRST REFORMS AND ECONOMIC LIBERALIZATION (1991-2000)

An important turning point in Indian corporate governance arose with the economic liberalization of 1991. The Securities and Exchange Board of India (SEBI) was established by the Indian Parliament in 1999 to safeguard the interests of securities investors and to encourage the growth and regulation of the securities market. As Indian businesses looked to the stock market for funding in the years preceding 2000, it became critical to guarantee sound corporate governance across the board. India's first corporate governance code was issued by the Confederation of Indian Industry in 1998.[9] However, few businesses adopted the Code because it was optional. The government implemented several changes to raise corporate governance standards in response to the flood of foreign investments and the necessity to connect with the global economy. During this time, significant developments include:

Volume-2, Issue-1 *Pages:1-22*

Code of Corporate Governance of the Confederation of Indian Industry (CII) (1998)

One of the earliest organizations in the sector to actively work to enhance corporate governance was the CII. It published the Desirable Corporate Governance Code in 1998, outlining rules for publicly traded corporations. Despite being optional, it set the stage for later regulatory structures.

KUMAR MANGALAM BIRLA COMMITTEE (1999)

To provide references for corporate governance, the Securities and Exchange Board of India (SEBI) established the Kumar Mangalam Birla Committee in 1999.[10] The listing agreement's Clause 49, which enacted the committee's recommendations, placed a strong focus on the function of independent directors, audit committees, and disclosures.

CLAUSE 49 (2000)

Introduced in 2000 and updated in 2004, Clause 49 of the Listing Agreement required listed firms to follow several governance measures, such as the formation of audit committees, the role of independent directors, and the makeup of the board.

COMMITTEE OF NARESH CHANDRA (2002)

The government established the Naresh Chandra Committee to investigate the function of independent directors and the interaction between auditors and companies in reaction to worldwide business disasters such as Enron. The committee's recommendations resulted in improved disclosure requirements and more stringent auditing standards.

COMMITTEE ON NARAYANA MURTHY (2003)

The Narayana Murthy Committee was constituted by SEBI to examine Clause 49.[11] The committee's 2004 recommendations centered on increasing the function of audit

---

[10] Kumar Mangalam Birla committee on Corporate Governance (1999).

[11] The SEBI Committee on Corporate Governance (the "Committee") was constituted under the Chairmanship of Shri N. R. Narayana Murthy, Chairman and Chief Mentor of Infosys Technologies

Volume-2, Issue-1 *Pages:1-22*

committees, boosting shareholder rights, and improving the caliber of financial disclosures.[12]

THE SATYAM SCANDAL IN 2009

In India, the Satyam crisis marked a turning point in corporate governance. The company's chairman, Ramalinga Raju, admitted to falsifying its financial statements by $1.47 billion. This controversy resulted in a regulatory revision and brought attention to the need for stronger corporate governance procedures.

THE COMPANIES ACT OF 2013

The Companies Act of 2013 was a significant development in India's corporate governance history. In addition to replacing the Companies Act of 1956, this comprehensive law included several regulations meant to raise governance standards.

IMPORTANCE OF CORPORATE GOVERNANCE IN INDIA

The following factors make corporate governance crucial:

- It influences how the economy's capital markets develop and evolve.
- It facilitates capital market money raising. Good governance standards help companies acquire long-term investments by boosting investor trust.
- It connects the management of the business to its financial reporting system.
- It empowers management to make creative choices for the business's efficient operation within the bounds of accountability laws. To evaluate how corporate governance affects overall economic performance, the efficacy of the legal and regulatory framework is essential.
- The mechanisms by which organizations define their goals, decide how to achieve them, and track their success are all improved by good corporate governance.

Limited. The Committee met thrice on December 7, 2002, January 7, 2003 and February 8, 2003, to deliberate the issues related to corporate governance and finalize its recommendations to SEBI.

[12] N.R. Narayana Murthy committee on Corporate Governance (2003).

Volume-2, Issue-1 *Pages:1-22*

- It helps investors by bringing transparency to business accounting procedures. Corporate entities provide their financial reporting frameworks.
- It offers a code of conduct, sufficient and prompt disclosure reporting obligations, etc. Businesses provide outsiders access to crucial price-sensitive information and make sure insiders refrain from trading in company stock until this information is made public. Thus, it stays away from insider trading.
- It increases the economy's wealth and boosts the enterprise's efficacy and efficiency. Thus, corporate governance is a tool for economic expansion.

CORPORATE GOVERNANCE FRAMEWORK IN INDIA: AN OVERVIEW

The Companies Act, 2013

These clauses include stronger regulation of related party transactions, limitations on layers of corporations, the involvement of audit committees, independent audits, and increased accountability of firms through the nomination of Key Managerial Personnel (KMPs).

To guarantee that investors and regulatory bodies have access to all pertinent information, enhanced disclosures are required, including through the board's report, financial statements, and filings with the Registrar of Companies. One significant development in India's corporate governance history was the enactment of the Companies Act, 2013. This all-inclusive law superseded the Companies Act of 1956 and included several clauses intended to raise governance standards [13]

Composition of the Board: The Act requires certain kinds of public corporations and listed firms to have at least one female director on their board. It also outlines how many independent directors must be on the board.

[13] Dr. Onkar Nath Dutta, "Corporate Governance- Codes and Ethics", 33 Growth 10 (2006)

Volume-2, Issue-1 *Pages:1-22*

Committees for auditing: The Act highlights audit committees' role in monitoring financial reporting and disclosures and expands their duties. CSR, or corporate social responsibility, according to the Act's mandated CSR provisions, businesses that satisfy specific requirements must invest at least 2% of their average net profit in CSR initiatives.

Improved Disclosures: The Act mandates that financial statements include more thorough disclosures on related party transactions, director loans, and the compensation of directors and senior management staff.

Mechanism for Whistleblowers: According to the Act, a vigil system must be established so that directors and staff may report legitimate concerns regarding unethical behavior, real or suspected fraud, or violations of the company's code of conduct.

Updates and Amendments: Among the most significant changes are the Insolvency and Bankruptcy Code of 2016, the establishment of the National Company Law Tribunal (NCLT) and the National Company Law Appellate Tribunal (NCLAT) to take the role of the Company Law Board. The definition of "related party" has been changed to encompass organizations that directly or via beneficial interest own equity shares of 10% or more in the listed company. Additionally, the Act has been revised to require a special resolution for the appointment of an auditor and to provide for the appointment of an independent director for companies having paid-up share capital of 10 crore rupees or more.

Section 132 of the Companies Act of 2013 established the National Financial Reporting Authority (NFRA), an Indian regulatory agency, in 2018. Among the NFRA's responsibilities are suggesting accounting and auditing standards and procedures for businesses to implement and submit for Central Government approval.

ROLE OF SEBI IN STRENGTHENING CORPORATE GOVERNANCE

To maintain the integrity and openness of the securities market, the Securities and Exchange Board of India (SEBI) is essential in establishing and implementing

Volume-2, Issue-1 *Pages:1-22*

corporate governance procedures in India. The main goals of SEBI, which was founded in 1988 and given legislative authority in 1992, are to safeguard investor interests, boost market trust, and encourage ethical behavior in the financial markets.[14] SEBI's extensive regulatory structure, which includes creating rules and standards for listed businesses, demonstrates its impact on corporate governance. It entails striking a balance between the interests of a company's numerous stakeholders, including the government, the community, shareholders, management, suppliers, consumers, and financiers. In this regard, SEBI's job is to make sure that businesses that are listed on Indian stock exchanges follow strict governance guidelines, which encourage accountability, transparency, and equity in the business world. SEBI's role:[15]

As An Investor Protection Agency:

Investors are protected against deceptive and fraudulent advertising by SEBI. In exchange, SEBI created rules to safeguard investors and guarantee that the commercial is reasonable and succinct.
Price-rigging regulation: Price manipulation via price fluctuations to raise and lower the market price of securities is known as price rigging. [16] Investors may pick the most lucrative stocks by comparing the offerings of various firms, thanks to SEBI's efforts to educate them.[17] To guarantee Stock Exchange development operations, Online trading: To ease the inconvenience, SEBI proposed the idea of e-trading a few years ago. It makes the purchasing and selling of securities easier. The stock exchange authorizes the Primary Market's (a subset of the Capital

[14] Dey, P., & Mukherjee, S. (2019). The impact of SEBI regulations on corporate governance in India. Indian Journal of Finance, 13(4), 24-37.
[15] G. Sabari Nathan, "SEBI's Regulation of the Indian Securities Market: A Critical Review of the Major Developments" 35 vikalpa 13-18 (2010)
[16] Mishra, P., & Prasad, S. (2018). Corporate governance and regulatory framework in India: SEBI's influence. Asian Journal of Business Ethics, 7(2), 235-259.
[17] Securities and Exchange Board of India Act, 1992

Volume-2, Issue-1 *Pages:1-22*

Market) initial public offering. SEBI encourages securities market intermediaries to receive training to ensure seamless operation.

Control The Activities and Operations of the Stock Exchange:

SEBI established a suitable Code of Conduct that applies to all parties involved in the stock market, securities buying and selling, etc. The areas of concern are laws and rules governing middlemen like brokers and underwriters, among others. Registers and controls the operations of trustees, share transfer agents, stockbrokers, merchant bankers, and sub-brokers, among others.

Control Insider Dealing:

Since the beginning of the market for the purchase and sale of securities, stock exchange, etc., insider trading has been an issue. An insider is a person or group of persons who has direct knowledge of a company's internal problems and ups and downs.

SEBI GUIDELINES FOR CORPORATE GOVERNANCE:

An overview of SEBI recommendations that have increased the need for corporate governance in India is provided below, under the pertinent headings of auditing and corporate governance in India: [18]

Board of Directors: A few things to consider in this respect are as follows: The ideal ratio of executive to non-executive directors must be present on the company's board of directors. The chairman's executive or nonexecutive role will determine how many independent directors are needed.

Audit Committee: An independent audit committee will be appointed by the organization, and its constitution will be as follows:
In addition to having at least three members—all of whom must be nonexecutive

[18] Securities and Exchange Board of India. (2013). Regulations and guidelines.

Volume-2, Issue-1 *Pages:1-22*

directors, most of whom must be independent, and at least one of whom must be skilled in finance and accounting—the committee will be chaired by an independent director, who will also attend the annual general meeting to answer questions from shareholders. In addition to having at least three members—all of whom must be nonexecutive directors, the majority of whom must be independent, and at least one of whom must possess financial and accounting expertise—the corporation will designate an independent audit committee, and the committee's chairman will be an independent director. The Chairman will be available to address shareholder issues during the Annual General Meeting. The following components should be part of the audit committee's task: Supervision of the business's financial reporting procedure and financial report disclosure to guarantee the accuracy, sufficiency, and dependability of the financial statements. Asking for the appointment and withdrawal of an external auditor. Assessing the effectiveness of the internal audit's function. Revising the company's risk and financial management procedures.

Director Compensation: The following information on director compensation is included in the Annual Report's section on corporate governance:
The components of a manager's compensation plan include salaries, stock options, pensions, incentives, and perks. Performance requirements, advantages associated with outcomes, and descriptions of fixed components.

The Board's Procedure: The following are some of the principles outlined in this regard: Board meetings must take place at least four times annually, with a maximum of four months between each meeting. A director cannot chair more than five committees in all the firms he is a director of, nor can he serve on more than ten committees.

Administration: The shareholders' annual report should include a Management Discussion and Appraisal Report that covers the following subjects (within the parameters set by the company's competitive position).

Volume-2, Issue-1 *Pages:1-22*

Shareholders: A few things to consider in this regard are: The following information must be provided to shareholders if a new director is appointed or an existing director Is reappointed:

A synopsis of the director's brief resume, the scope of his area of expertise. The number of businesses over which he maintains management and committee participation. A Board Committee will be established, chaired by a non-executive director, to specifically look into the resolution of investor and shareholder complaints.**Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015:** Through the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), which expanded and codified the previous listing agreement requirements into formal regulations with clear statutory backing, SEBI has developed a comprehensive and increasingly prescriptive governance framework in the most recent phase. The comprehensive governance standards found in the LODR Regulations cover:

- The composition and operations of the board (Regulations 17-19)
- The composition and duties of board committees (Regulations 18-22)
- Transactions involving related parties (Regulation 23)
- Governance of subsidiaries (Regulation 24)
- Management of risks (Regulation 21)
- Obligations for transparency and disclosure (Regulations 30-46)
- Rights and engagement of shareholders (Regulations 26-29)

Clause 49 of the Listing Agreement:

SEBI made its first significant attempt to regulate corporate governance in 2000, based on the suggestions of the Kumar Mangalam Birla Committee, when it added Clause 49 to the Listing Agreement. Basic governance criteria for listed firms were created under this original framework, and these included:

Volume-2, Issue-1 *Pages:1-22*

- The minimal number of independent directors on the board
- The establishment and operation of an audit committee
- Board processes and information exchanges
- Financial statement certification by the CEO or CFO
- Disclosure of transactions involving connected parties

At first, Clause 49 took a mostly principles-based approach, setting broad governance goals but giving businesses latitude in how they achieve them. A "comply or explain" approach was also included in the framework for certain of the regulations, especially those about board independence. In a 2007 address, Justice N.K. Sodhi, the former presiding officer of the Securities Appellate Tribunal, noted: "In the Indian regulatory landscape, SEBI's initial corporate governance framework through Clause 49 represented a significant innovation." Instead of waiting for a thorough legislative change, SEBI established governance norms that went above the Companies Act, 1956's then-current statutory requirements by using its jurisdiction over listing requirements.

THE SATYAM SCANDAL

B Ramalinga Raju, the founder of Satyam Computer Services, admitted to a balance sheet fraud of Rs 7,000 crore that he had kept hidden for years from the boards, staff, and auditors of the company he founded. The Satyam fraud, which became known as India’s Enron, about the US energy corporation that went bankrupt owing to a huge accounting controversy, was the largest accounting scandal in corporate India’s history. Satyam Computer Services Ltd (also known as Satyam was founded on June 24, 1987, by two brothers, B Rama Raju and B Ramalinga Raju, as a private limited company with only 20 employees to provide software development and consultancy services to large corporations. It has its headquarters in Hyderabad.[19] In 1996, the

[19] Union of India v. Satyam Computers Services Ltd. & Ors (2009) 1Comp LJ 308(CLB).

Volume-2, Issue-1 *Pages:1-22*

company launched four subsidiaries: Satyam Renaissance Consulting Ltd., Satyam Enterprises Solutions Private Limited, and Satyam Info Way Private Limited. In 1997, the Swiss-based World Economic Forum and World Link Magazine named Satyam Computer Services Limited one of India's most renowned and fastest-growing businesses.[20] Satyam Info Way, a wholly owned subsidiary of Satyam Computer Services, is the most publicly traded firm on the internet, listed on NASDAQ. Mr. B. Ramalinga Raju, Satyam Chairman, was named Dataquest's IT Man of the Year 2000. The Satyam crisis, which revealed several alarming truths about the inadequacies of the country's business regulation laws, rocked corporate India. The new Companies Act of 2013, which introduced the duties of boards of directors and auditors among many other measures, was a response to the fraud and altered the legal framework. In 2014, market operator SEBI changed Clause 49 of the listing Standards in an attempt to improve corporate accountability.[21]

Legal Violation

The Satyam Scam was a significant case of corporate fraud involving the top executives of the company. They engaged in complex financial wrongdoing and failed to fulfill their responsibilities. This case highlighted serious issues related to corporate governance, the misuse of trust, financial deception, and false reporting. Legally, it included charges such as criminal conspiracy, breach of confidence, cheating, falsifying financial records under various sections of the Indian Penal Code, including Sections 120B, 406, 409, 420, and 477A.

The Satyam Scam was exposed when B. Ramalinga Raju, the chairman and creator of the business, admitted to inflating the company's assets by more than one billion dollars. The evidence consisted of modified bank balances, fabricated paperwork, and

[20] Dr. Sumit Sharma, Corporate Crimes & Financial Frauds 166-167 (Authors press, New Delhi, 2013).
[21] Madan Lal. (2013). Corporate Accounting Fraud: A Case Study of Satyam Computers Limited.

Volume-2, Issue-1 *Pages:1-22*

fraudulent financial statements. A trail of dishonesty was discovered during the Central Bureau of Investigation's CBI and other regulatory agencies' probe, revealing the magnitude of the financial irregularities.

Lessons Learned from The Scam

The 2009 Satyam scandal in India revealed the dangerous possibilities of a poorly managed corporate executive. With the repercussions ongoing and affecting the world economy, there is a hope that positive outcomes can arise through lessons learned from the scandal.[22] The Satyam Scandal serves as a clear warning about the risks of unrestrained greed and ambition. It emphasized the significance of ethical behavior, openness, and strong corporate governance practices. The scandal underscored the need for robust regulatory oversight and thorough examination to protect investors' interests and maintain the integrity of financial markets. Lessons derived from the Satyam scandal are influencing the corporate environment in India, as firms endeavor to uphold ethical norms, enhance governance measures, and restore investor trust.

RESPONSE OF THE GOVERNMENT TO THE SATYAM SCANDAL

Companies Act - The Companies Act of 1956 was repealed, and the Companies Act of 2013 came into force. Under the terms of the new act, corporate fraud constitutes a criminal offense. The law specifies and recognizes cost accountants, auditors, and corporate secretaries as required to reveal the Satyam fraud. The new rule regarding auditor rotations was introduced, mandating that auditors must be switched after five years and audit firms after ten years. It further indicates that the director's responsibility statements must be part of the Board of Directors' report.

[22] Rama chadran, (2009). Raju brings down Satyam, shakes India. Asia Times Online Ltd.

Volume-2, Issue-1 *Pages:1-22*

The Institute of Chartered Accountants of India (ICAI) – In its audit report, the accounting firm emphasized the auditors' thorough disclosure of fictitious assets and contingent liabilities.

Securities and Exchange Board of India - The SEBI Regulations 2015 (Listing Obligations and Disclosure Requirements) were implemented, and they defined standards for reporting confirmed and suspected frauds and revealing significant occurrences that affect investors' decision-making capabilities.

COMPARATIVE LEGAL FRAMEWORK

CORPORATE GOVERNANCE IN THE UNITED STATES OF AMERICA

The United States is often regarded as the quintessential example of a market-driven or shareholder-focused method of corporate governance. Companies are owned by diverse individuals, yet institutional investors such as pension funds. It plays a significant role. Corporate boards are compact, largely made up of independents or outsiders, and utilize committees to improve board functions. Senior managers' pay is connected to shareholders' profit via executive remuneration. Gatekeepers that ensure the transmission of information from managers to capital markets, like audit firms, act as a link between the internal and external aspects of corporate governance. Moreover, the corporate control market creates a final layer of discipline for failing companies, heightening their likelihood of being acquired.

The post-SOX period also significantly raised awareness of the difference between British and American corporate governance practices. Although the two are thought to be somewhat comparable shareholder-oriented models, the British method depends more on soft law and self-regulating mechanisms like codes, whereas the US regulatory framework is based considerably more on hard law and a regulatory state. The Enron and WorldCom scandals sparked the legislative process that resulted in SOX, which has subsequently generated intense discussion over its purpose and validity. There were just 29 days in the hurried legislative procedure (Haller,

Volume-2, Issue-1 *Pages:1-22*

Ernstberger & Kraus, 2006, Cioffi-2010). Despite being passed by a Republican President and Congress, the Sarbanes-Oxley Act of 2002 is typically seen as a "progressive" law (Baker,2008). Analysts have viewed it as either a short-term opportunity for essential changes that may result in significant positive change (Mitchell,2003) or as a careless overreaction that would lead to quack corporate governance (Romano,2005).[23]

The SOX reform, which substitutes direct regulatory mandates for corporate governance for conventional disclosure obligations, surely marks a major shift in U.S. regulation. Since the SEC has now expanded into sectors that were previously solely under state regulation, the federal government has assumed a larger role. Last but not least, the corporate governance debates have focused more on the function of mostly self-regulated or unconnected professional groups (such as accountants, auditors, analysts, and middle managers).

CORPORATE GOVERNANCE IN THE UNITED KINGDOM

Laws, Market guidelines, and standards of practice make up the UK's corporate governance system. Common law, statutory provisions (such as the Companies Act 2006), and regulatory frameworks (such as the listing rules and the Disclosure and Transparency Rules issued by the Financial Conduct Authority (FCA), a statutory body) are the sources of mandatory and default regulations as well s legal standards. Some of these rules and regulations are exclusive to the United Kingdom, while others are affected by European law. The City Code on Takeover and Mergers, sometimes known as the Takeover Code, has legislative power and is important in control

[23] More generally, Linck (2008) has shown that post-SOX boards have become slightly larger to incorporate a greater number of outsiders and reflect various requirements for committees. Fewer current executives were directors, and more directors were retired executives, directors with financial expertise, lawyers, and academics.

Volume-2, Issue-1 *Pages:1-22*

transfers. Furthermore, each company's constitution, which lays out governance responsibilities, is enforceable as a statutory contract.[24]

The Financial Reporting Council (FRC) developed the UK Corporate Governance Code as a framework to encourage accountability, openness, and effective corporate reporting among high-end UK corporations listed on the London Stock Exchange. It lays forth governance guidelines that businesses must follow to maintain investor confidence and comply with legal requirements.[25]

The UK Corporate Code was first published in 1992 by the Cadbury Committee. Corporate governance was defined as "the system by which companies are directed and controlled". The governance of any company is under the control of the board of directors. Appointing the director and auditors and making sure that an appropriate governance framework is put in place are both part of the Shareholders' responsibility in governance. Although the environment in which businesses, their shareholders, and other stakeholders operate is rapidly changing, the notion is still applicable today.[26]

CONCLUSION

India's corporate governance history demonstrates a dynamic and changing framework shaped by colonial legacies, modern reforms, and traditional norms. Even though there have been significant improvements in governance standards, more work is required to address current issues and bring governance standards into line with global best practices. With a rising focus on sustainability, technology-driven

---

[24] Corporate Governance in the United Kingdom, ECGI, https://www.ecgi.global/publications/codes/countries/corporate-governance-in-the-united-kingdom

[25] Understanding the UK Corporate Governance Code, Audit Board, (March.22,2025), https://auditboard.com/blog/understanding-the-uk-corporate-governance-code-the-complete-guide

[26] UK corporate governance code,(January,2024), https://media.frc.org.uk/documents/UK_Corporate_Governance_Code_2024_a2hmQmY.pdf

Volume-2, Issue-1 *Pages:1-22*

solutions, and stakeholder-centered governance frameworks, the future of corporate governance in India seems bright. By creating and upholding a robust regulatory environment, the Securities and Exchange Board of India (SEBI) plays a critical role in advancing corporate governance in India. The goals of SEBI's activities are to improve the securities market's accountability, transparency, and fairness. Through strict enforcement of disclosure requirements and extensive rules like the SEBI (Listing Obligations and Disclosure Requirements) rules, SEBI makes sure that businesses respect good governance standards and protect the interests of investors. By focusing on key components such as the function of independent directors, insider trading laws, and related party transactions, SEBI reduces the possibility of conflicts of interest and promotes moral corporate conduct.