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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal provide dedicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

CORPORATE GOVERNANCE MECHANISMS IN MODERN COMPAINES

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ABSTRACT

Corporate governance mechanisms play a vital role in ensuring accountability, transparency, and ethical conduct within modern companies. These mechanisms provide a structured framework through which corporate objectives are achieved while safeguarding the interests of stakeholders, including shareholders, employees, creditors, and the public. In contemporary business environments marked by globalization, technological advancements, and complex regulatory systems, effective governance mechanisms such as board structure, audit committees, disclosure norms, independent directors, and risk management systems help maintain corporate integrity and investor confidence. They also minimise conflicts of interest, prevent managerial misuse of power, and enhance corporate performance. Regulatory frameworks like the Companies Act, 2013 and SEBI guidelines in India further strengthen these mechanisms by mandating compliance and promoting best governance practices. Overall, corporate governance mechanisms not only facilitate sustainable business growth but also contribute to a company's long-term value creation and trustworthiness in the competitive global marketplace.

Keywords: Corporate Governance, Board Structure, Audit Committee, Transparency, SEBI, Companies Act 2013, Stakeholder Protection, Ethics, Risk Management.

INTRODUCTION

Corporate governance has emerged as a cornerstone of modern corporate functioning, shaping the manner in which companies are directed, controlled, and held accountable. In an era characterized by rapid globalization, digital transformation, and increasing stakeholder expectations, the need for strong governance practices has become more critical than ever.

Corporate governance mechanisms act as strategic tools to promote transparency, fairness, and ethical decision-making within organizations. They establish checks and balances that prevent the misuse of corporate power and ensure that managerial actions align with the long-term interests of shareholders and other stakeholders.

Modern companies operate in complex regulatory and competitive environments, making governance mechanisms essential for fostering investor confidence, mitigating risks, and enhancing corporate sustainability. Frameworks such as board oversight, independent directors, internal controls, audit systems, and comprehensive disclosure norms collectively shape responsible corporate behaviour. In the Indian context, statutory reforms under the Companies Act, 2013 and SEBI regulations further reinforce the governance landscape by mandating enhanced compliance and accountability. Thus, corporate governance mechanisms serve as a vital foundation for strengthening corporate credibility, ensuring ethical management, and promoting sustainable economic growth.

CONCEPT OF CORPORATE GOVERNANCE

Corporate governance refers to the system of rules, practices, processes, and structures through which a company is directed, managed, and controlled¹. It establishes the framework that defines the relationship between the company's management, its board of directors, shareholders, and other stakeholders. The core idea of corporate governance is to ensure that companies operate in a transparent, accountable, and ethical manner while pursuing their financial and strategic objectives². At its foundation, corporate governance aims to balance the interests of various stakeholders, employees, customers, creditors, regulators, and society at large. It ensures that decision-making within the company is not concentrated in the hands of a few individuals, thereby preventing misuse of power and reducing conflicts of interest. Good governance promotes efficiency, strengthens investor trust, facilitates access to capital, and enhances the company's long-term performance and sustainability³.

Modern corporate governance has evolved in response to major corporate scandals, economic liberalization, and globalisation⁴. With increasing regulatory scrutiny and stakeholder

¹ Bob Tricker, *Corporate Governance: Principles, Policies and Practices*, Oxford University Press, 2019.

² Cadbury Committee, *Report on the Financial Aspects of Corporate Governance*, 1992.

³ Christine A Mallin, *Corporate Governance*, Oxford University Press, 2019.

⁴ Fernando, A.C. *Corporate Governance: Principles, Policies and Practices*, Pearson Education, 2021.

expectations, companies today are required to adopt strong governance mechanisms such as independent boards, internal controls, disclosure standards, risk management systems, and ethical conduct frameworks. Thus, the concept of corporate governance goes beyond legal compliance it represents a commitment to responsible management, integrity, and sustainable corporate growth⁵.

STRUCTURAL BASE OF CORPORATE GOVERNANCE IN MODERN COMPANIES

The structural base of corporate governance in modern companies consists of the institutional and organizational frameworks that guide how corporations are directed, monitored, and controlled⁶. This structure ensures that decision-making power is effectively distributed and that management remains accountable to shareholders and other stakeholders. The foundation of this structural base begins with the **Board of Directors**, which serves as the apex body responsible for strategic supervision, policy formulation, and oversight of managerial functions. A balanced board comprising executive, non-executive, and independent directors forms the core structure that promotes objectivity, reduces conflicts of interest, and enhances transparency in corporate affairs⁷.

Another essential structural component is the **Board Committees** which including the Audit Committee, Nomination and Remuneration Committee, and Corporate Social Responsibility Committee—which specialize in specific governance functions. These committees strengthen internal monitoring mechanisms and ensure compliance with legal and ethical standards. The **Internal Control System**, consisting of internal audits, risk management frameworks, and compliance mechanisms, further supports the structural base by detecting irregularities and enhancing operational accountability⁸.

In modern corporations, regulatory frameworks such as the **Companies Act, 2013**, SEBI (Listing Obligations and Disclosure Requirements) Regulations, and globally recognized governance codes (OECD Principles, UK Corporate Governance Code) form the external

⁵ Shleifer, Anderi & Vishny, Robert: A Survey of Corporate Governance, The Journal of finance, Vol 52 No.2, 1997.

⁶ Supra Note at 1.

⁷ OECD, Principles of Corporate Governance, OECD Publishing, 2015.

⁸ Supra Note at 3.

structural pillars that reinforce corporate governance practices⁹. Together, these internal and external structures constitute a robust governance architecture that promotes corporate integrity, investor protection, and long-term sustainability.⁷

STAKEHOLDER ENAGEMENT IN MODERN COMPANIES

Stakeholder engagement has become a central pillar of corporate governance in modern companies, reflecting the shift from a shareholder-centric model to a broader stakeholder-oriented approach¹⁰. Stakeholders include individuals or groups that are affected by or have an influence on a company's operations such as employees, customers, suppliers, creditors, investors, regulators, and the community.² Engaging these stakeholders promotes transparency, enhances trust, and ensures that corporate decisions reflect ethical, social, and environmental considerations.

Modern companies adopt structured engagement strategies such as employee participation programs, customer feedback mechanisms, supplier audits, and community development initiatives to strengthen relationships with various stakeholder groups¹¹. Effective engagement helps companies identify potential risks, improve decision-making, and enhance their long-term sustainability. It also contributes to responsible corporate behavior by aligning business objectives with societal expectations, especially in the context of environmental, social, and governance (ESG) standards.¹²

In India, statutory frameworks under the Companies Act, 2013, Corporate Social Responsibility (CSR) provisions, and SEBI (LODR) Regulations mandate companies to recognize and engage stakeholders as part of routine governance practices. Globally, governance principles issued by OECD and ICGN emphasize stakeholder inclusiveness as a vital element of modern corporate governance¹³. Thus, stakeholder engagement not only strengthens corporate accountability but also contributes to sustainable development and long-

⁹ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015: Companies Act 2013: ICGN Global Governance Principles (International Corporate Governance Network).

¹⁰ Freeman, R Edward, Strategic Management: A Stakeholder Approach, Cambridge University Press, 2010.

¹¹ Crane, Andrew: Matten Drik, Business Ethics, oxford University Press, 2019.

¹² Eccles, Robert: Loannis The Impact of Corporate Sustainability on Organizational Process and performance, Management Science, 2014.

¹³ Financial Conduct Authority (UK): US Securities and Exchange Commission (SEC), <https://www.sec.gov>. (Last visited on 27th Nov 2025 @ 10:00 Am).

term value creation¹⁴.

REGULATORY MECHANISMS

Regulatory measures constitute the legal and institutional framework that ensures companies adhere to transparency, accountability, and ethical standards in their operations. These measures act as a safeguard against managerial misconduct, corporate fraud, and misuse of power, thereby protecting shareholders and promoting market integrity. Over the years, corporate governance regulations have strengthened globally due to financial scandals, economic reforms, and increased investor expectations¹⁵.

In India, the **Companies Act, 2013** is the cornerstone of corporate governance regulation. It introduced mandatory provisions on independent directors, audit committees, board diversity, Corporate Social Responsibility (CSR), vigil mechanism, and stricter disclosure requirements.³ The Act also enforces accountability through Section 166 (duties of directors) and Section 177 (audit committees). Judicial interpretation has reinforced these provisions, as seen in *Tata Consultancy Services v. Cyrus Investments (2021)*, where the Supreme Court emphasized adherence to corporate governance norms and board responsibilities.¹⁶

Alongside this, the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015** prescribe comprehensive governance norms for listed companies. These include mandatory disclosures, related-party transaction controls, whistleblower protections, and enhanced monitoring by audit committees¹⁷. SEBI's regulatory actions in cases such as the *Satyam Computer Services Scam (2009)* led to stricter oversight on financial reporting and auditing practices.¹⁸

Internationally, frameworks such as the **OECD Principles of Corporate Governance**, the **UK Corporate Governance Code (2018)**, and the U.S. **Sarbanes–Oxley Act (2002)** set global standards for corporate accountability¹⁹. The Sarbanes–Oxley Act was enacted following the *Enron (2001)* and *WorldCom (2002)* scandals, which exposed major failures in

¹⁴ Mallin, Christine A. *Corporate Governance*, Oxford University Press, 2019.

¹⁵ Ibid.

¹⁶ *Tata Consultancy Services Ltd v. Cyrus Investments Pvt Ltd*, 2021 SCC Online SC 318.

¹⁷ SEBI (LODR) Regulations, 2015.

¹⁸ *Satyam Computer Services Ltd Fraud case (2009)*: CBI Charge sheet and SEBI orders on Satyam.

¹⁹ OECD, *Principles of Corporate Governance*, OECD Publishing 2015; UK Corporate Governance Code, 2018, Sarbanes Oxley Act, 2002.

financial reporting and internal controls²⁰. These global cases significantly shaped modern regulatory norms, influencing countries worldwide, including India.

Together, these regulatory measures—both domestic and global—provide a strong governance framework that ensures ethical management, protects investor interests, and fosters long-term corporate sustainability²¹.

CONCLUSION

Corporate governance in modern companies has evolved into a multidimensional framework that promotes ethical conduct, managerial accountability, and long-term corporate sustainability. It is no longer confined to mere compliance with statutory provisions but has expanded to include voluntary best practices, stakeholder engagement, and global governance standards. The collective structure comprising the board of directors, board committees, internal controls, and regulatory frameworks ensures that companies operate transparently and responsibly in an increasingly complex business environment. The rise of corporate scandals worldwide has demonstrated that strong governance is essential for maintaining investor confidence and ensuring market stability. Regulatory interventions such as the Companies Act, 2013, SEBI (LODR) Regulations, and international standards like OECD Principles or the Sarbanes–Oxley Act play a crucial role in shaping corporate behaviour and preventing systemic risks. Moreover, the inclusion of stakeholders and ESG considerations reflects a shift toward a more inclusive and socially responsible corporate model.

Ultimately, effective corporate governance is fundamental to sustainable economic development. It strengthens trust among stakeholders, enhances organizational performance, and ensures that corporate power is exercised with integrity and accountability. As global business dynamics continue to evolve, companies must adopt a proactive governance culture that aligns with both legal requirements and ethical expectations, thereby contributing to corporate excellence and societal well-being.

²⁰ Enron Corporate Securities Litigation, 235 F.Supp.2d 549 (S.D. Tex 2002); In re Worldcom, Inc, 368 B.R. 732 (S.D.N.Y., 2007).

²¹ Supra Note at 14.