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The Companies Act, 2013 and its Role in Corporate Governance

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ABSTRACT

Corporate governance provides guidelines for managing and operating businesses. It gives the surety that all the parties of a company, including its shareholders, management, clients, suppliers, and the community are treated fairly and with equality. Companies that practice the concept of corporate governance are more likely to act ethically and responsibly.

In India, the introduction of the Companies Act, 2013, marked a breakthrough. The Companies Act, 1956, was superseded by this new law, which better meets the needs of modern businesses in India. The Companies Act 2013 was intended to modernize corporate governance by implementing updated practices and higher standards. Furthermore, this legislation sought to increase accountability and transparency within businesses by mandating they provide clear and detailed information about their financial activities and operations. Providing such detailed data helps investors and the public make more informed decisions while building trust for businesses more quickly.

The Act also lays down new guidelines for how company boards should operate, mandating independent directors not involved with day-to-day management for each firm. This change ensures decisions are made fairly and with an objective perspective to protect all parties involved.

Additionally, the Companies Act 2013 places emphasis on safeguarding stakeholder rights. It includes provisions designed to ensure smaller shareholders are treated fairly and companies follow ethical practices, creating an equitable and trustworthy business environment. Overall, the Companies Act, 2013 is a vital legislation affecting how Indian companies operate today by creating an ethical framework which fosters openness, accountability and ethical behavior of companies.

I. HISTORY OF CORPORATE GOVERNANCE

Corporate governance refers to the system by which companies are directed and controlled.² It includes rules, practices, and processes designed to ensure fair, transparent, and responsible

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² Hamzah, Z.L., Sulaiman, N.A. and Ismail, M.M., 2026. Overview of Corporate Governance. In *Concepts of Corporate Governance and Public Governance: Building Identity, Brand, Image and Reputation in the Digital Era* (pp. 35-76). Singapore: Springer Nature Singapore.

operations within an organization. Corporate governance governs how decisions are made within a company as well as who makes those decisions and the extent to which the business takes care of its shareholders, employees, customers, etc.

Corporate governance has long been part of corporate life, although not always under that name. It wasn't until the 20th century that modern concepts of corporate governance started taking form.³ The term "corporate governance" was first coined by Robert Ian Tricker in 1984, in a book called *Corporate Governance: Practices, Procedures, and Powers in British Companies and their Boards of Directors*, where he spoke about how companies should be run and managed.

The first set of formal corporate governance rules came from the Cadbury Committee in the United Kingdom in 1992. The committee was led by Sir Adrian Cadbury, and they created a report called the *Cadbury Report*.⁴ This report focused on making companies more responsible and accountable, especially in how they are controlled and how they report their financial information to the public. It is one of the most important documents in the history of corporate governance's history.

Although corporate governance concepts differ considerably across the world, Sir Adrian Cadbury is widely acknowledged for having started the official recognition of corporate governance as a crucial component of business.

II. IMPORTANCE OF CORPORATE GOVERNANCE

Here are a few key reasons why corporate governance is so important:

1. **Transparency:** Corporate governance makes sure that companies share accurate and clear information with their shareholders, employees, and the public.⁵ This includes financial reports, decisions made by the company, and how money is being used. When a company is transparent, it builds trust with everyone involved.
2. **Accountability:** Corporate governance holds companies accountable for their actions. This means that the people who manage the company, like directors and CEOs, are responsible for making decisions that are in the best interest of the company

³ Mazzucato, M. and Collington, R., 2026. *The big con: How the consulting industry weakens our businesses, infantilizes our governments, and warps our economies*. Penguin Group.

⁴ Wijesinghe, D., Perera, D., Bandaranayake, S. and Gunatilake, G., 2026. Lessons from Corporate Scandals: Strengthening Corporate Governance in the Fintech Era. In *The Future of Accounting and Finance: Embracing Technology, Digitalisation, Sustainability, Education, and Employability* (pp. 145-175). Cham: Springer Nature Switzerland.

⁵ Rudolph, M.L. and Aliamutu, K., 2026. Corporate Governance Mechanisms and ESG Disclosure: Evidence from Emerging Financial Markets. *International Journal of Economics and Financial Issues*, 16(1), pp.54-63.

and its shareholders. If something goes wrong, they are held accountable for their actions.

- 3. Protection of Shareholders' Rights:** Shareholders are the owners of a company, and corporate governance ensures that their rights are protected. This means that shareholders get a fair say in the company's decisions and can trust that their investments are being handled responsibly.
- 4. Ethical Practices:** Corporate governance encourages companies to follow ethical practices, meaning that they do the right thing even when it might be difficult. This includes avoiding corrupt practices, treating employees fairly, and respecting the environment.
- 5. Sustainability:** In today's world, companies are expected to think about their long-term impact on society and the environment. Corporate governance helps ensure that companies make decisions that are not just good for business in the short term but also sustainable for the future.

III. CORPORATE GOVERNANCE IN INDIA

Corporate governance has gained importance in India, particularly as the economy of the nation has expanded and more businesses have entered international markets. India has already had several scandals and frauds involving big businesses. These events brought to light the necessity of improved corporate governance to stop power abuse, safeguard investors, and uphold public confidence.

Over time, the Indian government introduced various reforms and regulations to improve corporate governance in the country. In 1999, the Kumar Mangalam Birla Committee was established to develop guidelines for corporate governance in India.⁶ This committee played a key role in creating rules that companies had to follow to ensure fairness, transparency, and accountability in their operations.

In 2013, India introduced the Companies Act, 2013, which was a major step forward in corporate governance. This law included specific rules about how companies should be managed, how they should report their finances, and how they should treat their shareholders. It also introduced the concept of independent directors i.e., people who are not directly involved in managing the company but help to oversee the business operations to make sure everything is being done in a fair manner.

⁶ Reddy, E. and Kumar, S.V., 2026. Corporate Governance and Profitability: A Global Analysis with Evidence from India. *Available at SSRN 6600138*.

India's focus on corporate governance became even more important when Indian companies started competing in international markets. To attract investors from other countries, Indian companies had to show that they followed good governance practices, just like other companies around the globe.

Why Corporate Governance is Important for Companies in India

For companies in India, corporate governance is especially important because of the country's growing economy and increasing participation in global markets. Companies that follow good governance practices are more likely to attract investors, both from within India and abroad. Good corporate governance also helps companies avoid scandals, fraud, and other issues that could damage their reputation.

Here are a few specific reasons why corporate governance is crucial for Indian companies:

1. **Investor Confidence:** Good corporate governance practices help build trust with investors. When investors know that a company is well-managed, transparent, and follows the rules, they are more likely to invest in that company. This is important for Indian companies that want to raise funds from international markets.
2. **Preventing Scandals:** In the past, some Indian companies have faced major scandals due to poor management and lack of transparency. Corporate governance helps prevent these types of incidents by ensuring that companies follow ethical practices and are held accountable for their actions.
3. **Economic Growth:** As India's economy continues to grow, good corporate governance is essential for long-term success. Well-managed companies contribute to the country's economic development by creating jobs, generating wealth, and ensuring stability in the market.
4. **Global Standards:** With Indian companies increasingly doing business with other countries, they need to follow international standards of corporate governance. This helps Indian companies compete on a global level and makes them more attractive to international investors and partners.
5. **Sustainable Development:** Corporate governance encourages companies to think about their impact on the environment and society. As India faces challenges like environmental degradation and social inequality, corporate governance helps ensure that companies take responsibility for their actions and contribute to sustainable development.

Corporate governance is a critical part of how companies are managed and controlled. Starting from Sir Adrian Cadbury's work in the 1990s, the concept of corporate governance has grown to become an essential part of business management worldwide. In India, corporate governance is particularly important as the country's economy continues to expand and Indian companies take on a bigger role in global markets. Companies Act, 2013, plays an essential role in ensuring corporate governance in India.

IV. OVERVIEW OF THE COMPANIES ACT, 2013

The Companies Act, 2013, was introduced to make managing companies in India more modern and effective. It replaced the old Companies Act, 1956 because that law was no longer suitable for the way businesses operate today. The new Act addresses many issues and introduces important changes to improve how companies are governed.

One major modification introduced with the Companies Act 2013 is an emphasis on making companies more transparent.⁷ Companies now must disclose more accurate and detailed information regarding their finances and operations to better inform investors and the public of what is going on inside the company and help make informed decisions accordingly.

Another important change is the introduction of stricter penalties for companies that do not follow the rules. The Companies Act, 2013, has clear and tougher penalties for companies that fail to comply with its requirements. This encourages companies to follow the law and maintain high standards of governance.⁸

The Act also includes provisions for new types of businesses. For example, it introduced the concept of One-Person Companies (OPCs). An OPC is a type of company that can be started and managed by just one person, making it easier for solo entrepreneurs to run their own businesses. This is a big change from the previous law, which required at least two people to start a company.

In addition to these changes, the 2013 Companies Act includes new rules regarding company boards. Companies must now appoint independent directors who aren't involved with day-to-day management to help ensure decisions made are fair and without conflicts of interest.

Overall, India's new Companies Act 2013 seeks to modernize and strengthen corporate governance practices within India by providing new regulations and provisions to increase

⁷ Solanki, S., Sharma, K., Pandey, V.D., Kapila, M., Sinha, R., Singh, S. and Verma, V., 2026. AI Corporate Governance and Legal Accountability: Comparative Indian–International Frameworks. In *Legal Challenges of AI Across Interdisciplinary Sectors* (pp. 1-42). IGI Global Scientific Publishing.

⁸ Ibid.

transparency, strengthen accountability, support various types of businesses and create an atmosphere more suitable for doing business in general. By doing so, it aims to create a more reliable and trustworthy environment for companies to operate in.

A. Key Provisions of the Companies Act, 2013

The Companies Act, 2013, contains rules designed to facilitate business operation in an accountable, transparent fashion. These rules ensure companies meet their responsibilities towards shareholders, employees and the public alike. Here are some of the most provisions of the Act:

1. Corporate Social Responsibility (CSR) [Section 135]

The Companies Act, 2013, makes it mandatory for certain companies to spend some of their profits on social and community projects. If a company has a net worth of ₹500 crore or more, a turnover of ₹1,000 crore or more, or a profit of ₹5 crore or more, it must spend at least 2% of its average net profits over the last three years on CSR activities. These activities can include things like helping people in need, improving education, protecting the environment, and supporting public health. Companies must establish a committee to organize and oversee their CSR activities. In case of non-compliance with CSR provisions, companies may face penalties. These penalties include:

- A fine of minimum ₹50,000 but up to ₹25 lakh for the company
- Imprisonment of up to 3 years, a fine of at least ₹50,000 but up to ₹5 lakh, or both for the company's defaulting officer.

The Companies Act, 2013, introduced a special type of business called a One Person Company (OPC). This allows just one person to form a company. OPC is a hybrid business structure that combines the benefits of a sole proprietorship and a company.

It's helpful for small business owners who don't want to involve other shareholders to run a business. However, if the company grows too large (with a capital over ₹50 lakh or a turnover over ₹2 crore), it must convert to a private or public company.

2. Independent Directors [Section 149(6)]

Certain large companies are required to have independent directors on their boards. These are individuals who have no personal stake in the business and are not associated with its owners or management. Their responsibility is to ensure that the business is operated honestly and that no decisions are being made that could negatively impact the company or its shareholders. They aid in ensuring that decisions are made with the interests of all parties—not just those in

authority—in mind.

3. Audit Committees [Section 177]

An audit committee is a group of people that checks a company's financial records and makes sure everything is accurate. Large companies are required to have audit committees. These committees must have at least three members, and most of them should be independent directors. One of the members should have knowledge of finance.

The audit committee's job is to:

- Review the company's financial statements,
- Ensure the company is following the law,
- Oversee the company's internal financial controls,
- Approve deals between the company and related parties (like a director's family members).

4. Whistleblower Protection [Section 177(9) and (10)]

The Act protects employees and directors who report wrongdoing within the company. If someone sees something unethical or illegal happening in the company, they can report it under a whistleblower policy, and they will be protected from being punished or fired for speaking out. This encourages employees to report problems without fear.

5. Women Directors [Section 149(1)]

To promote gender diversity, the Act requires certain companies to have at least one woman on their board of directors. This rule applies to companies that are:

- Listed on stock exchanges, or
- Public companies with a turnover of ₹300 crore or more, or
- Companies with a paid-up capital of ₹100 crore or more.

This ensures that women have leadership roles in companies and that their perspectives are included in decision-making.

6. National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT) [Sections 407-434]

The Act set up special courts called National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT) to handle company-related disputes. These courts deal with things like:

- Winding up of a company,
- Corporate restructuring (like mergers),
- Mismanagement,
- Investigating companies accused of wrongdoing.

These tribunals make it faster and easier to resolve company disputes without involving the regular courts.

7. Board Committees [Section 178]

The Act requires large companies to have two important committees:

- **Nomination and Remuneration Committee:** This group chooses the best people to serve on the company's board and decides how much they should be paid.
- **Stakeholders Relationship Committee:** This group handles complaints and issues from shareholders and others who are affected by the company's actions.

These committees make sure that the people running the company are chosen fairly and that stakeholders are treated properly.

8. Stricter Financial Reporting [Sections 128-138]

The Act has tough rules to ensure companies are honest about their finances. Key rules include:

- **Keeping Financial Records:** Companies must keep detailed financial records for at least eight years.¹¹
- **Internal Audits:** Large companies must have an internal audit, where an expert checks their financial systems and reports.
- **Rotation of Auditors:** Companies must change their auditors (the people who check the company's finances) every five or ten years. This prevents auditors from becoming too familiar with the company and ensures that audits are impartial.

These rules help prevent fraud and ensure financial accuracy.

9. Related-Party Transactions [Section 188]

Sometimes companies do business with people closely connected to the company, like a director's family members. These are called related-party transactions. The Act makes sure these deals are fair by requiring companies to get approval from the board or shareholders

before going ahead. The details of such transactions must be made public so that shareholders can see if the deal was fair. This helps prevent conflicts of interest and protects the rights of all shareholders.

10. Annual General Meeting (AGM) [Section 96]

Companies are required to hold an Annual General Meeting (AGM) every year where shareholders can discuss the company's performance, approve its financial reports, and make important decisions. The AGM must happen within six months of the company's financial year ending.

11. Financial Year [Section 2(41)]

The Act introduced a rule that all companies in India must follow the same financial year, which runs from April 1 to March 31. This makes it easier for the government and others to compare financial reports from different companies and check if they're following the rules.

These are the key parts of the Companies Act, 2013. They ensure that companies in India act responsibly, are transparent about their activities, and treat shareholders and other stakeholders fairly. By following these rules, companies can build trust and run smoothly.

V. KEY AMENDMENTS AND RULES IN THE COMPANIES ACT, 2013

Since the Companies Act, 2013, came into effect, many changes have been made to it over the years. These changes, called amendments, have been introduced to make businesses run more smoothly, follow better rules, and align with global standards of corporate governance. Corporate governance means the way companies are managed, how they treat their employees and shareholders, and how they are held responsible for their actions. By improving these laws, companies in India are better able to follow rules, be fair, and keep things transparent.

2015 Amendment

The Companies (Amendment) Act, 2015 was one of the first major updates to the Companies Act, 2013. This amendment focused on reducing the compliance burden, or the number of rules and regulations, that small companies and startups had to follow.⁹ This change was important because many new and small businesses were finding it hard to follow the strict rules designed for big companies.

One of the key changes brought about by this amendment was related to paid-up capital, or money that a company raises from shareholders, and how small businesses were no longer

⁹ Kamal, Y., 2026. Impact of Government Policies on Business Environments in India.

required to abide by stringent paid-up capital rules.

Another significant adjustment involved Corporate Social Responsibility (CSR) rules which ask companies to spend part of their profits on activities like education, healthcare and environmental protection; CSR regulations became less stringent for smaller businesses giving them greater flexibility - creating an ideal environment for small companies to thrive while still contributing towards society.

2017 Amendment

The Companies (Amendment) Act, 2017 introduced more important changes, making it easier for companies to do business in India.¹⁰ One of the main goals of this amendment was to improve corporate governance by making companies more transparent and accountable.

For private companies, some compliance requirements were relaxed. This means that private companies now had fewer rules to follow, which made it easier for them to manage their operations. The amendment also reduced penalties for minor mistakes or small rule violations, encouraging companies to stay compliant without being overly punished for small errors.

Another key feature of this amendment was the emphasis on transparency, especially when it came to paying high-ranking company officials, like CEOs and managers. The amendment made sure that companies clearly showed how much they were paying their top executives.

Additionally, the amendment addressed "related-party transactions," which are deals between the company and people connected to it, like owners or relatives.¹¹ By making the rules around these transactions clearer, the amendment ensured that companies acted fairly in their business dealings.

2019 Amendment

The Companies (Amendment) Act, 2019 focused on stricter penalties for companies and their directors if they didn't follow the law properly. This amendment reinforced the rules strictly, especially when it came to financial reporting and corporate filings.

One of the major changes in this amendment was in Corporate Social Responsibility (CSR). It made CSR spending mandatory. If companies didn't spend the required amount on CSR

¹⁰ De, R., 2026. The Political Economy of Reform: A Comparison of Institutional Mechanisms Introduced by the UPA and NDA Governments. In *India's Political Economy@ 75: Opportunities & Challenges of Development* (pp. 71-86). Singapore: Springer Nature Singapore.

¹¹ Singh, R., Chauhan, Y. and Jadiyappa, N., 2026. The Cost of Related Party Transactions and the Intensity of Related Party Transactions: Evidence from Creditor Rights Reform. *Journal of Business Finance & Accounting*, 53(1), pp.5-31.

activities, they had to transfer the unspent money to specific government accounts. This ensured that companies took their social responsibility seriously and contributed to the well-being of society.

The amendment also introduced stricter penalties for companies that didn't follow the law, especially when it came to disclosing financial information. This pushed companies to be more transparent in their financial dealings. At the same time, the amendment made compliance easier by decriminalizing some minor offenses. This meant that companies wouldn't face criminal charges for small mistakes, allowing them to focus more on growing their business without worrying about harsh legal consequences for minor issues.

2020 Amendment

The Companies (Amendment) Act, 2020 was another step towards making business operations smoother and more transparent. One of the key changes was the removal of criminal liability for technical defaults. This means that companies wouldn't face criminal charges for small, unintentional mistakes in paperwork or other minor rule violations.

The role of independent directors became more important under this amendment. Independent directors are not part of the company's management but help oversee the company's actions to make sure everything is fair and transparent.¹² The amendment increased their responsibilities, especially in overseeing the company's financial activities and managing risks. This helped companies become more accountable and improved governance.

Additionally, the amendment introduced stricter rules about who owns shares in the company. Companies had to provide detailed information about their major shareholders, which improved transparency and helped prevent fraud or unethical practices.

2024 Amendment

Companies (Compromises, Arrangements, and Amalgamations) Amendment Rules, 2024 introduced new rules about mergers and amalgamations involving foreign holding companies and their Indian subsidiaries. The new rule required both companies to get approval from the Reserve Bank of India (RBI) before merging. This ensured that cross-border mergers followed both Indian laws and global standards. It also brought more clarity to the process, helping companies understand the rules better.

All these amendments to the Companies Act, 2013, have helped make Indian businesses more

¹² Kamara, A.K. and Bendu, D.A., 2026. *Fundamental Issues in Corporate Governance: Theory, Practice, and Global Developments*. IPR Journals and Book Publishers.

transparent, responsible, and aligned with global practices.

By reducing compliance burdens, promoting transparency, protecting investors, and encouraging responsible business practices, the amendments have made corporate governance stronger in India. This ensures that companies not only focus on profits but also contribute positively to society and the economy.

VI. IMPACT OF THE COMPANIES ACT, 2013 ON CORPORATE GOVERNANCE

The Companies Act 2013 has catalyzed an unprecedented transformation in corporate governance in India by emphasizing transparency, accountability and responsibility - changing how businesses operate while guaranteeing they act in their stakeholders' best interest. Corporate governance involves finding an equilibrium among various parties involved with a company - shareholders, managers, employees, customers and suppliers, plus any potential members of the local community who might affect it.

The Companies Act, 2013, introduced various provisions aimed at increasing transparency, accountability and protecting stakeholder interests. This law provided much-needed upgrades from its predecessor - 1956's Companies Act - reflecting both Indian and global corporate environments which had changed substantially in recent decades. It provides for the following:

1. Transparency

Transparency is one of the central pillars of corporate governance, and the Companies Act, 2013, significantly enhanced transparency in the corporate world by

a. Financial Reporting and Disclosure

The Act mandates stricter requirements for financial reporting and public disclosures. Companies are now required to present their financial statements in accordance with the accounting standards notified by the government. This has ensured uniformity in financial reporting across companies, making it easier for stakeholders to understand and compare financial performance.

Additionally, the Act introduced the concept of consolidated financial statements (CFS). Companies with subsidiaries must now present their financial statements along with those of their subsidiaries, ensuring transparency in how group companies operate.

The Act also strengthened auditor independence. It mandates the rotation of auditors every five years to prevent undue influence and maintain the integrity of financial statements. This provision discourages long-standing relationships between auditors and companies that could

lead to compromised audits.

b. Disclosure of Related Party Transactions

Another crucial change introduced by the Act relates to the regulation of related-party transactions. Related-party transactions are deals between the company and entities closely associated with its directors or management, which can sometimes lead to conflicts of interest. The Companies Act, 2013, requires companies to seek approval from their board or shareholders for significant related-party transactions, and these transactions must be disclosed in the company's financial statements. This provision prevents any undue advantage being taken by insiders and promotes fairness in how the company conducts its business.

c. Annual Return and Board Report

The Companies Act, 2013, expanded the scope of what companies must disclose in their annual return and board report.¹³ The board report must now include more detailed information about the company's performance, risks, and outlook. For instance, directors are required to declare that they have taken proper care to ensure compliance with all legal and regulatory obligations. Such disclosures promote transparency and help shareholders understand the risks and strategies of the company.

2. Improved Board Practices

The Act significantly improved corporate governance through reforms related to the composition and functioning of company boards. It brought about a more accountable, professional, and transparent system for board governance, ensuring that companies are directed and controlled more effectively.

a. Appointment of Independent Directors

One of the most significant reforms was the establishment of independent directors. Under the Act, certain classes of companies must comprise at least one-third of their board with independent members who are unconnected to either management or major shareholders, thus providing impartial oversight and making decisions in accordance with all stakeholders, not simply those with majority ownership.

Independent directors must participate in key board committees like the audit, nomination and remuneration and stakeholders' relationship committees to provide objective oversight in key areas such as executive compensation, financial reporting and corporate strategy; thus,

¹³ Chatterjee, B. and Mitra, N., 2026. Corporate Social Responsibility in India: Pathways to National Development and Global Leadership. *Transformational Management Review*, 1(01), pp.14-38.

minimizing conflicts of interest risks.

b. Board Committees

The Act introduced mandatory board committees to further improve corporate governance practices. These include:

- i. **Audit Committee:** Responsible for overseeing financial reporting, internal controls, and audit processes. It plays a crucial role in ensuring that the financial statements of the company are accurate and that the company is compliant with legal requirements.
- ii. **Nomination and Remuneration Committee:** Ensures that the company hires the right people for leadership roles and that their remuneration is fair and aligned with company performance.
- iii. **Stakeholders Relationship Committee:** Responsible for addressing grievances of shareholders and other stakeholders, ensuring that their concerns are heard and acted upon. The formation of these committees, especially with the involvement of independent directors, has strengthened

corporate governance by ensuring that companies are managed with greater oversight, transparency, and accountability.

c. Performance Evaluation of the Board

The Act requires that the performance of the board of directors, including independent directors, be formally evaluated. This practice of performance evaluation ensures that directors are held accountable for their actions and are contributing to the company's growth and governance. The evaluation process also identifies areas where directors can improve, ensuring continuous development and better corporate governance.

3. Corporate Social Responsibility (CSR)

The introduction of Corporate Social Responsibility (CSR) under Section 135 of the Companies Act, 2013, is one of the most innovative and impactful reforms in corporate governance. The CSR provision made it mandatory for companies with a net worth of ₹500 crore or more, a turnover of ₹1,000 crore or more, or a net profit of ₹5 crore or more, to spend at least 2% of their average net profits from the previous three years on CSR activities.

a. Contribution to Society

CSR requirements have encouraged companies to invest in activities that contribute to society, such as promoting education, enhancing environmental sustainability, supporting healthcare initiatives and helping communities. By formalizing CSR activities within their Companies Act requirements, it has made clear that corporations are not just accountable to shareholders but also accountable to society at large.

b. Transparency in CSR Spending

The Act mandates that companies disclose their CSR policy, the amount they have spent on CSR activities, and the reasons for any shortfall in spending. This ensures transparency and accountability in how companies contribute to society, enhancing the trust that stakeholders and the community place in them. CSR has become a fundamental part of corporate governance in India, promoting ethical business practices and helping companies play an active role in the development of the country.

4. Protection of Minority Shareholders

The protection of minority shareholders is a vital part of corporate governance. The Companies Act, 2013, introduced several provisions that aim to safeguard the interests of minority shareholders and ensure that they are not overpowered by the majority shareholders.

a. Related-Party Transactions

One of the ways the Act protects minority shareholders is by regulating related-party transactions. As previously discussed, these are transactions between the company and individuals or entities closely associated with its directors or management. By requiring shareholder approval for significant related-party transactions, the Act ensures that they are fair and don't favor insiders over other shareholders.

b. Class Action Suits

India's Companies Act, 2013, marked a historic step forward by introducing the concept of class action suits - which allow groups of shareholders or depositors to pursue legal action against the company or its directors if they feel their rights have been violated by minority shareholders, for any wrongdoing, mismanagement, or oppression by the majority. Minority shareholders can seek relief against wrongdoing from majority shareholders through this provision.

c. Voting Rights and E-Voting

The Act also enhanced the voting rights of shareholders. Companies are now required to provide e-voting facilities for certain resolutions, ensuring that shareholders who cannot attend meetings physically can still participate in decision-making. This reform has strengthened the

democratic process within companies and allowed minority shareholders to have a voice in important corporate decisions.

The Companies Act, 2013, introduced stricter penalties for violations of corporate governance rules. The penalties apply to both companies and individual directors who fail to comply with the provisions of the Act. For instance, failing to maintain proper financial records or providing false information can lead to significant fines and even imprisonment for those responsible.

d. National Company Law Tribunal (NCLT)

The establishment of the National Company Law Tribunal (NCLT) and the National Company Law Appellate Tribunal (NCLAT) under the Companies Act, 2013, has significantly improved the enforcement of corporate governance rules. These specialized tribunals handle matters related to company law, ensuring faster and more effective resolution of disputes. The NCLT hears cases related to the oppression and mismanagement of companies, mergers and acquisitions, and shareholder disputes.

e. Vigil Mechanism and Whistleblower Protection

Section 177 of the Act mandates that companies establish a vigil mechanism to enable employees and directors to report concerns about unethical behavior, fraud, or violations of company policies. This whistleblower protection ensures that individuals who expose wrongdoing within the company are not subject to retaliation. This mechanism is crucial for maintaining the integrity of corporate governance and promoting a culture of transparency and accountability.

5. Women Directors and Gender Diversity

The Companies Act, 2013, made it mandatory for certain classes of companies to have at least one woman director on their board. This requirement was introduced to promote gender diversity in corporate leadership, recognizing the importance of different perspectives in decision-making.

VII. JUDICIAL RESPONSE

Failures in governance are growing more frequent as organizations get larger and more intricate to satisfy the ever-changing needs of society and the consumer. Here are some major corporate governance malpractice cases in India, explaining how the Companies Act 2013 was violated and what the final judgments were.

1. Yes Bank Case (2020-2024)

Violation of Companies Act 2013: Yes Bank, under the leadership of CEO Rana Kapoor, was accused of offering loans to businesses in exchange for kickbacks. This was a violation of Section 166 of the Companies Act, which requires directors to act in the best interest of the company and shareholders. Kapoor allegedly used his position for personal gain, which is against the ethical and legal duties of directors.

Final Judgment: In 2023, Kapoor was sentenced to a long jail term and fined heavily by the Enforcement Directorate. The court ruled that Kapoor had breached his fiduciary duty, engaging in corrupt practices that harmed Yes Bank's financial stability. The court also implemented stricter monitoring mechanisms to ensure that such violations do not occur again. After spending four years in jail, he was granted bail and released from the prison in April 2024.

2. Dish TV vs. Yes Bank Case (2022)

Violation of Companies Act 2013: In this case, Yes Bank had a significant stake in Dish TV and called for the removal of Dish TV's CEO Jawahar Goel. The bank accused Goel of mismanagement and corporate governance failures, in violation of Sections 241 and 242, which cover oppression and mismanagement by the board of directors

Final Judgment: In 2022, the National Company Law Tribunal (NCLT) ruled that the shareholders, including Yes Bank, had the right to raise concerns about Dish TV's corporate governance. The NCLT ordered Dish TV to address governance issues, particularly regarding transparency and proper management, to protect shareholders' interests.

3. Future Retail and Amazon Case (2021-2022)

Violation of Companies Act 2013: Future Retail's decision to sell its assets to Reliance Industries was challenged by Amazon, claiming it violated a contractual agreement. This case raised concerns about Section 230 of the Companies Act, which deals with compromise and arrangements with creditors and members. The lack of proper communication with stakeholders was highlighted as a corporate governance issue.

Final Judgment: The case dragged on for months, but in 2022, the Supreme Court of India ruled in favor of Amazon, stating that Future Retail had violated the terms of its agreement. The court emphasized that companies must adhere to the rules of fair and transparent governance as set by the Companies Act and other corporate laws.

4. Tata Sons vs. Cyrus Mistry (2021)

Violation of Companies Act 2013: Cyrus Mistry, the chairman of Tata Sons, was removed from his job. He said this was unfair to him and other smaller shareholders in the company. He took the matter to court, claiming it violated the rules of the Companies Act, 2013. Mistry said his removal broke the law because it was bad for minority shareholders and went against Section 166, which says directors must act in the company's best interest.

Final Judgment: The Supreme Court decided that Tata Sons was right to remove Mistry, and there was no proof of mismanagement or unfair treatment.

5. Delhi Gymkhana Club vs. Union of India (2021)

Violation of Companies Act 2013: The Government of India said the people running the Delhi Gymkhana Club were not following proper rules and were acting against public interest, so they took the case to the National Company Law Tribunal.

Final Judgment: The NCLT ruled in favor of the Union of India and concluded that the Delhi Gymkhana Club's management was not functioning in compliance with corporate governance principles. As a result, the tribunal ordered that the existing management of the club be replaced with a government-nominated administrator, who was tasked with running the club's affairs. This decision was made to ensure proper governance and transparency moving forward, in line with the provisions of the Companies Act, 2013.

These cases show how important it is for companies to follow the rules of the Companies Act, 2013 to make sure business is fair and honest. Only by doing this can companies have good corporate governance.

VIII. CONCLUSION

The Companies Act, 2013 has made a profound change to how business is done in India. Before its passage, there were few rules in place to ensure businesses were honest and responsible; but since its passage things have greatly improved - especially about being more transparent with finances. One key component is now having companies release more financial data so everyone can view what's going on - which helps people who invest or work with these firms make informed decisions while trusting that the organization is honest.

Independent directors represent another big shift. These individuals should not have any involvement with running the daily operations of a company and don't own shares; their job is to offer impartial oversight that ensures decisions made are in the best interests of all involved, not just those at the top.

The Act also introduced Corporate Social Responsibility (CSR), or helping companies address social and environmental issues. Now, companies must spend part of their profits on activities that improve society such as supporting education, health care and the environment - this helps increase companies' corporate responsibility while strengthening communities.

Additionally, the Act has tightened up financial rules significantly; companies must adhere to stringent reporting requirements when reporting finances and must have their accounts audited regularly by auditors to prevent fraud and ensure accurate and reliable information is shared by companies. This helps prevent financial information that companies share being falsified.

As India becomes more influential globally, the Companies Act, 2013, will continue to play an essential role. It helps ensure companies operate in a fair, transparent, and responsible manner - essential elements for building trust among investors and society. By providing clear rules and accountability measures under this act, all stakeholders can feel more assured.
