

THE CORPORATE WORLD AND ITS COMPLIANCES FROM AN ENTREPRENEURIAL PERSPECTIVE

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ABSTRACT

This article explores the intricate relationship between the corporate world and entrepreneurship, analysing how corporate regulations can act as catalysts and constraints for business development, using examples from the USA, the UK, and India. The paper delves into key aspects of corporate governance, including funding initiatives, the role of independent directors, auditor responsibilities, and consumer protection measures. It highlights that while stringent regulations aim to ensure ethical business practices, they can sometimes hinder entrepreneurial innovation and growth. Conversely, well-designed corporate laws can foster a conducive environment for startups and established businesses alike. The article emphasizes the need for a balanced approach in corporate

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governance that promotes transparency and accountability without stifling business creativity. It also explores recent developments in corporate social responsibility (CSR) and their impact on entrepreneurship. The study argues that while CSR obligations can be challenging for startups, they present opportunities for building credibility and attracting socially conscious investors. Furthermore, it discusses how funding initiatives can support entrepreneurial ventures and the significant role independent directors and auditors play in maintaining corporate integrity. The manuscript concludes by proposing ways to improve corporate governance frameworks. These include developing tailored regulatory approaches, enhancing clarity on directors' liabilities, promoting flexible corporate structures, and streamlining compliance procedures. The authors stress the importance of striking a balance between regulatory oversight and entrepreneurial freedom to foster a thriving business ecosystem. Ultimately, the paper calls for a nuanced and adaptable approach to corporate governance that can support both innovation and ethical business conduct, ensuring long-term sustainability and growth in the entrepreneurial landscape.

Keywords: Corporate Governance, Entrepreneurship, Regulatory Framework, Business Development, Corporate Social

*Responsibility, Consumer Protection,
Compliance, Business Ethics.*

I. INTRODUCTION

In recent years, there has been a significant focus on the impact of corporate governance on the business's environment and entrepreneurial activity due to the remarkable expansion of businesses. "Corporate governance deals with laws, procedures, practices and implicit rules that determine a company's ability to make informed managerial decisions vis-à-vis its claimants – in particular, its shareholders, creditors, customers, the State, and employees".¹ This article aims to elucidate the intricate relationship between Corporate Governance standards and their interaction with the entrepreneurial sphere. Effective corporate governance involves accountability, transparent policy formulation, and taking into account the views of business owners and entrepreneurs, who are directly impacted by the formulation of corporate laws.² These factors are crucial for fostering economic growth and nurturing business innovation. The first section of our article addresses this requirement. We commence by analysing how India's corporate laws address the fundamental legal requirements for corporations, given their critical importance to entrepreneurs. Subsequently, we explore whether these corporate laws act as a deterrent or a catalyst for the growth of emerging firms by conducting a jurisdictional analysis of common law countries. Corporate legislation is not uniform throughout the world, they are endogenous to

¹Smita Jain, 'Corporate Governance- National and International Scenario' (icsi.edu) <<https://www.icsi.edu/media/webmodules/programmes/33nc/33souvearticle-smitajain.pdf>> accessed 1 January 2024.

²James Chen, 'Corporate Governance: Definition, Principles, Models, and Examples' (*Investopedia*, 24 September 2024) <<https://www.investopedia.com/terms/c/corporategovernance.asp>> accessed 1 January 2024.

different regions and countries, as it is inherently shaped by the unique characteristics and dynamics of each country.

Our findings indicate that corporate laws must be designed to accommodate the specific needs of their jurisdictions, as the impact varies across different nations. Additionally, the evolution of corporate laws over time, as exemplified by the United Kingdom (UK), underscores the necessity for these laws to remain adaptable to contemporary changes. In recent years, significant developments have occurred in the realm of corporate governance, particularly in India. These developments have not only influenced business practices but have also impacted the moral and ethical dimension within which businesses and entrepreneurs operate.

Our next section explores the approach of state actors towards corporate's adherence to these standards. Through the help of some notable cases, we observe that the approach of government and judiciary in recent years against non-compliance of companies to legal standards has been rather strict. This has helped in improving accountability and protecting shareholder interest; however, enforcement and public awareness still remain a challenge.

In the subsequent analysis, we delve into recent developments within the entrepreneurship landscape, exploring the dynamic interplay between corporate norms and state actors. A prevailing conclusion drawn from these observations is the necessity for a balanced approach that harmonizes regulatory oversight with entrepreneurial autonomy. The following section elucidates the ethical shortcomings within the corporate world, examines governmental responses to these issues, and outlines the existing regulatory framework designed to address such challenges. Entrepreneurs and corporate organizations have a social responsibility and obligations towards society, including upholding corporate social responsibility and safeguarding consumers from unfair

trade practices. In response to the failure of corporate organizations and entrepreneurs to meet the ethical standards of businesses, the government has introduced various regulatory frameworks to ensure their compliance with corporate laws and regulations. In India, “the Security Exchange Board of India³ (SEBI) and the “Ministry of Corporate Affairs” (MCA) play a crucial role in the governance of corporate organizations and also ensure that the rights of consumers are protected. The protection of consumers is one of the crucial elements in the thriving economy. Corporate laws and regulations not only serve as deterrents for business organizations and entrepreneurs but also facilitate their growth and expansion.

The ultimate question this article tries to answer is “How does Corporate Law influence entrepreneurial growth and innovation?” The common conclusion we derive is that corporate laws can either act as a catalyst or a constraint for entrepreneurial growth depending on their design and implementation. Effective corporate laws can foster a conducive environment for entrepreneurs by providing necessary protections and frameworks, while overly stringent or poorly designed laws can hinder entrepreneurial activities. The impact of corporate laws is thus highly dependent on the specific legal and regulatory context of each jurisdiction. This article will further explore this narrative by examining recent developments and relevant case laws.

II. SYNERGIES BETWEEN CORPORATE LAWS AND ENTREPRENEURIAL DYNAMICS

Corporate laws and entrepreneurial dynamics are deeply interconnected, creating confluences that can significantly impact economic growth and innovation. Primarily, there are five basic legal characteristics provided by scholars that must be fulfilled by the

³The Security and Exchange Board of India Act, 1992 (15 of 1992).

corporate law of a country. These traits include having a distinct legal identity, protection from personal liability, the ability to buy and sell shares, management overseen by a board, and ownership by investors.⁴ For instances, Section 34 of the Companies Act of 1956 fulfils the characteristics of legal personality by granting the companies the status of an artificial person with perpetual existence who can sue and get sued.⁵ However, the personal liability of the directors extend beyond the Companies Act, encompassing statutes like the Negotiable Instruments Act, 1881⁶ and Income Tax Act, 1961.⁷ Directors can protect themselves from personal liability by incorporating an indemnification clause in the company agreement, expressing and making sure their dissent is heard in company meetings against any threat, and staying informed about the appropriate provisions.

Additionally, it facilitates investor ownership. It is a form in which ownership rights are granted for capital contributions in the firm. Nonetheless, corporate law's default regulations are typically created with investor ownership in mind, so breaking from this pattern can be uncomfortable.

Furthermore, Corporate regulation of businesses broadly falls into four broad categories: bureaucratic regulation, taxes, employee relations, and international trade. Businesses are directly affected by the taxation policies of the government. Raising the corporate taxes, which primarily affects the target profit of the businesses, could potentially elevate the operating cost of the businesses and also the cost of living. A value-added tax (VAT) is an indirect tax that is applied incrementally at each stage of production and distribution of goods and services. It is usually borne by the end consumer, but collected at different stages by

⁴Henry Hansmann, Reinier Kraakman: 'What is Corporate Law' in *The Anatomy of Corporate Law: A Comparative and Functional Approach* (OUP 2004).

⁵The Companies Act, 1956, s 34.

⁶The Negotiable Instruments Act, 1881 (26 of 1881) s 141.

⁷The Income Tax Act, 1961 (43 of 1961) s 179.

businesses, making it a significant policy for many enterprises.⁸ VAT policy, in most of the countries, affects the business's profits, it tends to primarily impact growing businesses and entrepreneurs, often impeding their progress and growth. Recently India's tax department has demanded around one hundred fifty million dollars from dream11 (a fantasy gaming platform) for tax evasion between 2017 and 2019. The tax dispute revolves around determining the appropriate taxation levels for gaming platforms such as dream11. Dream11 argues that it should pay tax only on the fees it charges from its customers, while government authorities were insisting on a 28 % tax on the total revenue generated from players.⁹ However, in a recent development poised to significantly benefit entrepreneurs, the sunset date (specific expiration date for a law, rule or tax benefit) for the reduced tax rate of 15% for manufacturing companies according to section 115BAB of the Income Tax Act, 1961 was extended to 31st March 2024. This section was inserted in the act through the Taxation Law (Amendment) Ordinance, 2019 to encourage manufacturing start-ups. The concessional corporate tax rate of 15% is available to manufacturing companies established on or after October 1, 2019, that begin production by March 31, 2024.¹⁰ The development of entrepreneurs is significantly impacted by the legal environment in which they operate. Compliance with corporate governance norms highly influences the entrepreneur's dynamics, impacting both the establishment of the new business venture and the operation of the existing business enterprises

⁸Lea D. Uradu, 'What is Value-Added Tax (VAT)' (*Investopedia*, 12 June 2024) <<https://www.investopedia.com/terms/v/valueaddedtax.asp>> accessed 20 January 2025.

⁹Varun Krishan, 'Why Dream11 Filed a Suit Challenging India's Tax Demands?' (*The Hindu*, 12 October 2023) <<https://www.thehindu.com/sci-tech/technology/why-dream11-filed-a-suit-challenging-indias-tax-demands-explained/article67410721.ece>> accessed 27 July 2024.

¹⁰Naveen Aggarwal, 'Budget 2024: How extending concessional corporate tax rate can boost India's manufacturing ecosystem' (*Economic Times*, 28 January 2024) <<https://m.economictimes.com/news/economy/policy/budget-2024-how-extending-concessional-corporate-tax-rate-can-boost-for-indias-manufacturing-ecosystem/articleshow/107204113.cms>> accessed 6 August 2024.

in multiple ways, some of the legislations were designed to foster the growth of entrepreneurs, while other regulations were made for their regulation or for regulatory oversight.

III. THE IMPACT OF CORPORATE LAWS ON ENTREPRENEURIAL GROWTH A CATALYST OR CONSTRAINT: A JURISDICTIONAL ANALYSIS OF COMMON LAW COUNTRIES

Corporate laws comprise rules and regulations that govern the relationships and interactions among businesses, individuals, and government entities.¹¹ It has significantly shaped the entrepreneurial dynamics; it is crucial for the well-functioning of the economy with their impact varying widely across the jurisdiction. It is usually endogenous to a region and tends to evolve alongside its culture and economy. This characteristic has traditionally posed challenges in identifying its impacts. Different countries have diverse corporate laws and policies, which have varying impacts on entrepreneurs in unique ways:

In the United States of America (USA), the American Bar Association has created a prototype legal act (i.e., a model) that is a model Business Corporation Act (MCBA) 1950¹². Model acts are the consolidation of the best practices of corporate law that legislative bodies such as cities or states, can replicate or modify as a foundation when formulating their own legal frameworks. In the United States, they are widely used and considered as noteworthy guidance for state and municipal legislative improvements. It has been observed over the years

¹¹Lloyd Law College, 'What is Corporate Law – A Complete Guide' (*Lloyd Law College*, 30 December 2023) < <https://www.lloydlawcollege.edu.in/blog/what-is-corporate-law.html>> accessed 20 January 2025.

¹²The Model Business Corporation Act, 1950.

implementation of the MCBA Act has a direct and positive impact on the level of local corporations across U.S. states. On average 26% of the local corporation have increased. Approximately 40% of the increase was observed from the replacement of other corporate structures, while the remaining were net new firms.¹³

In the UK, thirty years ago, a committee chaired by Sir Adrian Cadbury, focusing on financial aspects of corporate governance, developed the Cadbury Code of Best Practice in 1992, commonly known as the Cadbury Code.¹⁴ The Cadbury Code has been instrumental in influencing the present UK corporate governance framework. It not only laid the groundwork for UK corporate governance but also established the precedent for the adoption of similar codes in nearly 100 countries worldwide. The code follows a ‘comply-or-explain’ principle, requiring listed companies to either follow its guidelines or explain any deviations. The code has grown substantially over the years. Thereby, companies required to adhere to the code experience a heightened obligation to disclose information. Also, expenses companies bear because of the code now far exceed any benefits it offers. In recent years, the code has adequately addressed issues concerning non-shareholder corporate stakeholders, which are crucial and can have significant societal implications. Additionally, the institutional drawbacks of the code add weight to arguments favouring its abolition. As Cally Jordan has said:

“The voluntary code provides a tempting alternative to grappling with and resolving the more contentious issues of corporate governance

¹³Lisa M. Fairfax, ‘The Model Business Corporation Act at Sixty: Shareholders and Their Influence’ (2011) 74 (1) *Law and Contemporary Problems*. <<https://scholarship.law.duke.edu/lcp/vol74/iss1/3>> accessed 27 July 2024.

¹⁴The Cadbury Code of 1992.

The aspirational nature of the Code on long-debated issues ... continues to thwart resolution and momentum. There is smoke but little fire”.¹⁵

The code’s tendency to encourage policymakers to delay making difficult governance decisions adds weight to arguments supporting its abolition.

In India, pre-1991 government policies were inward-looking and aimed at achieving self-sufficiency. During this period, entrepreneurial activities were restrained, and there was a lack of capital. Additionally, society was very reluctant to take risks, and individuals primarily sought employment stability. In 1991, the government brought Liberalization , Privatisation , and Globalisation (LPG) policies to liberalize the Indian economy, as a result, the competitive environment underwent a transformation.¹⁶ Following liberalization, there was a substantial rise in business prospects. Many entrepreneurs capitalized on these opportunities, moving from being small-scale contractors to becoming notable real estate developers, and from acting soely as distributors to establishing themselves as manufacturers. Today, as a result of the LPG policy, businesses can obtain venture and growth capital, contingent upon the viability of their business models. Essentially, employing robust corporate governance practices alongside transparent ownership structures and professional decision-making can lead to advantages for all involved parties.¹⁷ This will enable entrepreneurs to establish larger enterprises.

Corporate laws impact entrepreneurial growth differently across jurisdictions. In the USA, the MCBA has fostered local corporate

¹⁵B Cheffins and B Reddy, ‘Thirty years and done - time to abolish the UK Corporate Governance Code’ (2022) 22 (2) JCLS < <https://doi.org/10.1080/14735970.2022.2140496>> accessed 27 July 2024.

¹⁶Dr. Anuj Garg, ‘LPG Policy and Growth of Indian Economy’ (2020) 8 (4) IJCRT < <https://www.ijcrt.org/papers/IJCRT2004624.pdf>> accessed 27 July 2024.

¹⁷*James Chen* (n 2).

growth, acting as a catalyst. In contrast, the UK's Cadbury Code, despite its influence, imposes constraints due to its compliance costs and voluntary nature. In India, the LPG policies have greatly enhanced entrepreneurial activities, demonstrating how corporate law reforms can stimulate growth. Therefore, corporate laws can either facilitate or hinder entrepreneurship, depending on their specific design and implementation in various regions. Also, it is essential for entrepreneurs to comply with the laws and regulations of their country without attempting to circumvent them, because the laws and regulations acting as a catalyst will help in the growth of the businesses, and in this government plays a proactive role in ensuring that businesses adhere to these norms.

IV. ENTREPRENEURIAL ADHERENCE TO CORPORATE LEGAL STANDARDS

The government now plays a more active role in ensuring the welfare of the populace rather than operating as a laissez-faire state. Legislators are now primarily concerned with the use and abuse of corporate power due to this altered position. The states changed from being "catalysts of economic growth" to becoming "guardians of corporate governance and integrity". The most significant query is still whether state authority was adequate to restrain companies' ravenous appetites and entrepreneurial nature. These strict actions taken by the government and judiciary can be said to have a positive response on corporations adhering to legal standards.

A. Corporate Legal Standards and Regulatory Response

The regulatory responses against corporate crimes can be said to have been very positive in the last few years. The apex court said in "Sahara Case" "economic offences in India... have to be treated with an iron

hand...”¹⁸ The introduction of various reforms after the Nirav Modi scam, enhancement of monitoring and governance of non-banking financial companies (NBFCs) after the IL&FS Financial Scandal, and imposition of Rs 11 crore fine by SEBI on RPIL are few examples of the positive steps being taken to impose strong corporate criminal liability in India.¹⁹ Although these actions can be considered a deterrent for entrepreneurial firms contemplating corporate legal crimes, they still receive relatively less attention from the media compared to more ‘common’ crimes. Corporate crime is a serious problem and causes substantial harm to society at large, yet company directors and corporations have often escaped being convicted.

Moreover, In June 2023, SEBI brought some critical changes by amending Listing Obligation and Disclosure Requirement (LODR) regulation with the aim of bringing more transparency to disclosure by listed entities. These changes ensure more consistent, clear, and timely information, enabling investors and stakeholders to make informed decisions promptly. Additionally, mandating extra disclosures, including those related to agreements binding listed entities, provides a comprehensive view of the company’s obligations and commitments, further improving the transparency and understanding of its operations and financial health.²⁰ SEBI has overhauled the disclosure framework by (i) implementing a quantitative threshold to determine the significance of an event or information, which was the key departure from the previous method that relied on subjective evaluation for

¹⁸*Sahara India Real Estate Corp. Ltd. & Ors v Securities & Exchange Board of India* (2012) 10 SCC 603.

¹⁹Prateek Jain, 'Regulatory Actions against Corporate Irregularities in India: Analyzing the Stock Market Impact' (2022) 10 (1) *Cogent Eco & Fin* 2122187 <<https://doi.org/10.1080/23322039.2022.2122187>> accessed 27 July 2024.

²⁰ Anand Jayachandarn and Supriya Aukulu, ‘SEBI Amendments to the LODR- An Overview of Key Challenges’ (*CAM*, 4 July 2023) <<https://corporate.cyrilamarchandblogs.com/2023/07/sebi-amendments-to-the-lodr-an-overview-of-key-changes/>> accessed 27 July 2024.

events listed in Part B of Schedule III; (ii) shortening the timeline for making disclosures; and (iii) requiring extra disclosures, including those related to agreements binding listed entities.

B. Labour Law Compliance

Some of the most basic legal requirements for corporations are labour law regulations, Intellectual Property Rights (IPR), competition law, Tax law, and data privacy and cyber security laws. When it comes to violations of labour regulations in India, there are not only options for remedies or compensation; there are also punitive penalties. It stipulates that if an employer violates any of the labour regulations in India, they may face a jail term or fines. In reality, labour rules in India are dispersed throughout several laws rather than being contained in a single statute. In every piece of legislation, such as the Prevention of sexual harassment (POSH) Act, of 2013²¹ and the Maternity Benefit Act, of 1961²² Employers are required to adhere to government regulations. These laws stipulate that employers must meet certain obligations, such as ensuring minimum wage standards,²³ offering insurance coverage,²⁴ providing maternity benefits,²⁵ complying with POSH regulations,²⁶ following overtime payment guidelines,²⁷ ensuring equal pay for equal work,²⁸ and fulfilling other related responsibilities.

C. Applicability Intellectual Property Protection and IT Compliance

²¹The Sexual Harassment of Women at Workplace (Prevention, Prohibition, and Redressal) Act, 2013 (14 of 2013).

²²The Maternity Benefit Act, 1961 (53 of 1961).

²³The Minimum Wages Act, 1948 (11 of 1948).

²⁴Employee's State Insurance Act, 1948 (34 of 1948).

²⁵*Maternity Benefit Act* (n 22).

²⁶*Sexual Harassment Act* (n 21).

²⁷The Factories Act, 1948 (63 of 1948).

²⁸The Equal Remuneration Act, 1976 (25 of 1976).

Beyond adhering to labour laws and other statutory obligations, an organization should also focus on safeguarding their Intellectual Property Rights (IPR). It plays a critical role in safeguarding a company's innovation and maintaining its competitive edge. IPR laws protect assets like patents, designs, trade secrets, trademarks, copyrights, and so on, which are vital for entrepreneurial firms.²⁹ Ensuring adherence to IPR laws not only prevents unauthorized use but also aligns organizations with legal and ethical standards. By incorporating IPR protection into their broader compliance framework, businesses can foster innovation and establish trust with stakeholders, furthering the objective of corporate governance. In parallel, the rapid evolution of digital technology has made IT laws and data privacy regulations crucial for compliance.³⁰ As startups emerge across diverse sectors, adhering to these legal frameworks becomes vital for sustainable growth and ethical governance.

Despite the endeavours made in strengthening corporate governance and legal adherence, a critical gap remains in ensuring ethical compliance across numerous sectors. While complying with the bare minimum of legal requirements, many enterprises often continue to fall short of broader ethical standards, prioritizing profit over principles. These have led to numerous instances where corporations, through negligence or deliberate misconduct, have caused harm to stakeholders, damaged public trust, and undermined the broader societal good.³¹ This underscores the need for a discussion on regulatory responses to corporate failures becomes imperative, as such failure highlights the

²⁹Onileowo Temitope Teniola, Muharam Farrah Merlinda, 'Evaluation of Intellectual Property Rights (IPR) Significance in Promoting Innovation and Entrepreneurship' (2024) IJRPR 5.

³⁰The Information Technology Act, 2000 (21 of 2000).

³¹Princewill Bayo, Ebikebena Emotongha, 'Ethical Compliance and Corporate Reputation: A theoretical Review' [2021] 1 IJAAR 10.

critical importance of robust oversight and accountability mechanisms to address ethical lapses effectively.

V. REGULATORY RESPONSES TO CORPORATE FAILURES IN MEETING ETHICAL STANDARDS

The term Corporate Failure entails the collapse or downfall of a company due to its inability to meet ethical standards or legal requirements.³² It often arises from unethical practices such as financial misreporting, fraud, negligence, compliance issues, and other actions that involve a violation of law and regulations. These failures can have severe consequences, including financial losses, damaged reputations, and loss of stakeholder trust. Over the last few years, there have been disappointingly high cases of corporations' failure to comply with legal standards like Anderson, Martha Stewart, Putnam, Xerox, Swiss Air, etc.³³ Many of these companies exhibited notable corporate governance problems, including conflicts of interest, inexperienced directors, excessive compensation, and disparities in share voting rights. Additionally, other failures stemmed from deceptive accounting practices and unlawful operations. A large portion of this activity is attributed to the actions of the U.S. Sentencing Commission in 1991 which introduced the Guidelines for Organizational Defendants,³⁴ It recommends lesser sentences and fines for businesses that have implemented measures. Numerous American companies have integrated legal compliance mechanisms into formal documents to

³²Rabel Cole, Sofia Johan and Denis Schweizer, 'Corporate Failures: Declines, Collapses, and Scandals' (2020) 67 JCFE <<https://doi.org/10.1016/j.jcorpfin.2020.101872>> accessed 27 July 2024.

³³Surendra Arjoon, 'Corporate Governance: An Ethical Perspective' (2005) 61(4) Journal of Business Ethics < <https://www.jstor.org/stable/25123630>> accessed 27 July 2024.

³⁴Federal Sentencing Guidelines for Organizational Defendants, 1991.

address ethics and conduct issues.³⁵ From an ethical perspective, the main concerns of corporate governance are fundamentally related to developing trust and relationships, both outside and within the corporation. Several recent developments that have made ethical standards a topic of discussion including improvements in technology, AI, globalization, and competition. On January 25, 2024, the Federal Trade Commission (FTC) filed a lawsuit to prevent Novant Health, Inc. from acquiring two hospitals in North Carolina from Community Health Systems, Inc. for three hundred twenty million dollars.³⁶ The FTC contended that this merger could result in increased healthcare costs for patients and diminish incentives for quality and innovation in care.³⁷ They argued that if the acquisition proceeded, Novant Health, one of the largest hospital systems in the southeastern U.S., would control nearly 65% of the market for inpatient general acute care services in the Eastern Lake Norman Area. This could potentially enable Novant Health to charge higher service rates. To stop this transaction, the FTC is seeking a temporary restraining order and a preliminary injunction. This development raises the question of the ethical standards that are being practiced in the medical sector of the USA. The Fourth Circuit Court of Appeal has rightly granted an emergency injunction to the Federal Trade Commission while preventing Novant Health from acquiring two hospitals in North Carolina from Community Health Systems.³⁸

³⁵Vallabh, G. and Dadhich, G. (2016) Corporate Governance and Ethical Compliance—Deriving Values from Indian Mythology. *Theoretical Economics Letters*, 6, 1128-1144. doi: 10.4236/tel.2016.65108.

³⁶Federal Trade Commission, ‘FTC Sues to Block Novant Health’s Acquisition of Two Hospitals from Community Health Systems’ (25 January 2024) <<https://www.ftc.gov/news-events/news/press-releases/2024/01/ftc-sues-block-novant-healths-acquisition-two-hospitals-community-health-systems>> accessed 27 July 2024.

³⁷ibid.

³⁸ibid.

In India, two major institutions regulate corporations, (i) the Securities Exchange Board of India (SEBI), and (ii) the Ministry of Corporate Affairs (MCA). MCA primarily deals with the incorporation of the Companies Act, 2013, the Companies Act 1956 the Limited Liabilities Partnership Act 2008³⁹ & other corporate laws. The Companies Act, 2013 has introduced many provisions to ensure good corporate governance like Training and Evaluation of Directors, Admission of women and independent directors, compliance centres, etc. A few provisions are:

Section 134⁴⁰ Requires the Board of Directors to include a report with all the relevant facts, including the statement outlining each director's responsibilities, with every financial statement.

Section 177⁴¹ Mandates the creation of an Audit Committee by the Board of Directors of each listed business and any other type of committee. It also specifies how the committee is to be put together.

Section 184⁴² Mandates the Director to disclose their stake in any company, corporate body, firm, or other organization of individuals at the first meeting in which they participate. If the director's interest changes, it must be disclosed at the first board meeting following the change.

Whereas SEBI's primary function is to protect the investor's interest, most of the corporate governance matters fall under the jurisdiction of SEBI because they are listed companies. Regulatory actions of SEBI have a higher deterrence impact on companies as they reduce stock prices of the firm, as compared to that of MCA.⁴³ Charges of fraud or cheating, non-payment of dues, or aberrant returns have a more

³⁹The Limited Liability Partnership Act, 2008 (6 of 2008).

⁴⁰The Companies Act, 2013 (18 of 2013), s 134.

⁴¹CA 2013 (n 40) s 177.

⁴²CA 2013 (n 40) s 184.

⁴³Prateek Jain (n 19).

negative impact than allegations of failing to disclose information or other non-compliance-related abnormalities. As a result, the intensity of regulatory charges against a company strongly correlates with the degree of harm to its stock price. According to a multivariate regression analysis, the notification of regulatory actions appears to cause a greater (more negative) stock price reaction among younger and less profitable companies and was amended to introduce the option of e-voting of the Listing Agreement.⁴⁴ The amended clause 49 of the Listing Agreement by SEBI vide circular dated October 30th, 2004, prevents independent directors from being eligible to receive any type of stock options.⁴⁵ The updated provision includes a whistleblower policy that allows directors and employees to report instances of unethical behaviour, fraud, or violations of the company's code of conduct. The modification also strengthens the Audit Committee, which will now evaluate the risk management system, oversee internal financial controls, and monitor loans and investments between companies. The amendment requires each company to develop a policy, to be published online, for determining whether subsidiaries are considered "material". The goal of corporate governance, according to the SEBI committee, is to maximize shareholder wealth while simultaneously safeguarding the interests of other shareholders. There have been several critical developments in this area, which have significant impacts on entrepreneurs.

VI. RECENT DEVELOPMENTS IN THE CORPORATE WORLD WITH REGARD TO ENTREPRENEURSHIP

Due to global market shifts, power dynamics, economic growth, and climate concerns corporate landscape is undergoing a transformative

⁴⁴ibid.

⁴⁵SEBI 'Corporate Governance in listed Companies- Clause 49 of the Listing Agreement' (2004).

change in the India and world. Various developments are taking place in the corporate world specifically in India.

A. Funding initiatives

The state has recently undertaken various initiatives to support early-stage funding for startups. The draft of the National Deep Tech Start-up Policy (NDTSP) has received approval from the Empowered Technology Group (ETG), led by the Principal Scientific Advisor.⁴⁶ This policy is designed to promote early-stage technologies and their commercialization. Additionally, the Department for Promotion of Industry and Internal Trade (DPIIT) is working on a hundred-day action plan to facilitate funding and reduce the compliance burden on businesses⁴⁷. Furthermore, efforts are being made to ease compliance requirements through the second edition of the Jan Vishwas (Amendment of Provisions) Bill, which passed last year and streamlined or eliminated over forty thousand compliances.⁴⁸ The second edition of this bill aims to further reduce the criminalization associated with many laws.

B. Independent director and corporate governance

The concept of independent directors plays a crucial role in maintaining corporate governance and stability. As per section 149 (6) of the Companies Act, 2013,⁴⁹ independent director means “any director other than a managing director or whole-time director or a nominee director”. Its actual implementation frequently fails to meet expectations. The definition of the independent director, as per SEBI’s

⁴⁶National Deep Tech Start-up Policy (NDTSP) 2024.

⁴⁷Kirtika Suneja, ‘100-Day action Plan: DPIIT to start-up funding & spur manufacturing push’ *The Economic Times* (India, 17 June 2024).

⁴⁸The Jan Vishwas (Amendment of Provisions) Bill, 2023.

⁴⁹CA 2013 (n 40) s 149 (6).

act of 1992 clause 49,⁵⁰ is “a non-executive director of the company who does not have any material transaction with the company other than the remuneration, is not related to promoters or managers at or one level below board level, has not been an executive director of the company in the preceding three years, is not a supplier, service provider, customer or a major shareholder of the company”. This definition is perceived as insufficient in ensuring independence. Cases such as the *Enron scandal*, where even the dean of Stanford Business School overlooked the irregularities,⁵¹ and the *Satyam fraud*, which exposed the significant weakness in governance, emphasize the pressing need for reform in this area.⁵² Incidences of the *Nagarjuna finances* case, where the former independent directors of the company were arrested, raise concern for the statutory protection from arrest for independent directors.⁵³ Entrepreneurs often need to take risks to innovate and grow their businesses. However, unchecked risk-taking can lead to negative consequences for the company and its stakeholders. Independent director contributes to effective risk management by offering diverse ideas and challenging assumptions, thus helping entrepreneurs to make informed decisions while mitigating excessive risks.⁵⁴ To increase the effectiveness of independent directors, it is crucial to improve transparency in the selection process, minimize close connections between boards and independent directors, and actively address conflicts of interest.

⁵⁰*SEBI Act 1992* (n 3).

⁵¹*In re Enron Corporation* Case No. 01-16034-AJG (Southern District of New York) Adversary Nos. 03-3522, 03-3721 (Bankr. S.D. Tex. Dec. 9, 2005).

⁵²*Directorate of Enforcement v M/S Satyam Computer Services Limited*, W.P. No. 37487 of 2012.

⁵³Samanaya Raut ray, ‘Supreme Court upholds jail term for director of Nagarjuna Finance’ *The Economic Times* (India, 10 November 2014).

⁵⁴Junmeng Chang, ‘The Role of Independent Directors in Ensuring Good Corporate Governance’ [2023] 12 *Frontiers in Business, Economics and Management* 1.

C. Position of Statutory Auditors in Companies

The increasing responsibilities of statutory auditors under the Companies Act, 2013, have brought their role and independence into focus, particularly in the wake of financial irregularities. Statutory auditors are appointed by shareholders under Section 139 of the Act and are tasked with providing an unbiased assessment of a company's financial condition.⁵⁵ This independence is critical for ensuring the integrity of financial reporting and maintaining trust among stakeholders.

Statutory provisions under the Companies Act, 2013, further strengthen the independence of auditors by specifying their responsibilities and avoiding potential conflicts of interest. Section 143 requires auditors to follow Indian Accounting Standards (Ind AS) and auditing standards prescribed by the Institute of Chartered Accountants of India (ICAI).⁵⁶ Such standards ensure that audits are conducted objectively, without any influence from company management. Moreover, Section 143(12) requires auditors to report fraud directly to the Central Government, further underscoring their accountability to regulatory authorities rather than company executives. The omission of Section 314 from the Companies Act, 2013, clarifies the role of statutory auditors. Earlier provisions regarding the "office of profit" no longer apply, aligning with the principle that auditors operate independently of the company. In cases like *Jaya Bachchan v. Union of India*⁵⁷ and *Kanta Kathuria v. Manak Chand Surana*,⁵⁸ the Supreme Court made it clear that positions of profit involve substantial control or authority. According to this standard, statutory auditors are excluded from this classification since their authority is derived not from the company but from shareholders

⁵⁵*CA 2013* (n 40) s 139.

⁵⁶*CA 2013* (n 40) s 143.

⁵⁷*Jaya Bachan v Union of India*, (2006) AIR SCW 2601.

⁵⁸*Kanta Kathura v Manak Chand Surana*, (1970) AIR 694.

and regulatory frameworks. Amendments such as CARO 2020 have increased the statutory responsibilities of auditors, which include certifications on governance, related-party transactions, and fraud detection.⁵⁹ These additional responsibilities increase transparency and accountability but also increase the risks associated with the audit profession. Regulatory safeguards, such as restrictions on non-audit services and mandatory auditor rotation, ensure that auditors remain impartial and free from undue influence.

Whereas statutory auditors have the legislative framework supporting their independence, there is still a long way to go. Increased scrutiny and expanded duties have increased the risks for the auditors with potential penalties under Section 132(4) for professional misconduct. However, emphasizing independence through the strong regulations would ensure that the statutory auditors play a pivotal role in enforcing corporate governance and transparency in financial reports.

In conclusion, the statutory framework under the Companies Act, 2013 supports the independence of auditors as it clearly delimits their duties, enforces compliance with rigorous standards, and reduces conflicts of interest. It ensures that the auditors do not lose impartiality and ensure that stakeholders retain their trust in financial reporting.

D. Supreme Court on the jurisdiction of NCLAT & NCLT

In the case of *Pratap Technocrats (P) Ltd. v. Monitoring Committee of Reliance Infratel Ltd.*⁶⁰, an appeal was filed under section 62 of the Insolvency and Bankruptcy Code (IBC) of 2016⁶¹ against the decision of the National Company Law Appellate Tribunal (NCLAT) dated

⁵⁹Companies (Auditor's Report) Order, 2020.

⁶⁰*Pratap Technocrats (P) Ltd. v. Monitoring Committee of Reliance Infratel Ltd*, AIR 2021 SC 4118.

⁶¹The Insolvency and Bankruptcy Code, 2016 (31 of 2016) s 62.

January 4th, 2021. In the present context, the resolution plan had been duly approved by the necessary majority of the committee of creditors under the provisions of section 30 (4) of the IBC⁶² which was challenged by the monitoring committee of Reliance's Infratel Ltd.

In this case, the Supreme Court held that the adjudicating authority National Company Law Tribunal (NCLT), and the appellate authority NCLAT are not empowered to interfere in the business decisions made by the requisite majority of the committee of creditors (COC). Under the Indian insolvency regime, it seems that legislators made a conscious choice not to confer any equity-based jurisdiction on the adjudicating authority other than the statutory mandate outlined in section 30(2) of the IBC⁶³ "Neither the adjudicating authority nor the appellate authority has an uncharted jurisdiction in equity". The decision by the Supreme Court highlighted the importance of allowing businesses, particularly those undergoing insolvency proceedings, to have autonomy in making crucial decisions related to their restructuring or resolution plans, this autonomy is essential for entrepreneurs as it enables them to devise and execute strategies that they believe are in the best interest of their business' survival and long-term viability.⁶⁴

VII. CORPORATE LEGAL PERSPECTIVES ON CONSUMER PROTECTION

Consumer protection refers to laws and regulations designed to ensure the rights of consumers, fair trade, competition, and accurate information in the marketplace. It aims to prevent businesses from

⁶²*The Insolvency and Bankruptcy Code* (n 61) s 30 (4).

⁶³*The Insolvency and Bankruptcy Code* (n 61) s 30 (2).

⁶⁴*Pratap Technocrats (P) Ltd. & Ors. v Monitoring Committee of Reliance Infratel Ltd.*, AIR 2021 SC 484.

engaging in fraud or unfair practices that could harm consumers. Consumer protection is one of the crucial elements in any thriving economy. It ensures that individuals are safeguarded against unfair business practices and deceptive activities, thereby ensuring their rights and well-being are protected. In the year 1986, the government passed the Consumer Protection Act of 1986,⁶⁵ which was intended to protect customers against various kinds of malpractices and exploitations. It provides easy and fast resolution of consumer grievances. It also empowers consumers to speak against deficiencies and flaws in goods and services. The act was restructured in 2019 and numerous new rights were introduced under the Consumer Protection Amendment Act, 2019.⁶⁶ Business enterprises need to follow various relevant laws and regulations to ensure consumer protection and meet their social obligations. This includes following the product safety standards, giving precise information to consumers, and honouring contractual obligations. Beyond legal obligations, businesses also have moral obligations towards consumers and society. One of the most important moral obligations that business enterprises have to follow is corporate social responsibility (CSR).

CSR is a type of moral obligation that creates an obligation on the business enterprise to operate in a manner that contributes positively to society and the environment, in addition to their financial goals. It represents a type of self-regulation that can be demonstrated through various initiatives or strategies aligned with organizational objectives. Business entities commonly adhere to the principle of the “triple bottom line”, which underscores the importance of businesses measuring their social and environmental impact, and sustainability endeavours, alongside financial profits. The phrase “profit, people, planet” often referred to as “three p’s” succinctly encapsulates the guiding principle of this concept. In India, the scope of CSR is dealt

⁶⁵The Consumer Protection Act, 1986 (68 of 1986).

⁶⁶Consumer Protection Amendment Act, 2019.

with under section 135 of the Companies Act 2013 read with Schedule VII⁶⁷, and Companies (Corporate Social Responsibility Policy) Rules 2014⁶⁸ are the special provisions under the new company law.

According to the Companies Act 2013, every company has:

- Net profit of Rs Five crores or more or
- Net worth of Rs Five hundred crores or more or
- Turnover of Rs One Thousand crores or more

The figure pertaining to net worth, turnover, and net profit, the determination of corporate social responsibility expenditure shall rely on the company's financial statements from the preceding financial year. ⁶⁹Additionally, the company's board must allocate at least two percent of the average net profits from the past three financial years according to the CSR policy. The company should give preference to the local and neighbouring areas where it conducts its operations.

Both the principles of 'consumer protection' and 'corporate social responsibility' prioritize the well-being and contentment of consumers. CSR motivates business enterprises to act beyond mere legal obligation and actively engage in activities that enhance consumer well-being. These include offering safe and top-notch products, ensuring transparent and precise information, maintaining fair pricing, and delivering attentive consumer service. Through prioritizing consumer protection, businesses showcase their commitment to ethical conduct and foster trust among their customers, thereby increasing their reputation and ensuring long-term viability. Various companies have integrated CSR and consumer protection into their business strategies. e.g. Patagonia, a gear company and outdoor clothing brand, they are highly committed to environmental sustainability and fair labour standards. They ensure that their products are crafted from sustainable

⁶⁷CA 2013 (n 40) s 135.

⁶⁸Corporate Social Responsibility Rules, 2014.

⁶⁹CA 2013 (n 40) s 135.

resources and advocate for recycling and repair programs to reduce waste.⁷⁰

In FY23, companies listed on the National Stock Exchange's (NSE) main board allocated Rs fifteen thousand five hundred twenty-four crore to CSR activities, marking a 5 % increase from the Rs fourteen thousand eight hundred sixteen crore spent in the previous year. This rise, however, lagged behind the 13 per cent growth in average net profit over the past three years. The Companies Act, of 2013, requires firms to dedicate 2 % of their three-year average net profit to CSR each year. Due to this slower growth, CSR spending as a percentage of net profit dropped to a six-year low of 1.87 % in FY23, compared to 2.02 % and 2.13 % in the preceding two fiscal years, according to Mint. The analysis included companies required to spend on CSR based on their profits. In FY23, one thousand two hundred ninety-six companies were analysed, with one thousand two hundred seventy-one of them spending some amount on CSR, an increase from One thousand one hundred ninety-one in FY22. CSR spending saw the most significant rise in environmental sustainability, increasing by 76 %, followed by education at 41 %, and rural development at 26 %. In contrast, spending on disaster management plummeted by 77 %, slum development by 75 %, and contributions to the PM's relief fund by 59 %. Additionally, spending on hunger, poverty, and healthcare declined from Rs Eight hundred seventy-six crore in FY22 to Rs Eight Hundred Four crore in FY23.⁷¹

There are regulatory authorities in place to ensure the compliance of CSR in India. However, despite these measures, some companies have found ways to spend less than required or misrepresent their activities.

⁷⁰Fabian Vermum, 'What makes Patagonia A World Leaders in Sustainability' (*Sport and Sustainability*, 29 April 2021) <<https://www.sportsustainability.org/news-events/patagonia>> accessed 27 July 2024.

⁷¹Abhijeet Kumar, 'Less corporate responsibility? India Inc's CSR spending slowed down in FY23' *Business Standard* (New Delhi, 17 May 2024).

Still, there are prospects for CSR in India in the future. The possibility of cooperation between businesses, civil society groups, and the government is one opportunity. This can be realised through Public Private Partnership projects, community development programs, research grants, etc.⁷² Further, cooperation can improve the impact of CSR initiatives by sharing knowledge and leveraging resources. The potential for CSR to spur innovation and competitiveness presents another chance. Businesses that are dedicated to CSR can stand out from the competition and draw in clients and investors who respect social and environmental responsibilities.

Entrepreneurs have many chances to improve human potential, membership, employment, relationships, and self-worth, among other things. Nonetheless, managers' or owners' desires and voluntary activity are the main drivers of compliance. It may be argued that generating profit—which comes from investing and creating value for stakeholders is the primary factor that determines whether these acts are fulfilled. Startup owners often prioritize building a strong clientele, attracting new business, and finding funding sources over implementing a CSR strategy. However, as social concerns grow, companies must develop a CSR strategy to gain credibility with the public and investors. Startups that care about social issues are setting aside money for social causes in their budgets, understanding that this action is essential for growing business operations and building a positive client perception of their brand.

CSR in entrepreneurship originated with shareholders as the only interest group. State taxes initially discouraged reckless behaviour, but later companies reflected that their goals should include all involved. Entrepreneurs' ethical reflections on environmental sustainability led

⁷²Daniel Arenas, Pablo Sanchez and Matthew Murphy, 'Different Paths to Collaboration Between Businesses and Civil Society and the Role of Third Parties' (2013) 115 JBE 4 < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2319370 > accessed 27 July 2024.

to discussions on CSR and the creation of social value, emphasizing the need for organizational techniques. Hence, it may be claimed that the evolution of CSR has gone from a dedication to economic activity to moral standards, laws, and actions, and then, through contemplation, to a crucial commitment to future generations. Keeping up with CSR commitments is not always easy. Finding the correct initiatives that fit the company's mission and fundamental values is one of the biggest problems. To make sure they are significantly advancing social welfare, businesses must carry out due diligence and evaluate the results of their CSR initiatives. Measuring and reporting the impact of CSR initiatives is another difficulty that calls for a strong monitoring and assessment system. Businesses must also guarantee that the communities they support will benefit from their CSR efforts in the long run.

VIII. ANALYSIS

This article outlines all the important features of the corporate governance system which acts as either a boon or a bane for the entrepreneurs in the growth of their businesses. Compliance with corporate legislation in certain countries facilitates the growth and development of entrepreneurs, while in contrast it also serves as a deterrent to their progress. The implementation of the MCB Act in the USA increased on an average of 26 % of the local corporations and acted as a catalyst for the entrepreneurs⁷³. Whereas in India, liberalization reforms empowered innovative entrepreneurs to establish companies without the fear of being trampled by external competition. Following liberalization, there was a substantial rise in business prospects in India. When we analyse the impact of the Cadbury Code of 1992 on the UK corporate landscape then we find that initially, its compliance furthers the growth of entrepreneurs in the UK when it was

⁷³*LM. Fairfax* (n 13).

implemented. However, due to shift in corporate environment, in recent years, the code has inadequately addressed issues concerning non-shareholder corporate constituencies, commonly known as stakeholders. The code's aspirational approach to long-standing issues has hindered progress and momentum toward resolution as it requires an explanation from the listed companies for non-compliance, this is an unnecessary monitoring practice in today's landscape when companies demand greater autonomy. Also, when we observe the recent developments of corporate governance in India, then we find the ruling of the Supreme Court on the jurisdiction of NCLAT & NCLT, where it held that the adjudicating authority NCLT & NCLAT are not empowered to interfere in the business decisions made by the requisite majority of the COC.⁷⁴ The decisions of the Supreme Court highlight the importance of giving autonomy to entrepreneurs in making crucial decisions related to their restructuring or resolution plans. This autonomy empowers the entrepreneurs to implement strategies that serve the best interests of the businesses.

There's a systematic legal framework in place to ensure internal compliance with corporate governance among companies and entrepreneurs. When we take into consideration Section 177 of the Companies Act, 2013⁷⁵ read with Rule 6 of Companies (Meetings of Board and its power) Rules, 2014, it mandates the creation of an Audit Committee. The current state of the economy necessitates the formation of this committee. When it comes to inconsistent internal audits, recently established firms encounter several difficulties, including a lack of expertise, resource constraints, evolving processes, and limited regulatory awareness. Section 177 of the Companies Act, 2013,⁷⁶ and related rules mandate forming Audit committees that address these issues by providing structured guidelines, encouraging

⁷⁴*Pratap Technocrats (P) Ltd. v. Monitoring Committee of Reliance Infratel Ltd.* (2021) SCC OnLine SC 569.

⁷⁵*CA 2013* (n 40) s 177.

⁷⁶*ibid.*

expert oversight, and fostering a culture of accountability. This legal framework ensures compliance while empowering firms to establish strong governance foundations, promoting sustainable growth and stability in a competitive economic environment.⁷⁷ As per the Companies Act, 2013, the audit committee of a business has the authority to provide the auditors with their viewpoints about the firm's internal control system. Since the audit committee consists of two company members, including the secretary, there is a possibility that this power may be used to misappropriate or skew financial records in the business's favour. They effectively have the authority to weed out any information they do not like before it reaches the investors since they review all of the financial documents of a firm before submitting them to the board. A report is given by the audit committee's board in which, the audit committee makes a few suggestions. The esteemed board members must state in the provided report why they are recommending the rejection of the audit committee suggestion if that is the case. Thus, while challenges and risks do exist, the establishment of an audit committee is a useful measure for guaranteeing corporate governance inside an organization as it establishes a very formal system of checks and balances. Its structured oversight, accountability mechanisms, and compliance promotion outweigh the potential risks, making it indispensable for fostering trust and integrity within organizations.

There are limitations placed on directors to ensure they don't abuse their position. Section 184 of the Companies Act of 2013⁷⁸ ensures this by mandating that they must disclose such interest or concern to the board during the meeting where the contract or arrangement is being discussed. In the 1981 case *Needle Industries (India) Ltd. v. Needle*

⁷⁷Jingwen Nie, 'When Internal Control meets Internal Audit: Conflict or Combine?' (2017) 6 OJACCT 2 <<https://doi.org/10.4236/ojacct.2017.62004>> accessed 27 July 2024.

⁷⁸CA 2013 (n 40) s 184.

*Industries Newey*⁷⁹, it was decided that a person cannot be considered an “interested director” just because of a friendship, personal attachment, or ideological concern. There appears to be a loophole, too, given that only director’s investments are considered for determining the 2% share shakes in other companies. His family’s investments are usually not considered. There are also restrictions in place for loans to directors and penalties charged for non-disclosure of interest. Thus, it can be said that there is a stringent framework in place to ensure that the director works in the best interest of the company.

Also, corporations have ethical responsibilities towards the society. In India, CSR is mandatory for only those companies that have reached a certain threshold of profit, net worth, or turnover. Entrepreneurial firms rarely fall under these classifications and therefore they have the opportunity to redirect the capital that they otherwise would have had to spend on CSR on profit maximization purposes, building a strong clientele, attracting new business, and finding funding sources. Although investing in CSR activities does help new businesses to gain investor and customer legitimacy, it can be said that these could be gradually done at a later stage of business once it has started to grow and the same could be afforded. The voluntariness of CSR helps startups to grow in a better way while spending their profit on the growth of the business. Additionally, the state has amended certain preexisting mandates to facilitate transparency and favourable taxes. The government has extended the 15% reduced tax rate for manufacturing companies under Section 115BAB of the Income Tax Act, 1961, to March 31, 2024.⁸⁰ This move, originating from the Taxation Law (Amendment) Ordinance, 2019, aims to support manufacturing start-ups established on or after October 1, 2019, that begin production by the new deadline, significantly benefiting

⁷⁹*Needle Industries (India) Ltd. v. Needle Industries Newey*, AIR (1981) SC 1298.

⁸⁰*Income Tax Act* (n 7) s 115BAB.

entrepreneurs with a favourable tax environment.⁸¹ Additionally, in June 2023, SEBI amended the LODR regulations to improve transparency. The key changes include introducing quantitative thresholds to assess the significance of events or information, reducing the timeline for making disclosures, and mandating additional disclosures related to agreements binding listed entities. These amendments ensure consistent, clear, and timely information, aiding investors and stakeholders in making informed decisions and providing a comprehensive view of a company's obligations and financial health. Along with these legislations, the government of India has also introduced various schemes and programs to fulfill the capital needs of entrepreneurs better. Key initiatives include NDTSP, approved by ETG, which promotes early-stage technologies and their commercialization. Additionally, the DPIIT is implementing a one-hundred-day action plan to enhance funding opportunities and reduce business compliance burdens. The Jan Vishwas (Amendment of Provisions) Bill has streamlined or eliminated over Forty thousand compliances, and its second edition aims to further reduce the criminalization of many laws.⁸² These efforts collectively aim to create a more supportive and less restrictive environment for entrepreneurs. Numerous other programs like these are taken up by government to improve the startup scheme of India and although their primary purpose is to increase domestic production and reduce exports, such government schemes subsequently lead to increased corporate governance among entrepreneurs as they now get support from the government and therefore have a moral obligation towards them.

After going through the above points, it can be concluded that although the government needs to have a rigid framework in place to ensure that companies do not deviate from their primary objectives, extreme surveillance may result in unnecessary barriers in the working of

⁸¹The Taxation Law (Amendment) Ordinance, 2019.

⁸²*JVB 2023* (n 57).

corporations which may lead to unsatisfactory results. The same was seen in the case of the UK Cadbury Code which was bought by the UK government to govern entrepreneurs and corporations. Even after such rigid rules they often do not prove to be effective due to various loopholes which are overlooked during the framing of legislation.

IX. WAY FORWARD

A tailored regulatory framework needs to be developed to avoid the clash of entrepreneurs' interests and governments' intentions. This can be achieved by consulting with industry stakeholders to identify pain points and create adaptive regulations. This would help update corporate governance codes to better address stakeholders' concerns, ensuring that non-shareholder constituencies are adequately represented and their issues resolved promptly. Section 34 of the Companies Act gives a distinct identity to companies; however, the directors still remain at high risk of personal liability. Enhancing clarity and enforcement mechanisms regarding the corporate veil's limitations, providing comprehensive guidelines and training for corporate officers to understand and maintain the distinct legal identity of the corporation along with incorporating robust indemnification clauses in company agreements, ensuring directors express dissent in meetings when necessary and remain informed about relevant legal provisions to safeguard themselves as well as regular legal training and updates for directors can mitigate these risks.

Default corporate law regulations favour investor ownership, making it challenging for non-investors like employees to have ownership rights. Ensuring effective board governance can be difficult, given the mandated range of 3 to 15 directors under Section 149(1) of the Companies Act, 2013. Balancing investor interests with those of other stakeholders, such as employees and the community, can also be complex. To address these issues, developing flexible corporate

structures, including employee stock ownership plans (ESOPs) and cooperative ownership models, can be beneficial. Encouraging regulatory frameworks that support alternative ownership structures can enhance inclusivity. Promoting best practices for board governance, such as regular training, transparent selection processes, performance evaluations, and diversity in board composition, can improve board effectiveness. Implementing governance frameworks with stakeholder representation and promoting CSR initiatives can help balance interests. Additionally, adopting integrated reporting can provide a holistic view of a company's impact on all stakeholders.

High corporate taxes and VAT can elevate operating costs and impede growth, especially for startups and entrepreneurs. Advocating for tax reforms that lower the burden on emerging businesses, such as the extended reduced tax rate of 15% for manufacturing companies under Section 115BAB of the Income Tax Act, 1961, can be beneficial. Promoting simplified tax compliance procedures can also help ease the burden on small businesses. Additionally, compliance with diverse corporate governance norms can be burdensome, impacting both new and existing businesses. Streamlining regulatory processes and providing clear, accessible guidelines for compliance can alleviate these challenges. The Indian Parliament commendably undertook a major transformation of the labour law framework by consolidating 29 essential labour laws into four comprehensive Labor Codes in February 2021. However, these codes have not been implemented yet, missing the planned rollout in 2023/24. This delay stemmed from legal and political intricacies, but now that the general elections are over, the government must prioritize this initiative again.

Establishing support systems, such as legal advisory services, can assist businesses in navigating regulatory requirements more effectively. In the realm of corporate governance, the role of independent directors is critical but often falls short of expectations. The current definition and

implementation of independent directors, as outlined in the Companies Act, 2013, and SEBI regulations, sometimes fail to ensure true independence. High-profile failures like the Enron scandal and the Satyam fraud highlight the need for reform. To enhance effectiveness, there should be greater transparency in the selection process of independent directors, reduced close affiliations with boards, and better management of conflicts of interest.

To strengthen the independence of statutory auditors, the regulatory framework should focus on enhancing safeguards against undue influence and expanding support for auditors to manage increased responsibilities. Introducing mechanisms like better-defined accountability frameworks, improved protection for whistleblowers, and balanced risk-reward structures can address the heightened scrutiny and risks faced by auditors. By aligning these measures with evolving corporate governance practices, statutory auditors can continue to uphold transparency, accountability, and trust in financial reporting without reputational risks.

Overall, addressing these challenges requires a multifaceted approach, including policy reforms, enhanced governance structures, and a commitment to ethical practices and transparency.

X. CONCLUSION

The influences of corporate governance on business organizations and entrepreneurs cannot be overstated, as evident from the profound impacts of various legislations across different countries. While laws are often viewed as potential obstacles for business entities, they also catalyse growth and development. Corporate law must strike a delicate balance, not too rigid to stifle innovation, yet not too flexible to compromise ethical standards. The ideal regulatory framework should encourage compliance among business organizations and

entrepreneurs, it will foster a conducive environment for the growth and development of businesses. By recognizing the nuanced needs of both business organizations and entrepreneurs, policymakers can pave the way for a harmonious relationship between regulatory requirements and entrepreneurial endeavours, promoting stability, integrity, and prosperity within the business landscape.