



Research Article

Corporate Governance Reforms in India: Evolution and Observance

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Abstract

Corporate governance outlines how a company is directed and defines relationships of a company with its shareholders and stakeholders. This paper is structured into three sections. The first section discusses the evolution of Corporate Governance in the emerging economy of India. It laid down focus on the recent initiatives on Corporate Governance in India by Securities Exchange Board of India (SEBI) and other regulatory bodies. The second section examines the observance/compliance of standards and codes on Corporate Governance in India. The third section explains Corporate Governance Scorecard (CG Scorecard) for India. It is a new initiative taken by Bombay Stock Exchange (BSE) in 2016 later updated in 2023. Corporate Governance Scorecard is a tool for measuring the Corporate Governance status of the companies.

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1. INTRODUCTION

The subject of Corporate Governance comes to global business limelight after a string collapse of high-profile companies. Enron, the energy giant and WorldCom, the telecom behemoth, shocked the business world with their unethical and illegal operations. High profile corporate failures in developed countries have brought the subject to media attention. Corporate Governance is a system by which companies are managed and controlled. Corporate Governance is the system which maximises the shareholder's value in a corporation while ensuring fairness to all the stakeholders. Corporate Governance is about transparency and raising the trust and confidence of stakeholder in the way the company is run.

2. LITERATURE REVIEW

Dharwadkar, George & Brandes, (2000) made an attempt to study the effect of privatization in emerging economies. The authors revealed that in the past few decades, emerging economies have launched plans to privatize their state-owned enterprises. The volume of privatisation in emerging economies has increased from \$8 billion in 1990 to about \$65 billion in 1997. In privatization; ownership is transferred from the state to new private and public owners. The new diversified ownership structure after privatization makes Corporate Governance an important issue in emerging economies. Large and majority shareholders often control the firm and expropriate minority shareholders' interest in the firm. As a result, it is also important to design governance mechanism and safeguards to protect minority shareholders from expropriation by majority shareholders.

Goswami (2002) conducted a study in his paper entitled 'Corporate Governance in India. Taking action against corruption in Asia and Pacific'. He revealed that in India the urgent need for corporate governance came to the fore following various significant stock market scandals. In addition to various stock market frauds, there were several instances of companies allotting preferential shares to their promoters at highly discounted prices, as well as several instances of "startup" companies that simply disappeared with their investor's money.

Chakrabarti, Megginson, and Yadav has traced the evolution of Indian corporate governance system. The authors have found that the framework of the country's legal system provides some of the best investor protection in the world but enforcement is a major problem in view of the slow function of the overburdened courts and the widespread prevalence of corruption.

World Bank conducted a study in 2004 entitled 'Report on the Observance of Standards and Codes (ROSC)'. This study was conducted to assess the quality of Corporate Governance in India. The assessment was based on interviews with issuers, institutional investors, financial institutions and reputational agents, such as market analyst, lawyers, accountants and auditors. The study revealed the compliance with Corporate Governance in India is not up to mark. It needs certain improvements.

3. OBJECTIVE OF THE STUDY

1. To examine the various initiatives on Corporate Governance taken in India.

2. To assess the compliance/observance with Corporate Governance system in India.

4. RESEARCH METHODOLOGY

This study is based on secondary data. Data is taken from the various published reports available with SEBI, BSE & World Bank.

Corporate Governance Reforms in India

Across the world, innovative governance practices are evolving in response to global financial crisis, wave of privatisation, rising investment levels and greater stakeholder awareness etc. Globally, Governments and law makers are endeavouring to design good governance while promoting and disseminating the understanding of best practices of voluntary adoption. Regulators are keen to deter non-compliance. Industry and experts are constantly designing Corporate Governance structure and processes with strong emphasis on risk management, enhanced transparency and greater stakeholder engagement. In India the following initiatives are taken on Corporate Governance:

1. CII Code on Corporate Governance

Confederation of Indian Industries (CII) has been a frontier in the evolution of Corporate Governance in India. In 1996, CII took an initiative, first institutional initiative in Indian industry on Corporate Governance. It was the. A National Task Force set up by CII under the chairmanship of Mr. Rahul Bajaj, Past President, CII & Chairman and Managing Director, Bajaj Auto Limited. This task force presented the draft guidelines and code of Corporate Governance in April 1997 at National Conference and Annual Session of CII. This draft was then publicly debated in workshops and seminars and a number of suggestions were received for the consideration of the Task Force. Reviewing these suggestions, the Task Force has finalised the Corporate Governance Code and submitted its code in April 1998.

It laid down its voluntary code in form of guidelines enumerate 15 recommendations on topical issues covering Integrity, Ethics and responsible Governance and Citizenship, Role of Board, Balancing interest of stakeholders, Independent Directors and Women Directors, Safe harbours for Independent Directors, easier settlement norms, risk management, succession planning; Role of the Audit Committee, Improving audit quality and enhancing accountability, Disclosure and transparency related issues, vigil mechanism etc.

2. Kumar Mangalam Birla Committee on Corporate Governance

On May 7, 1999, SEBI appointed a committee of 18 members on corporate Governance under the chairmanship of Shri Kumar Mangalam Birla, member SEBI Board, to promote and raise the standards of Corporate Governance. This committee is thereafter known as the Kumar Mangalam Birla Committee. The committee's terms of reference were:

- A. To suggest suitable amendments to the listing agreement executed by the stock exchanges with companies.
- B. To draft a code of corporate best practices.

C. To suggest safeguards to be instituted within the companies to deal with insider information and insider trading.

The committee has submitted its famous and oft-quoted report in March 2000 after several sittings of debates and deliberations. This committee has provided some mandatory recommendations and some voluntary best practices for listed companies with paid up capital of Rs. 3 crore and above, pointing board composition and formation of audit committee and remuneration committee to enhance transparency, accountability, and investor protection. SEBI considered and adopted the report of this committee by directing stock exchanges to include these recommendations by modifying the listing agreements by incorporating clause 49 in Listing agreements.

3. Naresh Chandra committee on Corporate Governance

The Naresh Chandra Committee was constituted on January 21, 2002 by the Department of Company Affairs (DCA), under the Ministry of Finance. This committee was headed by Mr. Naresh Chandra, was given with the responsibility of examining and suggesting substantial changes to the laws. This committee's recommendations mainly concerned with auditor-company relationship, disqualifications for audit assignment, compulsory audit partner rotation, certification of annual audited accounts by CEO and CFO. This committee provided a comprehensive framework to strengthen corporate governance. This committee has taken forward the recommendations of the Kumar Mangalam Birla committee.

4. Narayana Murthy committee on Corporate Governance

This committee was constituted under the chairmanship of Narayana Murthy, Chairman and Chief Mentor of Infosys Technologies Limited. This committee was set up to review the performance of Corporate Governance in India and to determine the role of companies in responding to rumour and other price sensitive information circulating in market, in order to enhance the transparency and integrity of the market. This committee has provided its mandatory recommendations in 2003 regarding audit committee, related party transactions, disclosures about use and application of proceeds from initial public offering, information to shareholders regarding process followed for risk management, laying down the code of conduct for all board members and senior management.

5. Clause 49 (Listing Agreement)

The recommendations of Birla committee and Narayana Murthy committee have implemented by SEBI through inserting Clause 49 in Listing agreement. Clause 49 of Listing agreement to the Indian stock exchange comes into effect from 31 December 2005. It has been formulated for the improvement of Corporate Governance in all Listed companies. Clause 49 is binding on all the listed companies. It has provided some mandatory and non-mandatory recommendations. Every listed company was required to comply clause 49 and also required to file quarterly report showing compliance with clause 49 to stock exchange

Mandatory Requirements of Clause 49

Format of Quarterly Compliance Report on Corporate Governance

Name of the Company:

Quarter ending on:

Particulars	Clause of Listing Agreement	Compliance Status Yes/No	Remarks
I. Board of Directors	49(I)		
(A) Composition of Board	49(IA)		
(B) Non-executive Directors' compensation & disclosures	49(IB)		
(C) Other provisions as to Board and Committees	49(IC)		
(D) Code of Conduct	49(ID)		
II. Audit Committee	49 (II)		
(A) Qualified & Independent Audit Committee	49 (IIA)		
(B) Meeting of Audit Committee	49 (IIB)		
(C) Powers of Audit Committee	49 (IIC)		
(D) Role of Audit Committee	49 (IID)		
(E) Review of Information by Audit Committee	49 (IIE)		
III. Subsidiary Companies	49 (III)		
IV. Disclosures	49 (IV)		
(A) Basis of related party transactions	49 (IVA)		
(B) Board Disclosures	49 (IVB)		
(C) Proceeds from public issues, rights issues, preferential issues etc.	49 (IVC)		
(D) Remuneration of Directors	49 (IVD)		
(E) Management	49 (IVE)		
(F) Shareholders	49 (IVF)		
V. CEO/CFO Certification	49 (V)		
VI. Report on Corporate Governance	49 (VI)		
VII. Compliance	49 (VII)		

(Annexure-1B provided by SEBI)

Every listed company was under obligation to file compliance report in above format quarterly. But as of now, Clause 49 does

not exist in its original form as it is officially repealed and replaced by the SEBI (Listing Obligation and Disclosure Requirements) Regulations 2015.

6. National Foundation for Corporate Governance (NFCG)

NFCG was set up in 2003 by Ministry of Corporate Affairs in partnership with CII, Institute of Company Secretaries of India & Institute of Chartered Accountants of India to promote good Corporate Governance practices in India. In 2010, Institute of Cost Accountants of India and National Stock Exchange and in 2013 Indian Institute of Corporate Affairs were included in NFCG as trustees. Mission of NFCG is given below:

- To foster a culture for promoting good governance, voluntary compliance and facilitate effective participation of different stake holders.
- To make significant difference to Indian corporate sector by raising the standards of Corporate Governance in India towards achieving stability and growth.
- To create a framework of best practices, structure, processes and ethics.

Observance/Compliance of Corporate Governance in India

1. OECD Principles:

In 2009, on the request of member countries OECD (Organisation for Economic Co-operation and Development) provided some recommendations on Corporate Governance. These recommendations are known as OECD principles. OECD principles are:

- Ensuring the basis of an effective corporate governance framework
- The rights and equitable treatment of shareholders and key ownership functions
- Institutional investors, stock markets, and other intermediaries
- The role of stakeholders in corporate governance
- Disclosure and transparency
- The responsibilities of the board

The OECD Principles of Corporate Governance are recognized in India as a key benchmark for ensuring transparency, accountability, and fair treatment of shareholders, particularly through the Companies Act of 2013 and SEBI regulations. India has adopted these standards to improve board responsibility, disclosure practices, and sustainability.

2. Companies Act 2013

It has been seen that before the Companies Act 2013; corporate governance was mainly followed by the Clause 49. But the Introduction of the Companies Act 2013, bring new provisions and regulations in corporate sectors. The Companies Act, 2013, overhauled Indian corporate governance by mandating stricter accountability, transparency, and ethical standards, particularly for listed companies. Key reforms include appointing independent directors, at least one woman director, establishing specific board committees and enhancing disclosures to protect stakeholder interests, promoting investor protection, including concepts of insider trading, class action suits, creating a National Financial Reporting Authority and establishment of Serious Fraud Investigation Office for the investigation of fraud.

3. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are a consolidated set of mandatory rules laid down by SEBI to streamline compliance, enhance corporate governance and ensure timely and transparent disclosures by listed companies. These regulations are effective from December 1, 2015 and it covers all major issues like from board composition to financial disclosures for organisations listed on Indian stock exchanges.

4. Corporate Governance Reporting

Corporate Governance reporting in India is a mandatory framework which requires every listed company to contain a keen corporate governance report in its annual report and submit quarterly compliance reports with Corporate Governance requirements as specified by Companies act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to stock exchanges where such company is listed.

5. Corporate Governance Scorecard-A initiative of Bombay Stock Exchange (BSE)

There is no comprehensive tool for measuring the Corporate Governance status of the companies. Due to lack of comprehensive tool, neither companies are in a position to self-assess their corporate governance status and benchmark themselves against other companies nor the investors have an easy-to-understand measure to assess the good governance practices of a company.

In order to address these issues and to take initiative for the public good, BSE has collaborated on February 4, 2016 with International Finance Corporation Washington for developing a "Corporate Governance scorecard" for Indian companies. In a Public Consultation Workshop held on June 6, 2016, on the bases of inputs received from the participants of this workshop and from CG experts, a final document detailing the CG Scorecard has been prepared. It is updated in June 2023. Companies can use CG Scorecard to self-assess themselves and identify the parameters where they are lacking and take corrective actions to rectify the same. CG scorecard has developed on the basis of OECD principles. It is a voluntary initiative for companies but the initial study conducted on BSE SENSEX 30 companies shows that Indian companies are following CG scorecard.

How CG scorecard works

The scorecard comprises a total of 70 questions. These questions are divided into four categories corresponding to the respective OECD principle. Each category has a different number of questions that address the relevant issues related to the specific OECD principle. The weightages assigned to each category are based on the number of questions in the category and the relative importance of the questions in that category in the Indian corporate governance framework. It was determined that the quality of corporate governance practices referred to in each question should be recognised on three levels:

- **2 points:** If the company follows global best practices for that element of corporate governance.

- **1 point:** If the company follows reasonable practices or meets the Indian standard for that element of corporate governance
- 0 point: If the company needs to improve in that element of corporate governance.

Weightage as per OECD Principle

Principle	Number of Questions	Weightage (%)
Rights & Equitable Treatment of Shareholders	19	30
Role of Stakeholders	9	10
Disclosure & Transparency	23	30
Responsibilities of the Board	19	30
Total	70	100

Evaluation method under CG Scorecard

The quality of Corporate Governance practices shall be recognised on the basis of following three levels:

- If the company follows global best practices, then 2 points should be given.
- If the company follows reasonable practices or meets

The Indian standard for that element of Corporate Governance, then 1 point should be given.

- If the company needs to improve then zero point should be given.

Based on the final score, companies will be grouped in the following categories:

Score	If the score is 70% or above	If the score is 60% to 69%	If score is 50% to 59%	If the score is less than 50%
Status of Corporate Governance in company	Leadership	Good	Fair	Basic

Calculating CG Score (An Example)

Principle	Questions to be asked	R	M	W	Principle Score
Rights & Equitable Treatment of shareholders	19	26	38	30	21.53
Role of Stakeholders	9	11	18	10	6.11
Disclosure & Transparency	23	34	46	30	22.17
Responsibilities of the Board	19	27	38	30	21.32
Total (CG Score)					70.30

Formula for calculating the principal score: - (R/M) *W

Where R=Marks received based on the response to the question under the principle

M=Maximum possible score for the question under the principle

W = Weight age assigned to the principal

As per this example, Corporate Governance compliance in this case is 70%. So, we can easily assess the quality of Corporate Governance with the help of the Corporate Governance Scorecard.

5. CONCLUSION

Good corporate governance helps companies to create an environment of trust, transparency and accountability, which promotes long-term benefits and supports economic growth and financial stability. Many scams at global level have led the development of corporate Governance at oversees. Although India has been fortunate in not having to go through the massive corporate failures such as Enron and Worldcom, it has not been wanting in its resolve to incorporate better governance practices in the country's corporates emulating stringent international standards. Surprisingly, the initial drive for better corporate governance and disclosures-perhaps as a result of the 1992 stock market scam and the fast-emerging international competition consequent on the liberalisation of the economy began in 1991- came from the confederation of Indian industry and Department of Corporate affairs. Various committees were constituted that recommended stringent guidelines for corporate governance, most of which have been accepted by the government and the market regulator and incorporated under

various laws. In India many initiatives are taken on Corporate Governance from time to time like all the listed companies Furnish a compliance report with stock exchanges. But Satyam scam in 2009 questioned the good governance practices and role of SEBI in India. So, we can say the corporate Governance System still in an evolutionary stage and needs a strict compliance.

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