


Chapter 14

Corporate Governance Reforms Driving Sustainable Business Practices in India

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ABSTRACT

Corporate governance is a fair and transparent mechanism that ensures long-term shareholder value that benefits all other stakeholders, including society. Over the years, various corporate scams and frauds have led to legislative and regulatory changes and the adoption of better governance practices across the globe. These events brought to light issues such as financial mismanagement, CEOs' misconduct, inadequate regulatory frameworks, weak enforcement mechanisms, etc., underscoring corporate governance's role and its alignment with international standards. Therefore, this paper aims to study India's various reforms, significant legislations, and regulations to improve corporate governance mechanisms. In addition, it explores the influence of corporate governance in achieving various SDG goals, illustrated

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through case studies. The chapter also underscores the challenges and prospects associated with corporate governance within India, alongside the ongoing initiatives to align corporate standards with international benchmarks.

1. INTRODUCTION

The concept of governance is as ancient as the advent of human civilization. Governance is concerned with making decisions and implementation of such decisions. It involves the formal and the informal players involved in the decision-making and implementation of the decisions. Corporate governance emerged due to the issues emerging out of the agency theory concept, which states that the principal (shareholders) is the entity that delegates work to the agent (directors), who is responsible for performing the activities and tasks of the organization. It also originated due to the stewardship theory, which assumes that the interests of managers and shareholders are aligned and converge in the organization's long-term success. Stewardship theory promotes ethical, responsible, and sustainable business practices.

Corporate governance refers to the set of rules, known as policies, procedures, and guidelines, that control the operations of a business enterprise. This is because the business must consider the stakeholder interests to ensure accountability, justice, and openness to prevent negative interactions between the management, the board, and stakeholders (Arslan & Alqatan, 2020; OECD, 2015). It is a fair and transparent instrument to safeguard long-term shareholder value that advances all other stakeholders, including society. Several legal and regulatory changes have been made because of corporate scams and fraud. This further led to the adoption of better governance procedures worldwide (Fernando, 2017).

The significance of corporate governance can also be depicted in the economic reforms of 1991, when India, being a closed economy, shifted to liberalization, privatization, and globalization (LPG). Several needs of the Indian economy were met through these reforms. For instance, reducing poverty, increasing the economy's growth rate, increasing foreign investment, etc. The changing aspects of the global markets further enhanced the expectations of the shareholders and other stakeholders, contributing to developing India's corporate governance framework (Shleifer & Vishny, 1997).

As pointed out by Khanna and Palepu (2000), integration of the Indian economy with the world economy meant that companies had to adopt governance structures that were consistent with best practices internationally. Further, two major accounting scandals, Enron and WorldCom in the United States in the early 2000s, shook the entire corporate world and economies worldwide. These events highlighted financial mismanagement, CEOs' misconduct, inadequate regulatory frameworks,

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