

Review of the Evolution of Indian Corporate Governance with Special Reference to the Functioning of the Company Law Board

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Abstract: *Indian corporate governance has undergone significant transformation from a regulation-driven, state-controlled framework to a more transparent, investor-oriented, and globally aligned system. A major institutional mechanism in this evolution was the Company Law Board (CLB), which functioned as a quasi-judicial body under the Companies Act, 1956. The CLB played a crucial role in resolving corporate disputes, protecting minority shareholder rights, and ensuring compliance with corporate governance norms. However, with globalization, liberalization, and increasing corporate complexity, limitations in the CLB's structure and functioning became apparent, leading to its replacement by the National Company Law Tribunal (NCLT) under the Companies Act, 2013. This review paper examines the evolution of Indian corporate governance with special emphasis on the CLB's role, functions, effectiveness, challenges, and its contribution to shaping modern corporate regulatory mechanisms in India*

Keywords: Corporate Governance, Company Law Board, India, Minority Shareholders, Companies Act, SEBI, NCLT, Corporate Regulation.

I. INTRODUCTION

Corporate governance refers to the system by which corporations are directed and controlled, emphasizing accountability, transparency, fairness, and responsibility. In India, corporate governance has evolved through legislative reforms, regulatory bodies, and judicial interventions.

The roots of Indian corporate governance lie in the Companies Act, 1956, which laid the foundation for corporate regulation. However, with increasing corporate frauds, mismanagement, and shareholder disputes, the need for a specialized adjudicatory body led to the establishment of the Company Law Board (CLB) in 1988.

The CLB acted as a quasi-judicial authority to resolve corporate disputes efficiently outside traditional courts. Over time, reforms introduced under the Companies Act, 2013 replaced CLB with the National Company Law Tribunal (NCLT), marking a significant shift in India's corporate governance framework.

Evolution of Corporate Governance in India

The evolution of corporate governance in India reflects a gradual but significant transformation shaped by economic reforms, regulatory developments, global integration, and growing stakeholder awareness. Corporate governance, broadly defined as the system by which companies are directed and controlled, has moved in India from a largely promoter-driven, opaque structure to a more transparent, accountable, and stakeholder-oriented framework. This journey can be understood across distinct phases, beginning with the pre-liberalization era, followed by post-1991 reforms, and continuing into the modern era marked by stringent regulations and global best practices.

In the pre-liberalization period (before 1991), Indian corporate governance was characterized by a controlled economy dominated by family-owned businesses and public sector enterprises. The regulatory framework was primarily governed by the Companies Act of 1956, which provided basic provisions for company management, shareholder



rights, and financial disclosures. However, governance practices during this time were often weak due to excessive government control, limited competition, and lack of investor activism. Promoters held dominant control over companies, often sidelining minority shareholders. Transparency and disclosure standards were minimal, and there was little emphasis on board independence or accountability. The focus was more on compliance with legal requirements rather than adopting ethical governance practices.

The economic liberalization of 1991 marked a turning point in the evolution of corporate governance in India. As the country opened its economy to foreign investment and global competition, the need for robust governance mechanisms became evident. Liberalization led to the entry of multinational corporations, increased capital market activity, and a growing emphasis on efficiency, transparency, and accountability. Investors, both domestic and international, began demanding better governance standards to protect their interests. This period witnessed the emergence of regulatory bodies such as the Securities and Exchange Board of India (SEBI), which played a crucial role in strengthening corporate governance norms and protecting investor rights.

One of the most significant milestones in corporate governance reform in India was the introduction of Clause 49 of the Listing Agreement by SEBI in 2000. Clause 49 laid down comprehensive guidelines on board composition, audit committees, disclosure requirements, and corporate governance reporting. It mandated the inclusion of independent directors on company boards, thereby enhancing board oversight and reducing promoter dominance. The clause also emphasized the role of audit committees in ensuring financial transparency and integrity. This reform marked a shift from mere compliance to a more structured and formalized governance framework aligned with international standards. The early 2000s also saw the establishment of various committees that contributed to the strengthening of corporate governance in India. Notable among them were the Kumar Mangalam Birla Committee (1999), the Narayana Murthy Committee (2003), and the Naresh Chandra Committee (2002). These committees provided recommendations on improving board effectiveness, enhancing disclosure practices, and ensuring auditor independence. Their suggestions were instrumental in shaping SEBI regulations and improving governance standards across listed companies. During this period, Indian companies began adopting voluntary governance practices such as corporate social responsibility (CSR), sustainability reporting, and stakeholder engagement, reflecting a broader understanding of corporate accountability.

The enactment of the Companies Act, 2013 marked a major milestone in the evolution of corporate governance in India. This legislation replaced the outdated Companies Act of 1956 and introduced several progressive provisions aimed at enhancing transparency, accountability, and investor protection. The Act mandated the appointment of independent directors, including at least one woman director on certain boards, and introduced the concept of board committees such as audit, nomination and remuneration, and stakeholder relationship committees. It also formalized CSR by requiring certain companies to spend a minimum percentage of their profits on social development activities. The Act strengthened disclosure norms, enhanced penalties for non-compliance, and introduced provisions for whistleblower protection, thereby promoting ethical business practices.

In recent years, corporate governance in India has continued to evolve in response to emerging challenges and global trends. SEBI has introduced several reforms to enhance governance standards, including the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR), which consolidated and streamlined listing requirements for companies. These regulations emphasized timely and accurate disclosures, improved board independence, and enhanced the role of institutional investors. The introduction of the Insolvency and Bankruptcy Code (IBC), 2016 further strengthened the governance ecosystem by providing a time-bound mechanism for resolving corporate insolvency, thereby improving creditor confidence and financial discipline.

The rise of institutional investors, proxy advisory firms, and shareholder activism has also played a crucial role in shaping corporate governance in India. Institutional investors, both domestic and foreign, have become more active in monitoring company performance and governance practices. Proxy advisory firms provide independent recommendations on corporate decisions, influencing shareholder voting and promoting accountability. Shareholder activism has increased, with investors demanding greater transparency, fair treatment, and responsible management. This shift has compelled companies to adopt more inclusive and responsive governance practices.



Technological advancements and digital transformation have further influenced corporate governance in India. The adoption of digital platforms for financial reporting, e-voting, and virtual board meetings has improved accessibility, efficiency, and transparency. Companies are increasingly leveraging technology to enhance compliance, risk management, and stakeholder communication. Environmental, Social, and Governance (ESG) considerations have also gained prominence, with regulators and investors emphasizing sustainable and responsible business practices. SEBI has mandated Business Responsibility and Sustainability Reporting (BRSR) for top listed companies, reflecting a growing focus on long-term value creation and ethical conduct.

Despite these advancements, challenges remain in the effective implementation of corporate governance in India. Issues such as promoter dominance, related-party transactions, board effectiveness, and enforcement of regulations continue to pose concerns. While regulatory frameworks have become more robust, their enforcement and compliance at the ground level require continuous improvement. Additionally, the need for greater diversity and expertise on boards, improved risk management practices, and stronger internal controls remains critical for enhancing governance standards.

The evolution of corporate governance in India has been a dynamic and progressive journey shaped by economic reforms, regulatory interventions, and global influences. From a compliance-driven approach in the pre-liberalization era to a more transparent, accountable, and stakeholder-centric framework in the modern era, India has made significant strides in strengthening corporate governance. The introduction of key reforms such as Clause 49, the Companies Act 2013, and SEBI regulations has transformed the governance landscape and aligned it with international best practices. However, continuous efforts are required to address existing challenges and ensure effective implementation of governance principles. As India continues to integrate with the global economy, strong corporate governance will remain essential for sustaining investor confidence, promoting ethical business conduct, and achieving long-term economic growth.

Pre-Liberalization Era (Before 1991)

Before economic liberalization, Indian corporate governance was characterized by:

- Heavy government control
- Licensing system (License Raj)
- Limited shareholder activism
- Weak disclosure norms
- Bureaucratic regulatory environment

Corporate decisions were largely influenced by the state rather than market forces.

Post-Liberalization Era (After 1991)

Economic liberalization introduced:

- Foreign investment inflows
- Market-based economy
- Increased corporate competition
- Need for global governance standards

This phase highlighted weaknesses in corporate regulation, necessitating reforms.

Emergence of Corporate Governance Reforms

Key committees influenced governance reforms:

- Cadbury Committee (1992, UK influence)
- Kumar Mangalam Birla Committee (1999)
- Naresh Chandra Committee (2002)
- J.J. Irani Committee (2005)

These committees emphasized:

- Board independence
- Financial transparency
- Shareholder protection



- Strong regulatory institutions

Company Law Board (CLB): Establishment and Framework

The Company Law Board was constituted under Section 10E of the Companies Act, 1956.

Objectives of CLB

- Speedy resolution of corporate disputes
- Protection of minority shareholders
- Prevention of oppression and mismanagement
- Reduction of burden on High Courts

Structure of CLB

- Chairman and members appointed by the Central Government
- Regional benches for accessibility
- Quasi-judicial authority

Functions of the Company Law Board

Dispute Resolution

CLB adjudicated disputes relating to:

- Oppression and mismanagement (Sections 397–398)
- Transfer of shares
- Boardroom conflicts

Protection of Minority Shareholders

One of the most important roles of CLB was:

- Preventing majority shareholder dominance
- Ensuring fair treatment of minority investors

Regulatory Oversight

- Monitoring compliance with company law provisions
- Addressing procedural violations

Approval of Corporate Actions

CLB was empowered to:

- Sanction mergers and restructuring in specific cases
- Approve changes in company management in disputes

Role of CLB in Indian Corporate Governance

The CLB significantly strengthened corporate governance by:

Ensuring Accountability

It held directors and majority shareholders accountable for misconduct.

Enhancing Investor Confidence

By resolving disputes efficiently, it improved investor trust.

Supporting Judicial Efficiency

Reduced burden on High Courts in corporate matters.

Promoting Fair Corporate Practices

Encouraged ethical governance and transparency.

Outcomes of CLB Functioning

Positive Outcomes

- Faster resolution compared to traditional courts
- Specialized expertise in corporate law
- Improved minority shareholder protection
- Development of corporate jurisprudence



Limitations and Challenges

Despite its importance, CLB faced several issues:

(a) Delays in Decision Making

- Procedural inefficiencies
- Case backlogs

(b) Limited Powers

- Restricted jurisdiction compared to courts

(c) Lack of Technological Integration

- Manual processes slowed efficiency

(d) Perceived Executive Influence

- Appointment structure raised concerns of independence

Corporate Governance Reforms and Transition to NCLT

Need for Reform

By early 2000s:

- Corporate frauds increased
- Globalization required stronger governance
- CLB structure became outdated

J.J. Irani Committee Recommendations

Key suggestions:

- Unified tribunal system
- Independent adjudicatory body
- Faster corporate dispute resolution

Establishment of NCLT

Under Companies Act, 2013:

- CLB was dissolved
- NCLT replaced CLB
- National Company Law Appellate Tribunal (NCLAT) introduced

Comparative Analysis: CLB vs NCLT

Feature	CLB	NCLT
Structure	Limited benches	Expanded tribunal system
Jurisdiction	Narrow	Wide (mergers, insolvency, disputes)
Efficiency	Moderate	Higher (theoretically)
Legal Authority	Restricted	Comprehensive
Modernization	Low	High

Impact of CLB on Modern Corporate Governance

The legacy of CLB continues in modern governance:

Foundation for Tribunal System

CLB paved the way for NCLT structure.

Development of Case Law

Its decisions shaped corporate jurisprudence.

Strengthening Shareholder Rights

Established early principles of fairness.

Institutional Governance Culture

Promoted regulatory discipline among companies.



Critical Evaluation

While CLB played a transformative role, its effectiveness was constrained by:

- Administrative delays
- Limited autonomy
- Inefficient procedural framework

However, its contribution to corporate governance evolution remains significant, particularly in:

- Institutionalizing dispute resolution
- Strengthening legal accountability
- Supporting governance reforms

II. CONCLUSION

The evolution of Indian corporate governance reflects a journey from state-controlled regulation to a sophisticated, tribunal-based governance system. The Company Law Board served as a critical transitional institution that addressed corporate disputes and strengthened shareholder protection during a crucial phase of economic development.

Although replaced by the National Company Law Tribunal, the CLB laid the groundwork for modern corporate adjudication in India. Its role in shaping governance principles, improving investor confidence, and ensuring corporate accountability remains historically significant. The evolution from CLB to NCLT represents India's commitment to strengthening corporate governance in alignment with global standards.

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